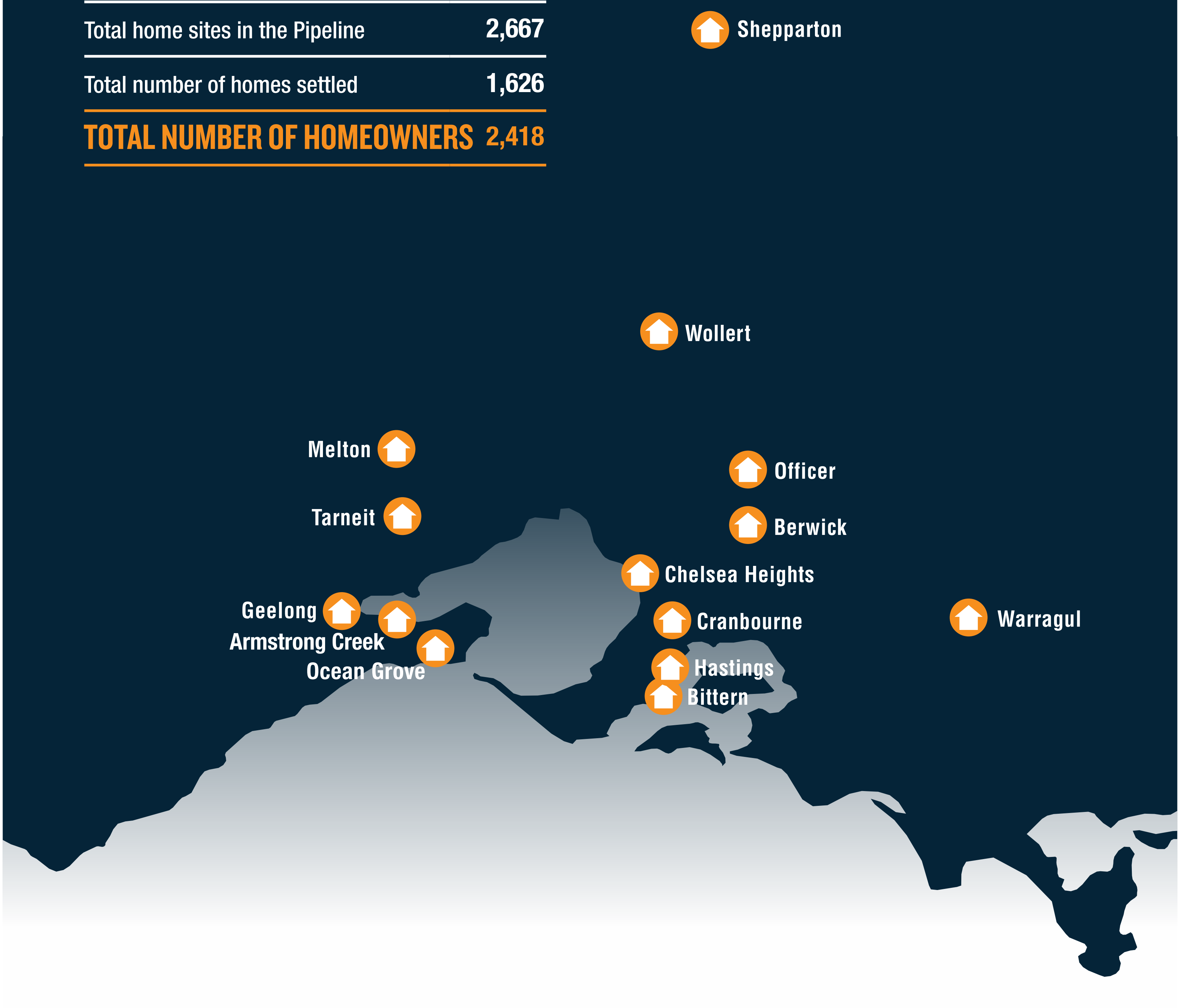
2017 ANNUAL REPORT

Lifestyle COMMUNITIES

COMMUNITY SNAPSHOT

SNAPSHOT AS OF 30 JUNE 2017

Total home sites in the Pipeline	2,667
Total number of homes settled	1,626
TOTAL NUMBER OF HOMEOWNERS	**2,418**



DOWNSIZE TO A BIGGER LIFE

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Chair's Report

For the 2017 Financial Year

Dear fellow shareholders,

The Board is delighted with the Company's performance during the 2017 financial year. The Company recorded record sales, settlements, rates of customer referral, profitability and dividends. Our team, led by James Kelly, have worked hard and delivered impressive results.

The Company provided guidance that new home settlements for the 2017 financial year were likely to be in the range of 250 to 270. With effect from 1 July 2016, the Board put in place a new employee incentive scheme designed around achieving this forecast. All employees are eligible for the incentive scheme and this galvanised the team around a common goal that all employees could play a role in achieving. The final outcome of 278 new home sales was ahead of our internal budgets and the Board's expectations which is a terrific outcome.

The Board regularly assesses whether we should alter our strategy. We discuss whether we should consider expansion outside of Victoria. We get presented with opportunities to consider offering home care or other services to our homeowners. Whilst we will always consider new opportunities, the Board presently believes the most attractive return on capital will be delivered by concentrating on our current strategy. There is enough complexity and challenge in our current business as we push towards increasing new home settlements beyond 300 during the next few years.

The Board of Lifestyle Communities has been stable and collegiate which we believe has been a factor in the strong financial performance of the Company. However, given the last addition to the Board was in 2013, the Board has decided it is appropriate to implement some gradual renewal. As a result, the Board has been considering future skill requirements and possible candidates. We expect to be able to provide a further update to shareholders in the near future.

Finally, on behalf of the Board, I would like to thank all our homeowners, our talented team and our shareholders for great support during the 2017 financial year as we continue our mission to dominate our niche of providing good quality affordable accommodation for active retirees in Victoria.

Yours sincerely

Tim Poole
Chair
16 August 2017

Managing Director's Report

For the 2017 Financial Year

Dear fellow shareholders,

I am pleased to present to you the Lifestyle Communities Annual Report for the year ended 30 June 2017.

The 2017 financial year has seen the addition of 278 new home settlements now providing 1,626 settled homes within our communities providing annuity income streams. We are delighted with the acquisition of an additional site during the year located at Armstrong Creek. Armstrong Creek is located in Geelong's main growth corridor and will build on our growing brand within the greater Geelong region. Our development plan remains focused in Victoria and we continue to investigate further sites in Melbourne's key growth corridors. As our brand has become better known we are getting more approaches from developers who are interested in having Lifestyle Communities as part of their development mix.

The development focus of the business is now on Shepparton, Geelong, and Berwick Waters with Bittern and Ocean Grove both launched for sale in March 2017. Both Bittern and Ocean Grove have sold strongly with 74 and 24 homes sold respectively. Construction is expected to commence at both sites in the first-half of the 2018 financial year. Lyndarum and Officer are almost sold out. Officer was launched for sale in March 2015 and by the end of the 2017 financial year had sold 146 homes in 28 months. Berwick Waters was launched for sale in April 2016 and has seen 136 sales across 15 months with 105 of these occuring in the 2017 financial year.

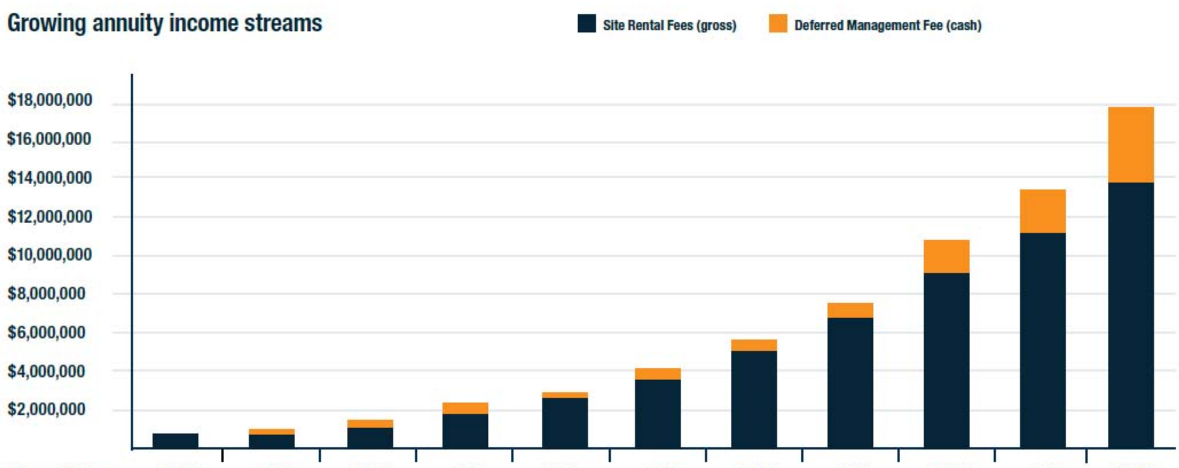
A key focus for the organisation is to increase the number of home owner referrals for new sales and resales. Ideally we want one in two sales to be coming from referrals; in the 2016 financial year we achieved one in three sales. The business has been working on strategies to ensure we make every touch point with the customer a positive one and one they will remember. Pleasingly during the 2017 financial year 38% of the 278 settled new homes came from homeowner referral. More pleasing is that of the 406 new home sales made during the 2017 financial year, 51% of these have come from homeowner referral.

The key highlights for the 2017 financial year include:

- Achieving a record 278 new home settlements and a record of 406 new homes sales. We commence FY2018 with 345 new homes sold but not settled;
- Acquiring an additional site in Armstrong Creek, Geelong;
- Achieving 98 settlements at Officer during the year and being almost sold out within two and a half years;
- Achieving 105 sales at Berwick Waters during the year and welcoming our first homeowners in May 2017;
- Achieving pre-sales of 74 at Bittern since launching the project in early March 2017;
- Increasing the total number of home sites settled under management to 1,626;
- Increasing the total portfolio to 2,667 home sites either under planning, development or management;
- The expansion of Lifestyle Shepparton by 34 homes due to the continued good progress with this project;

- Net profit after tax attributable to shareholders increased by $8.4 million to $27.7 million (this includes a $2.7 million adjustment to reflect favourable changes in investment property valuations);
- Home site annuity rentals increased by $2.7 million to $13.8 million; and
- Deferred management fees (inclusive of selling and administration fees) increased by $1.6 million to $4.1 million with the settlement of 73 resale homes (2016: 52).

The Company now has twelve years of increasing annuities flowing from site rentals and deferred management fees. The rental fees increase annually by the greater of CPI or 3.5% creating a strong inflation linked annuity flow for future dividends.



Financial Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total number of homes settled (Cumulative)	100	138	202	305	412	546	695	906	1,146	1,348	1,626
Number of resales attracting a DMF	-	-	4	11	8	11	10	23	34	52	73

Finally, we are proud to report that the Lifestyle Communities Foundation donated over $67,000 in the 2017 financial year (and in excess of $124,000 since inception). The Lifestyle Communities Foundation was established to remember one of my co-founders, Dael Perlov, and his significant contribution to the business. The goal of the Foundation is to annually donate $50 for every home under management to cancer research and support by a combination of direct donation and co-sponsoring initiatives from within our communites. This support at a community level is well received and enables Lifestyle Communities to contribute at a homeowner level to a whole range of initiatives and ideas to raise money for cancer charities. We look forward to watching the donations and community involvement grow into the future.

Yours sincerely

James Kelly

James Kelly
Managing Director
16 August 2017

Directors' Report

The Directors present their report together with the financial report of the consolidated entity consisting of Lifestyle Communities Limited and the entities it controlled for the financial year ended 30 June 2017 and auditor's report thereon.

Principal activities

The principal activities of the consolidated entity during the financial year were developing and managing affordable communities which offer homeowners an improved lifestyle. There have been no significant changes in the nature of these activities during the financial year.

Results

The consolidated profit after income tax attributable to shareholders of Lifestyle Communities Limited for the year ended 30 June 2017 was $27,695,112 (2016: $19,268,682).

Directors

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

Tim Poole, Non-Executive Chair (BCom, CA)

Tim was appointed a Director of Lifestyle Communities Limited on 22 November 2007 and was appointed Chair on 31 December 2012. Tim is also a member of the HR & Remuneration Committee. He holds a Bachelor of Commerce from the University of Melbourne and is a Chartered Accountant.

Tim has more than 16 years' experience as a Director of ASX listed and unlisted companies across the financial services, infrastructure, aged care and resources industries. He is currently non-executive Chair of Aurizon Holdings Limited and McMillan Shakespeare Limited and is a non-executive Director of Reece Limited. He was formerly Managing Director of Hastings Funds Management, and a non-executive Director of Japara Healthcare Limited and Newcrest Mining Limited.

James Kelly, Managing Director (BBldg)

James was appointed Managing Director in September 2007 and is one of the founders of Lifestyle Communities Limited.

With over 30 years' experience in property development and construction, James brings to Lifestyle Communities a wealth of knowledge and experience in the property industry. Prior to establishing Lifestyle Communities, James held several senior management roles in property and related sectors, including CEO of Dennis Family Corporation and roles at Coles Myer and Lend Lease Corporation. James is the founding Chair of the Residential Land Lease Alliance, the peak body for the land lease industry. He is also on the board of the Caravan Industry Association of Australia and is Vice President of the Victorian Caravan Parks Association. James has not held any directorships in any other listed entities during the past three years.

Bruce Carter, Non-Executive Director (BCom)

Bruce is one of the founders of Lifestyle Communities Limited and was appointed as an executive Director in September 2007, transitioning to a non-executive Director on 1 July 2015. Bruce is also a member of the Audit Committee.

Bruce has more than 30 years' experience in financial and business management. He was the co-founder of ASX listed telecommunications company Pracom Limited, serving as joint Managing Director from 1988 to 2002. Bruce brings to Lifestyle Communities Limited extensive knowledge and experience of building, funding and operating ASX listed companies. Bruce has not held any directorships in any other listed entities during the past three years.

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

Jim was appointed a Director of Lifestyle Communities Limited on 31 December 2012. Jim is also a member of the Audit Committee and Chair of the HR & Remuneration Committee.

After working as a lawyer in Australia and Japan, Jim joined Macquarie Group Limited. He held a number of senior roles within Macquarie in the resources, infrastructure and fund management areas, including leading Macquarie's businesses in Europe from 2003-2008. Jim is currently Chair of a number of organisations including Cell Care Australia Pty Ltd, River Capital Pty Ltd and the investment committee of AustralianSuper as well as a non-executive Director of Australian United Investment Company Limited and the Trustee of AustralianSuper.

Philippa Kelly, Non-Executive Director (LLB, F Fin, FAICD)

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

Philippa is an experienced property and finance executive with over 25 years' experience in the corporate sector and a background in law and investment banking at Goldman Sachs. Specialising in property for the past 19 years, she is currently Chief Operating Officer of the Juilliard Group of Companies, one of Melbourne's largest private property owners, managing an extensive portfolio of commercial and retail assets. Previous experience included seven years with Federation Centres (formerly Centro Properties Group), working on the refinancing of the Group and with responsibility for its institutional and wholesale funds management business.

Philippa is a member of the Deakin University Council, Chair of its Finance and Business Committee and a member of the Remuneration Committee. Philippa is also a non-executive Director of the Alcohol and Drug Foundation, including Chair of the Audit and Risk Committee.

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

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

Directors' interests

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

Director	Fully Paid Ordinary Shares	Options over Ordinary Shares
Tim Poole	1,224,607	-
Bruce Carter	5,079,433	-
James Kelly	12,045,566	-
Jim Craig	3,000,000	-
Philippa Kelly	65,000	-

Dividends

A fully franked dividend of 1.5 cents per share was paid on 7 October 2016 (representing the 2016 final dividend). A fully franked dividend of 1.5 cents per share was paid on 7 April 2017 (representing the 2017 interim dividend).

Since the end of the financial year the Directors have resolved to pay a fully franked dividend 2.0 cents per ordinary share (representing the 2017 final dividend).

Share options

During the year 333,331 ordinary shares were issued as a result of the conversion of 333,331 Convertible Repurchase-able Employee Shares (CRES).

The 333,331 ordinary shares issued as a result of the conversion of CRES resulted in loans to relevant employees of $291,998 that will be recognised as paid as the loans are repaid.

There were $96,360 of CRES loans repaid during the year in respect of 110,000 CRES shares converted to ordinary shares in prior years.

120,000 CRES were cancelled during the year.

There are no unissued ordinary shares of the Company under option or CRES as at the date of this report.

Significant changes in the state of affairs

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

Significant events after the balance date

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

Future developments

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

Environmental regulation

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

Indemnification and insurance of directors and officers

During the financial year the Company paid premiums in respect of a Directors' and Officers' insurance policy. The nature of the liabilities insured and premium payable under this contract of insurance has not been disclosed in accordance with confidentiality provisions within the policy.

Proceedings on behalf of the consolidated entity

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

Directors' meetings

The number of meetings of Directors (including meetings of committees of Directors) held during the financial year and the number of meetings attended by each of the Directors are:

	Directors' meetings		Meetings of committees of directors' Audit		HR & Remuneration	
Director	Held	Attended	Held	Attended	Held	Attended
Tim Poole	11	11	-	-	4	4
James Kelly	11	11	-	-	-	-
Bruce Carter	11	11	3	3	-	-
Jim Craig	11	11	3	3	4	4
Philippa Kelly	11	11	3	3	4	4

Corporate governance

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

Auditor independence declaration

A copy of the auditors independence declaration from the auditor of Lifestyle Communities Limited as required under section 307C of the *Corporations Act 2001* in relation to the audit for the financial year is provided with this report.

Non-audit services

The Company's auditor, Pitcher Partners, provided tax compliance ($13,500), general tax advice ($19,464), fringe benefits tax advice ($7,169), land tax advice ($4,960), GST advice ($47,150), tax structuring advice ($13,485) and other agreed upon procedures ($8,617) at a total cost of $114,345 (2016: $50,773). The Directors are satisfied that the provision of these non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of these non-audit services means that auditor independence was not compromised.

Rounding of amounts

In accordance with *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, selected amounts in the directors' report have been rounded to the nearest one million dollars, or in certain cases, to the nearest dollar (where indicated).

Operating and Financial Review

Overview

The Company continued to develop and manage its portfolio of affordable lifestyle communities during the 2017 financial year. Profit after tax attributable to shareholders was $27.7 million (2016: $19.3 million). Underlying profit after tax attributable to shareholders was $25.0 million (2016: $16.9 million).

Financial and operating highlights

	Measure	FY2017	FY2016	Change	Change %
Key financial data					
Revenue	A$ millions	**100.4**	**70.2**	30.3	43
Earnings before interest and tax	A$ millions	**41.5**	**29.2**	12.3	42
Net profit before tax	A$ millions	**40.3**	**28.6**	11.8	41
Net profit after tax	A$ millions	**27.7**	**20.6**	7.1	34
Net profit attributable to shareholders	A$ millions	**27.7**	**19.3**	8.4	44
Underlying net profit attributable to shareholders	A$ millions	**25.0**	**16.9**	8.1	48
Operating cash flow	A$ millions	**17.6**	**(14.2)**	31.8	224
Community cash flow(1)	A$ millions	**10.4**	**7.5**	2.9	38
Gearing(2)	%	**21.8**	**25.6**	(3.8)	(15)
Return on average capital employed(3)	%	**18.7**	**15.5**	3.2	21
Earnings per share	A$ cents	**26.6**	**18.6**	8.0	43
Diluted earnings per share	A$ cents	**26.5**	**18.5**	8.0	43
Dividend per share(4)	A$ cents	**3.5**	**2.5**	1.0	40
Key operational data					
Homes settled (gross)	No. of homes	**278**	**202**	76	38
Homes sold (gross)	No. of homes	**406**	**221**	185	84
Average realised sales price of new homes (GST incl)	A$'000	**315**	**298**	17	6
Total number of homes (gross)	No. of homes	**1,626**	**1,348**	278	21
Total number of homes (after NCI)(5)	No. of homes	**1,425**	**1,147**	278	24
Total number of homeowners	No. of people	**2,418**	**1,995**	423	21
Average age of homeowners	Years	**72**	**72**	-	-
Number of resales settled(6)	No. of homes	**73**	**52**	21	40
Average realised sales price of resales (GST incl) (7)	A$'000	**340**	**275**	65	24

(1) Community cash flow comprises cash flows received from homeowner rentals and deferred management fees less community operating costs and the net surplus/deficit provided from utilities
(2) Calculated as a ratio of net debt to net debt plus equity
(3) Calculated as a ratio of EBIT divided by average total assets less current liabilities
(4) For FY2017 includes interim dividend of 1.5 cents per share and final dividend of 2.0 cents per share
(5) Gross number of homes adjusted for share of communities owned by non-controlling interests
(6) Includes resales attracting a deferred management fee, there were a further eight resales settled in FY2017 (FY2016: 14 resales) that did not attract a deferred management fee as the outgoing homeowners moved out within 12 months of initial settlement in accordance with the Company's Smart Buy Guarantee
(7) Average realised sales price of resales attracting a deferred management fee

Included in the table above are several non IFRS measures including earnings before interest and tax, underlying net profit attributable to shareholders, community cash flow, gearing, return on average capital employed and key operational data. These figures have not been subject to audit but have been provided to give a better understanding of the performance of the Company during the 2017 financial year.

The increase in net profit after tax attributable to shareholders of $27.7 million (2016: $19.3 million) can be mainly attributed to: increased new home settlements partly offset by lower gross margin (in line with expectations); increased contributions from net rental income and deferred management fees received; increased fair value adjustments from investment property revaluations; reduction in non-controlling interest in profit; being partly offset by increased development expenses and corporate overheads.

Underlying profit of $25.0 million (2016: $16.9 million) excludes a $2.7 million (2016: $2.4 million) after tax impact of investment property revaluations across the portfolio. Refer to the analysis of income statement section on page 12 for further details.

New home settlements for the year were 278, up from 202 in the prior year, and slightly higher than the forecast range of 250-270 settlements. This was due to achieving the higher end of the expected new home settlement range at Shepparton, Lyndarum, Geelong and Officer.

The Company continued to develop its communities at Shepparton, Lyndarum and Geelong. During the year construction was completed at Officer and construction commenced at Berwick Waters.

The Company made good progress operationally with improvements in several key metrics. The total number of homes settled increased to 1,626 homes due to 278 settlements during the year. Net community cash flows were $10.4 million (2016: $7.5 million). This was driven by increases in rental revenue and deferred management fees received, partly offset by increases in management expenses.

The Company had 2,418 people living in its communities as at the end of the 2017 financial year with an average age of 72 years (2016: 72).

Resales (sales of previously settled and occupied homes) during the year were 73 (2016: 52). Deferred management fee income received (inclusive of selling and administration fees) was $4.1 million (2016: $2.5 million). As at the 30 June 2017 there were 17 resale homes available for sale across the communities.

Update on communities

Community	New homes				Resales						
	Settled FY17	Settled FY16	Net sales FY17	Net sales FY16	Settled FY17	Settled FY16	Net sales FY17	Net sales FY16	Homes sold not settled	Total homes settled	Total homes in portfolio
Brookfield	-	-	-	-	**12**	23	**14**	17	-	228	228
Seasons	-	-	-	-	**3**	5	**1**	7	-	136	136
Warragul	-	2	-	-	**16**	9	**15**	11	-	182	182
Casey Fields	-	2	-	-	**12**	5	**14**	8	-	217	217
Shepparton	**50**	51	**37**	49	**5**	1	**4**	1	29	199	301
Chelsea Heights	-	27	-	-	**12**	5	**11**	6	-	186	186
Hastings	-	14	-	-	**13**	4	**14**	5	-	141	141
Lyndarum	**68**	43	**69**	39	-	-	-	-	36	114	154
Geelong	**50**	36	**44**	51	-	-	-	-	37	86	164
Officer	**98**	27	**53**	51	-	-	-	-	21	125	151
Berwick Waters	**12**	-	**105**	31	-	-	-	-	124	12	216
Bittern	-	-	**74**	-	-	-	-	-	74	-	209
Ocean Grove	-	-	**24**	-	-	-	-	-	24	-	193
Armstrong Creek	-	-	-	-	-	-	-	-	-	-	189
Total	**278**	**202**	**406**	**221**	**73**	**52**	**73**	**55**	**345**	**1,626**	**2,667**

- Lifestyle Brookfield in Melton, Lifestyle Seasons in Tarneit, Lifestyle Warragul, Lifestyle Casey Fields in Cranbourne, Lifestyle Chelsea Heights and Lifestyle Hastings are fully sold and settled.
- Lifestyle Shepparton performed well during the year achieving 37 net sales and 50 settlements. Given the performance at Lifestyle Shepparton a decision was made during the year to expand the community by a further 34 homes using surplus Company owned land. This increased the size of the community to 301 homes of which 76% are sold and 66% are settled.
- Lifestyle Lyndarum in Wollert achieved 69 sales and 68 settlements during the year and has four homes remaining to sell. The community is now 97% sold and 74% settled.
- Lifestyle Geelong performed well during the year achieving 44 sales and 50 settlements. The community is now 75% sold and 52% settled.
- Lifestyle Officer achieved 53 sales and 98 settlements for the year and has five homes remaining to sell. The community is now 97% sold and 83% settled.
- The first homeowner moved into Berwick Waters in May 2017 with 12 settlements occurring across May and June 2017. Berwick Waters achieved 105 sales during the year with 136 homes (63%) now sold since the project was launched in April 2016.
- Lifestyle Bittern achieved 74 sales since the project was launched in early March 2017. This is ahead of Company expectations and reflects strong demand on the Mornington Peninsula. The land at Bittern is expected to settle in the third quarter of the 2018 financial year however construction will commence earlier by way of a licence agreement. The Company currently expects settlements to commence in the last quarter of the 2018 financial year however this is subject to housing construction commencing as scheduled.
- Lifestyle Ocean Grove achieved 24 sales since the project was launched in late March 2017, which is in-line with Company expectations. The land at Ocean Grove is expected to settle in the third quarter of the 2018 financial year however construction is expected to commence earlier by way of a licence agreement. The Company currently expects settlements to commence in the first quarter of the 2019 financial year.
- The land for the Lifestyle Community in Armstrong Creek was acquired in March 2017 and is contracted to settle in September 2018 with construction planned to commence soon after. The Company currently expects settlements to commence in the first-half of the 2020 financial year. The development of this community is subject to planning approval.

Analysis of income statement

Net profit after tax attributable to shareholders increased to $27.7 million (2016: $19.3 million). The table below shows the changes to net profit attributable to shareholders from 30 June 2016 to 30 June 2017.

	A$ millions	A$ millions
Net profit after tax attributable to shareholders for the year ended 30 June 2016		**19.3**
Changes in revenues		
Home settlement revenue	25.1	
Rental revenue	2.7	
Utilities revenue	0.3	
Deferred management fees	1.6	
Sub-division revenue	0.8	
Finance revenue	(0.2)	**30.3**
Changes in cost of sales		**(21.3)**
Changes in gains from fair value adjustments		**7.7**
Changes in expenses		
Development expenses (sales and marketing)	(0.9)	
Management rental expenses	(1.0)	
Management deferred management fee expenses	(0.7)	
Utilities expenses	-	
Corporate overheads	(0.9)	
Sub-division expenses	(1.1)	
Finance costs	(0.3)	
Loss on disposal of assets	-	**(4.9)**
Increase in income tax expense		**(4.7)**
Decrease in profit after tax attributable to non-controlling interests		**1.3**
Net profit after tax attributable to shareholders for the year ended 30 June 2017		**27.7**

The key drivers of changes in profitability were:

Home settlement revenue and margin

- Revenue from home settlements increased to $79.9 million (2016: $54.9 million) due to an increase in settlements to 278 (2016: 202). This was slightly higher than the forecast range of 250-270 settlements and was due to achieving the higher end of the expected new home settlement range at Shepparton, Lyndarum, Geelong and Officer.
- Home settlement gross margin reduced to 19.5% (2016: 21.5%). The margin achieved in the second-half of the 2017 financial year was slightly higher than first-half of the 2017 financial year which was in-line with expectations. An increase in the average realised sales price to $315k (GST inclusive) in the 2017 financial year (2016: $298k) was offset by an increase in the average cost per home settled to $232k in the 2017 financial year (2016: $213k). The reduction in margin is mainly due to a change in product mix and is expected to improve in the 2018 financial year as contributions from higher margin projects, such as Berwick Waters, increase. The gross home margin represents home settlement revenue less a pro-rata share of project infrastructure, housing and capitalised finance costs expensed as each home settles.

Annuity income and expenses

- Revenue from homeowner rentals increased to \$13.8 million (2016: \$11.1 million) due to an increase in homes under management and a rental increase of 3.5%.
- Community management rental expenses increased to \$6.3 million (2016: \$5.3 million) due to: an increase in operations at Shepparton, Lyndarum, Geelong and Officer; and commencement of management at Berwick Waters.
- Deferred management fees received (inclusive of selling and administration fees) increased to \$4.1 million (2016: \$2.5 million). There were 73 resale settlements during the year compared to 52 in the prior year. The average realised sales price of resales increased to \$340k (GST inclusive) (2016: \$275k). The 73 resale settlements achieved an average price growth of 7.5% per annum from the acquisition date.
- Deferred management fee expenses increased to \$1.2 million (2016: \$0.5 million) primarily due to an increase in sales and marketing activity.

Other expenses

- Development expenses (new home sales and marketing) increased to \$5.0 million (2016: \$4.2 million) due to: increased employee costs due to the increased sales and settlement activity; increased marketing support required to achieve sales and settlements; and launching Bittern and Ocean Grove.
- Corporate overheads increased to \$5.8 million (2016: \$4.9 million). The increase was mainly due to: \$0.2 million of expenses associated with the Company's new employee incentive scheme; and \$0.4 million of head office wages growth due to additional executive resources for medium term growth.
- Finance costs increased to \$1.2 million (2016: \$0.8 million). This is mainly due to higher average debt during the year. The Company capitalises a proportion of finance costs to investment properties and inventories where appropriate and the balance of finance costs are expensed. Capitalised finance costs are expensed in subsequent years through cost of sales.

Fair value adjustments

- Total fair value adjustments have increased to \$26.7 million (2016: \$18.9 million). The increase of \$7.8 million includes a \$3.8 million uplift (\$2.7 million on an after-tax basis) as a result of investment property valuations. The key drivers were: rental capitalisation rates reduced to 7.75% for all communities, down from between 8.0% - 8.5% within prior valuations (this had a favourable valuation impact of \$5.4 million or \$3.8 million on an after-tax basis); and the valuers have updated their view in relation to the long-term expense requirements of maintaining the communities and this has resulted in a downwards adjustment of \$1.6 million (\$1.1 million on an after tax basis).

  Fair value adjustments comprise changes to the fair value of investment properties. Changes relating to investment properties represent incremental adjustments to their fair value upon settlement of homes and reflects the discounted value of future rental and deferred management fee revenues net of expenses as well as the fair value of undeveloped land. Refer to Note 4 in the Company's 2017 financial statements for further details.

Analysis of cash flow

A$ millions	FY2017	FY2016	Change
Cash flows related to operations	**17.6**	(14.2)	31.8
add Project capital expenditure (1)	15.2	23.7	(8.5)
Adjusted cash flows related to operations	32.8	9.5	23.3
Cash flows related to investing activities	**(12.8)**	2.8	(15.6)
Cash flows related to financing activities	**(2.0)**	4.2	6.2
Net movement in cash	**2.8**	(7.2)	
Cash at the beginning of the period	**0.8**	8.0	
Cash at the end of the period	**3.6**	0.8	

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

Cash flows related to operations increased to a surplus of $17.6 million (2016: deficit of $14.2 million). The increase is mainly attributable to a $31.3 million increase in receipts from customers. Payments to suppliers and employees were consistent (decreasing by $0.9 million) due to increased home construction activity (bigger product) offset by a reduction in civil and infrastructure activity (timing of site starts). In relation to home construction 269 homes were constructed in the 2017 financial year compared to 271 in the prior year. Construction at all locations was at optimum levels to match the 278 settlements achieved.

Cash flows related to investing activities included: $11.0 million relating to the settlement of land at Berwick Waters; $1.0 million for the deposit paid at Armstrong Creek; and $0.8 million relating to purchases of property, plant and equipment.

Cash flows related to financing activities included: $1.0 million net proceeds from bank borrowings; and $3.1 million for payment of dividends.

Analysis of balance sheet

Net assets and total equity

A$ millions	FY2017	FY2016	Change	Change %
Assets				
Cash and cash equivalents	**3.7**	3.4	0.3	9
Trade and other receivables	**1.3**	0.8	0.5	62
Inventories	**44.9**	49.7	(4.8)	(10)
Property, plant and equipment	**4.6**	4.2	0.4	9
Investment properties	**211.3**	163.7	47.6	29
Other assets	**0.3**	0.7	(0.4)	(51)
Total Assets	**266.1**	222.5	43.6	20
Liabilities				
Cash and cash equivalents (overdraft)	**-**	(2.5)	2.5	100
Trade and other payables	**(26.8)**	(14.4)	(12.5)	(87)
Interest-bearing loans and borrowings	**(47.0)**	(46.0)	(1.0)	(2)
Provisions	**(0.7)**	(0.6)	(0.1)	(23)
Current tax payable	**(0.6)**	(0.4)	(0.2)	(59)
Deferred tax liabilities	**(35.5)**	(27.3)	(8.2)	(30)
Total Liabilities	**(110.6)**	(91.2)	(19.4)	(21)
Net Assets	**155.5**	131.3	24.2	18
Equity				
Lifestyle Communities interest				
Contributed equity and reserves	**65.0**	65.4	(0.4)	(1)
Retained earnings	**90.5**	65.9	24.6	37
Non-controlling interests	**-**	-	-	-
Total Equity	**155.5**	131.3	24.2	18

During the year the Company's net assets and total equity increased to $155.5 million (2016: $131.3 million) as a result of: profit during the period of $27.7 million; $0.1 million provided due to the exercise of share options; partly offset by dividends paid of $3.1 million.

Inventories have decreased to $44.9 million (2016: $49.7 million). This reflects that home construction and inventory levels are at optimum levels to match home settlements and civil and infrastructure activity has reduced as projects at Lyndarum, Geelong and Officer have completed their intensive civil and infrastructure phase.

Included within trade and other payables is a payable of $19.3 million relating to land at Bittern and Ocean Grove with both sites due to settle in the third quarter of the 2018 financial year. The corresponding asset is included within investment properties.

Deferred tax liabilities have increased to $35.5 million (2016: $27.3 million) representing the tax on fair value adjustments being deferred. This liability will only be realised should an investment property be disposed of which is highly unlikely.

The Company has surplus franking credits (after allowing for the final dividend) of $7.9 million (2016: $6.3 million).

Debt, gearing and liquidity

As at 30 June 2017 the Company had net debt of $43.4 million (2016: $45.2 million).

A$ millions	
Net debt at 30 June 2016	45.2
Net increase in bank borrowings	1.0
Increase in cash balances / overdraft	(2.8)
Net movement in 2017	**(1.8)**
Net debt at 30 June 2017	**43.4**

The gearing ratio (net debt to net debt plus equity) of the Company as at 30 June 2017 was 21.8% (2016: 25.6%).

As at 30 June 2017 the Company has a committed facility with Westpac of $80.0 million of which $47.0 million was drawn.

Outlook and risks

Outlook

The Board is pleased with the level of settlements achieved at all communities as well as the level of sales achieved at Berwick Waters, Bittern and Ocean Grove. The Company enters the 2018 financial year with a record level of sales waiting for settlement.

The Company has a focused strategy to dominate the niche of affordable housing to the over 50's market and is currently funded and resourced to roll out a new community at least every 12 months subject to identification of appropriate sites. The Company continues to focus on Melbourne's growth corridors as well as key Victorian regional centres and is currently considering a range of opportunities but will remain disciplined in its assessment of these opportunities.

The Board confirms previous guidance that settlements for the 2018 financial year are forecast to be in the range of 260 to 290. The Board also advises that underlying net profit after tax attributable to shareholders and total dividends are both expected to increase in the 2018 financial year compared to the 2017 financial year.

Key risks

The Company's key risk categories are:

Site selection – if the Company makes a poor site acquisition it may not generate adequate financial returns on the investment and the objective of recovering 100% of the development costs may not be met. The Company attempts to mitigate this risk by maintaining a detailed land acquisition strategy and by carrying out detailed due diligence on potential new sites. The Company also uses the significant experience it has gained from acquiring 14 sites and developing many of these during the past 14 years.

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

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

Financing risk – there is a risk the Company will not achieve its growth strategy due to insufficient capital or the inability to obtain new debt facilities. The Company may also experience re-financing risk if all debt facilities were cancelled in a short period of time. The Company mitigates these risks by: maintaining a balance sheet with a reasonably low level of gearing; ensuring it complies with all debt covenants and reporting obligations; ensuring sufficient term for debt facilities; and tightly managing the commencement and rate of development of new communities.

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

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

Remuneration Report (audited)

Dear fellow shareholders,

On behalf of the Board, we are pleased to present Lifestyle Communities' Remuneration Report for the 2017 financial year.

As mentioned in the Chairman's letter, the Board introduced an employee incentive scheme for the 2017 financial year to align the interests of staff and senior management with the objectives of the business. In our judgement, the target that best unifies employees and benefits shareholders is an annual new home settlement target. For the 2017 financial year the target range was set at 250 to 270 new home settlements and the business achieved 278 new home settlements with a consequently strong profit.

For the 2018 financial year the target range has been set at 260 to 290 new home settlements and we expect to announce the 2019 financial year employee share plan target during the 2018 financial year. The HR & Remuneration Committee is planning to annually review the operation of this scheme to ensure that shareholder value is being driven from the single new home settlement target and the quantum of shares issued to employees. For the 2018 financial year, the same level of shares will be available to senior executives and employees and the actual number awarded will depend on the number of new home settlements achieved.

The Board believes that the business should continue to be scaled to continue the growth in annual new home settlements and Company profitability over time. To this end, we are continuing to invest in senior management, head office resources and various management systems to meet this objective for the benefit of all shareholders.

The following report sets out further detail on your Company's approach to remuneration.

Yours sincerely

Tim Poole	Jim Craig
Chair	Chair, HR & Remuneration Committee
16 August 2017	16 August 2017

1. Introduction

1.1 About this report

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

1.2 Overview of contents

Section	Contents
1	Introduction
2	HR & Remuneration Committee
3	Details of key management personnel
4	Non-executive directors' remuneration
5	Executive directors and senior management remuneration
6	Relationship between remuneration and performance
7	Executive service agreements
8	Remuneration details
9	Options and CRES held by key management personnel
10	Remuneration report voting at Annual General Meetings

2. HR & Remuneration Committee

2.1 Role of the HR & Remuneration Committee

As a minimum, the HR & Remuneration Committee's role is to make recommendations to the Board on:

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

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

3. Details of Key Management Personnel

	Position	Commencement date
Non-executive directors		
Tim Poole	Chair of the Board	22 November 2007
	Non-executive Director	
	Member – HR & Remuneration Committee	
Bruce Carter	Non-executive Director	Founder
	Member – Audit Committee	
Jim Craig	Non-executive Director	31 December 2012
	Member – Audit Committee	
	Chair – HR & Remuneration Committee	
Philippa Kelly	Non-executive Director	18 September 2013
	Chair – Audit Committee	
	Member – HR & Remuneration Committee	

Executive director		
James Kelly	Managing Director	Founder
Other executives		
Michael Imbesi	Construction Manager	21 March 2005
Chris Paranthoiene	Development and Acquisition Manager	13 March 2007
Geoff Hollis	Chief Financial Officer and Company Secretary	15 February 2010
Sam Cohen	Operations Manager	3 October 2011

4. Non-executive directors' remuneration

4.1 Fixed fees

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

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

Fixed fees paid to Directors during the 2017 financial year are set out in section 8.

4.2 Review of non-executive Directors' fees

The HR & Remuneration Committee annually reviews the level of fees paid to non-executive Directors. Fees payable to the Chair are currently set at $100,000 per annum. Fees paid to the other non-executive Directors are $55,000 per annum plus an additional $5,000 per annum for each committee Chair.

5. Executive Directors and senior management remuneration

5.1 Framework

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

- fixed remuneration; and
- performance linked remuneration (using equity incentives).

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

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

5.2 Determining fixed remuneration

Managing Director

The total remuneration for the Managing Director (inclusive of superannuation) is $450,000 and has not changed during the 2017 financial year. This fixed remuneration includes a $20,000 car allowance as compensation for the high level of travel required between the Company's communities. The Managing Director does not participate in any short term or long term incentive plans.

Senior management

Fixed remuneration for senior management is reviewed annually or on promotion. Fixed remuneration is benchmarked against market data for comparable roles.

5.3 Equity incentive scheme

As foreshadowed in the Company's 2016 Remuneration Report, the Company has put in place an equity incentive scheme (EIS) with effect from 1 July 2016.

Pursuant to the incentive scheme, fully paid ordinary shares in the Company, acquired on-market, will be issued to eligible employees on reaching new home settlement targets as follows:

	FY2017	FY2018
Settlement targets	250 to 270	260 to 290

Should settlement targets be achieved, ordinary shares will be issued as follows:

- Key management personnel and other senior management (on a pro-rata basis based on standard hours) will receive: 10,000 shares if the low point of the target is reached; 15,000 shares if the mid-point is reached; and 20,000 shares if the high point is reached or exceeded.
- All other eligible employees (on a pro-rata basis based on standard hours) will receive: 500 shares if the low point of the target is reached; 1,000 shares if the mid-point is reached; and 1,500 shares if the high point is reached or exceeded.

In relation to the 2017 financial year, 278 new home settlements were achieved meaning the high point of the target was exceeded.

To be eligible to fully participate in the incentive scheme, employees will need to have been employed by the Company on 1 July of the target year with shares to be allocated in September following the end of the target year. Employees commencing employment with the Company after 1 July of the target year are entitled to a pro-rata incentive. Shares allocated to key management personnel and other senior management have the following service (or escrow) conditions: 25% of shares have no service requirements; 25% have a one-year service requirement; and the remaining 50% have a two-year service requirement. The allocation relating to all other employees will not have a service requirement and will be allocated provided they are employed by the Company at the date of allocation.

For accounting purposes, shares will be measured based on the valuation (share price) at grant date and then expensed recognising any service period. For the shares allocated to key management personnel and other senior management, 25% of the expense will be recognised in the target year, 25% in the year following the target year and the remaining 50% in the second year following the target year. All other shares will be recognised and expensed over a period incorporating the target year and any further time to allotment following the target year.

The operation of the equity incentive scheme is conducted through an Employee Share Trust administered by an independent third party, Smartequity Pty Ltd.

5.4 Short-term incentives

The equity incentive scheme provides an element of short-term incentive to key management personnel and other senior management as 25% of shares allocated have no service requirements.

This is a change from the original structuring of the scheme as outlined in the 2016 Remuneration Report. The original structuring had no short-term incentive with all shares allocated having a service requirement of one or two years for the 2017 target year and two or three years for the 2018 target year. The Board altered the structuring such that 25% of each target year's shares have no service requirement to ensure the equity incentive scheme better meets the objective of attracting and retaining key talent. As the new scheme was being implemented, the Board decided the service requirements were too excessive and would not provide sufficient incentive and retention for key management personnel and other senior management.

5.5 Long-term incentives

The equity incentive scheme provides a long-term incentive to key management personnel and other senior management as 25% of shares allocated have a one-year service requirement and 50% of shares allocated have a two-year service requirement. The use of ordinary shares also provides strong long term alignment between employees and shareholders.

In prior years the Company has utilised an Employee Share Loan Plan (ESLP) and a Senior Executives and Directors Share Option Plan (ESOP) to retain key talent. No shares or options were issued pursuant to these plans during the 2017 financial year and there is no intention to issues any further shares or options pursuant to these plans.

Refer to section 9 for details of shares issued pursuant to the ESLP held by key management personnel.

6. Relationship between remuneration and performance

The Company's current remuneration framework, outlined in sections 4 and 5, was historically based primarily on providing fixed remuneration. The new equity incentive scheme provides a basis for additional performance linked remuneration in addition to fixed remuneration.

There was significant debate and consideration by the Board and HR & Remuneration Committee as to the appropriate performance conditions for the equity incentive scheme. Ultimately, new home settlements was chosen as the only performance condition as new home settlements is the main driver of earnings growth and the creation of shareholder value. It is also a simple measure, it is easy to measure and it is one that all employees can play a role in achieving.

The role each group of the Company's employees in delivering new home settlements is described in the following table:

Department	Total staff	Impact on settlements
Acquisitions	1	Supported by the Managing Director, the acquisitions department is incentivised by the ability to influence the future settlement pipeline.
Marketing	5	Although the marketing department have long-term strategies for growing enquiries they have a short-term ability to directly impact enquiries leading to sales and settlements.
Construction	13	The construction department is responsible for ensuring efficiency within the construction programme to meet settlements based on sales demand. Whilst also having a direct impact on short-term settlements they are increasingly responsible for driving customer referral as they are highly customer focused.
Sales	24	The sales department directly influence conversion of enquiries to sales and then move those sales though to settlement. The sales department is also a key part of increasing customer referral.
Operations	36	The operations department is responsible for the seamless experience of our homeowners at move-in date and work closely with the sales and construction departments. By providing a high level of customer service the operations team promote referral and therefore future sales and settlements.
Customer Contact	3	The customer contact department was established in January 2017 and has had an immediate impact. The conversion of new enquiries to appointment with sales consultants as well as conversion of older leads has improved greatly leading to higher sales and settlements.
Finance	4	The finance department ensure sufficient funding is in place for future acquisitions and delivering the construction programme.

The Board and HR & Remuneration Committee considered a range of factors in setting the target range for the 2017 financial year. Prior to the commencement of the financial year, the Company had provided guidance that the expected new home settlement range for the 2017 financial year was 250 to 270 so this was a logical starting point. The Company's budget for new home settlements was also within this range, with the top end of the range higher than budget. Analyst forecasts for new home settlements were also within this range with the analyst average approximately equivalent to the midpoint of the range.

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

Performance measure	FY2017	FY2016	FY2015	FY2014	FY2013
Net profit after tax attributable to members ($million)	$27.70	$19.27	$16.65	$12.28	$ 6.96
Net profit (change from prior year) (%)	43.7%	15.7%	35.6%	76.4%	5.6%
Dividends declared & paid (fully franked) (cents)	3.5	2.5	1.5	-	0.5
Diluted earnings per share (cents)	26.51	18.47	16.11	12.00	9.40
Closing share price (30 June)	$4.05	$2.91	$2.44	$1.60	$0.78
Share price increase / (decrease)	39.2%	19.3%	52.5%	105.1%	(2.5%)
STI paid to KMP	$10,000	$10,000	$ -	$ -	$ 10,000
New home settlements	278	202	240	210	149

7. Executive service agreements

7.1 Executive Directors

The HR & Remuneration Committee refreshed the Managing Director's executive service agreement during the 2014 financial year. This was executed on 8 December 2013 with an effective date of 1 September 2013.

Significant conditions

Under the terms of the agreement, the contract may be terminated by either party giving three months written notice. The Company may terminate the contract at any time without notice if serious misconduct has occurred. The Managing Director has a three month restrictive period post termination.

7.2 Senior management

Employment agreements for senior management were refreshed during the 2017 financial year. All senior management have consistent key terms of employment.

Significant conditions

Under the terms of all agreements, the contracts may be terminated by either party giving three months written notice. The Company may terminate the contracts at any time without notice if serious misconduct has occurred.

8. Remuneration details

8.1 Compensation of directors and key management personnel for the year ended 30 June 2017

30 June 2017	Short term				Post-employment		Share based payment	Share based payment	Total performance related %		Total
	Salary & fees $	Cash bonus $	Non-monetary $	Other $	Super $	Retirement benefits $	EIS $	ESLP $	Cash bonus %	Shares %	$
Directors											
Tim Poole	91,324	-	-	-	8,676	-	-	-	-	-	100,000
James Kelly	408,958	-	-	-	35,000	-	-	-	-	-	443,958
Bruce Carter	47,945	-	-	-	4,555	-	-	-	-	-	52,500
Jim Craig(1)	57,500	-	-	-	-	-	-	-	-	-	57,500
Philippa Kelly	52,511	-	-	-	4,989	-	-	-	-	-	57,500
	658,238	**-**	-	-	**53,219**	-	-	**-**	-	**-**	**711,458**
Key management personnel											
Michael Imbesi(2)	175,114	-	-	-	14,261	-	-	4,434	-	2.3	193,809
Chris Paranthoiene	198,326	9,132	-	-	18,284	-	12,950	4,434	3.8	7.2	243,126
Geoff Hollis	222,356	-	-	-	21,124	-	12,950	6,651	-	7.5	263,081
Sam Cohen	180,822	-	-	-	14,803	-	12,950	2,217	-	7.2	210,792
	776,618	**9,132**	**-**	**-**	**68,471**	**-**	**38,850**	**17,736**	**1.0**	**6.2**	**910,808**
Total	**1,434,856**	**9,132**	**-**	**-**	**121,690**	**-**	**38,850**	**17,736**	**0.5**	**3.4**	**1,622,266**

(1) Fees were paid to Bellwether Holdings Pty Ltd, an entity controlled by Jim Craig.
(2) Michael Imbesi did not receive share based payments pursuant to the equity incentive scheme (EIS) as he tendered a letter of resignation on 3 August 2017.

8.2 Compensation of directors and key management personnel for the year ended 30 June 2016

30 June 2016	Short term				Post-employment		Long term	Share based payment	Total performance related %		Total
	Salary & fees $	Cash bonus $	Non-monetary $	Other $	Super $	Retirement benefits $	Incentive plans $	Options/ ESLP $	Cash bonus %	Shares %	$
Directors											
Tim Poole	82,192	-	-	-	7,808	-	-	-	-	-	90,000
James Kelly	396,317	-	-	-	22,678	-	-	-	-	-	418,995
Bruce Carter(1)	49,562	-	-	-	5,086	-	-	-	-	-	54,648
Jim Craig(2)	55,000	-	-	-	-	-	-	-	-	-	55,000
Philippa Kelly	50,228	-	-	-	4,772	-	-	-	-	-	55,000
	633,299	**-**	-	-	**40,344**	-	-	**-**	-	**-**	**673,643**
Key management personnel											
Michael Imbesi	167,567	-	-	-	13,544	-	-	10,895	-	5.7	192,006
Chris Paranthoiene	172,260	9,132	-	-	15,807	-	-	10,895	4.4	5.2	208,094
Geoff Hollis(3)	194,824	-	-	-	18,508	-	-	16,343	-	7.1	229,675
Sam Cohen	166,996	-	-	-	13,628	-	-	5,448	-	2.9	186,072
	701,647	**9,132**	**-**	**-**	**61,487**	**-**	**-**	**43,582**	**1.1**	**5.3**	**815,848**
Total	**1,334,946**	**9,132**	**-**	**-**	**101,831**	**-**	**-**	**43,582**	**0.6**	**2.9**	**1,489,491**

(1) Bruce Carter's standard directors fees for the 2016 financial year inclusive of superannuation were $50,000, a payment of outstanding leave liabilities was also paid during the year reflecting the transition from executive to non-executive director on 1 July 2015.
(2) Fees were paid to Bellwether Holdings Pty Ltd, an entity controlled by Jim Craig.
(3) For comparative purposes note that Geoff Hollis took one month unpaid leave during the year.

9. Options and CRES held by Key Management Personnel

9.1 Options and CRES on issue (issued as remuneration)

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

Plan	Number of options granted	Grant date	Vesting date	Expiry date	Exercise price	Value per option at grant date	Performance hurdles achieved	% Vested
ESLP	266,667	22 May 2013	22 May 2015	22 May 2018	$0.876	$0.207	Yes	100%
ESLP	266,667	22 May 2013	22 May 2016	22 May 2018	$0.876	$0.216	Yes	100%
ESLP	266,666	22 May 2013	22 May 2017	22 May 2018	$0.876	$0.220	Yes	100%
ESLP	40,000	22 July 2015	22 July 2017	Cancelled	$2.696	$0.608	N/A	N/A
ESLP	40,000	22 July 2015	22 July 2018	Cancelled	$2.696	$0.608	N/A	N/A
ESLP	40,000	22 July 2015	22 July 2019	Cancelled	$2.696	$0.608	N/A	N/A

As at the date of this report, there were no unissued ordinary shares under option or CRES.

No option holder has any right under the options to participate in any other share issue of the Company. There were no alterations to the terms and conditions of options granted as remuneration since their grant date. During the year 333,331 ordinary shares were issued as a result of the conversion of 333,331 CRES. During the year 120,000 CRES were cancelled as a result of a cessation of employment.

For details on the valuation of the options, including models and assumptions used, please refer to Note 24 of the Company's 2017 financial statements.

9.2 Share based payments issued to key management personnel as remuneration

Shares (pursuant to the equity incentive scheme) expensed to key management personnel as remuneration:

Name	Year of grant	Vesting year	Plan	Number	Value at grant date	Total vested	Vested %
Geoff Hollis	2017	2017	EIS	5,000	$12,950	5,000	100%
	2017	2018	EIS	5,000	$12,950	-	-
	2017	2019	EIS	10,000	$25,900	-	-
Chris Paranthoiene	2017	2017	EIS	5,000	$12,950	5,000	100%
	2017	2018	EIS	5,000	$12,950	-	-
	2017	2019	EIS	10,000	$25,900	-	-
Sam Cohen	2017	2017	EIS	5,000	$12,950	5,000	100%
	2017	2018	EIS	5,000	$12,950	-	-
	2017	2019	EIS	10,000	$25,900	-	-

Note: all shares will be issued on 29 September 2017. It is estimated that a total of 80,000 shares will be issued to senior management under the EIS with a further 77,180 shares issued to other employees.

Equity Incentive Scheme terms and conditions

Fully paid ordinary shares in the Company, acquired on-market, will be issued to eligible employees on reaching new home settlement targets for FY2017 and FY2018, should settlement targets be achieved, ordinary shares will be issued as follows:

- Key management personnel and other senior management (on a pro-rata basis based on standard hours) will receive: 10,000 shares if the low point of the target is reached; 15,000 shares if the mid-point is reached; and 20,000 shares if the high point is reached or exceeded.
- All other eligible employees (on a pro-rata basis based on standard hours) will receive: 500 shares if the low point of the target is reached; 1,000 shares if the mid-point is reached; and 1,500 shares if the high point is reached or exceeded.

To be eligible to fully participate in the incentive scheme, employees will need to have been employed by the Company on 1 July of the target year with shares to be allocated in September following the end of the target year. Employees commencing employment with the Company after 1 July of the target year are entitled to a pro-rata incentive. Shares allocated to key management personnel and other senior management have the following service (or escrow) conditions: 25% of shares have no service requirements; 25% have a one-year service requirement; and the remaining 50% have a two-year service requirement. The allocation relating to all other employees will not have a service requirement and will be allocated provided they are employed by the Company at the date of allocation.

For accounting purposes, shares will be measured based on the valuation (share price) at grant date and then expensed recognising any service period. For the shares allocated to key management personnel and other senior management, 25% of the expense will be recognised in the target year, 25% in the year following the target year and the remaining 50% in the second year following the target year. All other shares will be recognised and expensed over a period incorporating the target year and any further time to allotment following the target year.

Options and CRES issued to key management personnel as remuneration

Name	Year of grant	Vesting year	Plan	Number	Value at grant date	Total vested	Vested %	Total number exercised
Tim Poole	2010	2012	ESOP	125,000	$54,375	125,000	100%	125,000
Geoff Hollis	2010	2012	ESOP	125,000	$54,375	125,000	100%	125,000
	2013	2015	ESLP	100,000	$20,700	100,000	100%	100,000
	2013	2016	ESLP	100,000	$21,600	100,000	100%	100,000
	2013	2017	ESLP	100,000	$22,000	100,000	100%	100,000
Michael Imbesi	2010	2012	ESOP	100,000	$43,500	100,000	100%	100,000
	2013	2015	ESLP	66,667	$13,800	66,667	100%	66,667
	2013	2016	ESLP	66,667	$14,400	66,667	100%	66,667
	2013	2017	ESLP	66,666	$14,667	66,666	100%	66,666
Chris Paranthoiene	2010	2012	ESOP	50,000	$21,750	50,000	100%	50,000
	2013	2015	ESLP	66,667	$13,800	66,667	100%	66,667
	2013	2016	ESLP	66,667	$14,400	66,667	100%	-
	2013	2017	ESLP	66,666	$14,667	66,666	100%	133,333
Sam Cohen	2013	2015	ESLP	33,334	$6,900	33,334	100%	33,334
	2013	2016	ESLP	33,333	$7,200	33,334	100%	33,334
	2013	2017	ESLP	33,332	$7,333	33,332	100%	33,332

9.3 Number of options and CRES held by key management personnel

2017

Name	Balance at 1-Jul-16	Granted as remun-eration	Exercised	Balance at 30-Jun-17	Total vested 30-Jun-17	Total exercise-able 30-Jun-17	Total unexerci-sable 30-Jun-17
Key Management Personnel							
Geoff Hollis	100,000	-	100,000(1)	-	-	-	-
Michael Imbesi	66,666	-	66,666(1)	-	-	-	-
Chris Paranthoiene	133,333	-	133,333(2)	-	-	-	-
Sam Cohen	33,332	-	33,332(1)	-	-	-	-

(1) Exercised during the 2017 financial year, value per share at exercise date was $3.99.

(2) Exercised during the 2017 financial year, 66,667 exercised with the value per share at exercise date being $3.38 and 66,666 exercised with the value per share at exercise date being $3.99.

2016

Name	Balance at 1-Jul-15	Granted as remun-eration	Exercised	Balance at 30-Jun-16	Total vested 30-Jun-16	Total exercise-able 30-Jun-16	Total unexerci-sable 30-Jun-16
Directors							
Tim Poole	125,000	-	125,000(1)	-	-	-	-
Key Management Personnel							
Geoff Hollis	200,000	-	100,000(2)	100,000	-	-	100,000
Michael Imbesi	133,333	-	66,667(2)	66,666	-	-	66,666
Chris Paranthoiene	133,333	-	-	133,333	66,667	66,667	66,666
Sam Cohen	66,666	-	33,334(2)	33,332	-	-	33,332

(1) Exercised during the 2016 financial year, value per share at exercise date was $1.95.

(2) Exercised during the 2016 financial year, value per share at exercise date was $2.00.

For further details relating to options and CRES, please refer to Note 24 of the Company's 2017 financial statements.

9.4 Shareholdings of key management personnel

2017

Name	Balance at 1-Jul-16	Off-market transfer	On-market transactions	Exercise of options	Balance at 30-Jun-17
Directors					
Bruce Carter	7,079,433	-	(2,000,000)	-	5,079,433
James Kelly	13,045,566	-	(1,000,000)	-	12,045,566
Tim Poole	1,224,607	-	-	-	1,224,607
Jim Craig	4,000,000	-	(1,000,000)	-	3,000,000
Philippa Kelly	65,000	-	-	-	65,000
Key Management Personnel					
Geoff Hollis	200,000	-	(110,000)	100,000	190,000
Michael Imbesi	237,334	-	(100,000)	66,666	204,000
Chris Paranthoiene	116,667	-	(25,000)	133,333	225,000
Sam Cohen	66,668	-	-	33,332	100,000

2016

Name	Balance at 1-Jul-15	Off-market transfer	On-market transactions	Exercise of options	Balance at 30-Jun-16
Directors					
Bruce Carter	8,579,433	-	(1,500,000)	-	7,079,433
James Kelly	14,045,566	-	(1,000,000)	-	13,045,566
Tim Poole	1,080,460	19,147	-	125,000	1,224,607
Jim Craig	4,000,000	-	-	-	4,000,000
Philippa Kelly	65,000	-	-	-	65,000
Key Management Personnel					
Geoff Hollis	244,712	-	(144,712)	100,000	200,000
Michael Imbesi	170,667	-	-	66,667	237,334
Chris Paranthoiene	116,667	-	-	-	116,667
Sam Cohen	33,334	-	-	33,334	66,668

10. Remuneration report voting at Annual General Meetings

Lifestyle Communities Limited received more than 99% of votes in support of its remuneration report for the 2017 financial year.

Signed in accordance with a resolution of the directors.

On behalf of the Board

Tim Poole	James Kelly
Chair	Managing Director
16 August 2017	16 August 2017

PITCHER PARTNERS

LIFESTYLE COMMUNITIES LIMITED

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

In relation to the independent audit for the year ended 30 June 2017, to the best of my knowledge and belief there have been:

(i) no contraventions of the auditor independence requirements of the *Corporations Act 2001*; and

(ii) no contraventions of APES 110 *Code of Ethics for Professional Accountants*.

P A JOSE
Partner

Date 16 August 2017

PITCHER PARTNERS
Melbourne

Corporate Governance Statement

The Company is committed to implementing and maintaining good corporate governance practices.

This Statement outlines the main features of the Company's corporate governance framework and governance practices, and the extent to which the Company has followed the recommendations of the ASX Corporate Governance Council (the ASX Principles and Recommendations) during the 2017 financial year.

This Statement is current as at 16 August 2017 and has been approved by the Board of the Company.

All charters and other policies referred to in this statement are available on the Company's website at *www.lifestylecommunities.com.au*.

1. Lay solid foundations for management and oversight

Board functions

The Company has a Board Charter which describes the roles and responsibilities of the Board.

The primary role of the Board is to create shareholder value by setting the strategic direction of the Company. Matters reserved for the Board include:

- setting the strategic direction of the Company;
- approving and monitoring operating budgets and major capital expenditure;
- overseeing the integrity of the Company's financial reporting;
- overseeing the management of the Company's debt facilities;
- overseeing the Company's risk management strategy and approval of the risk management framework;
- selecting, appointing, and where necessary removing, the Managing Director;
- delegating responsibility to the Managing Director, and setting the limits of delegation from the Managing Director to other management;
- appointing committees to assist in the oversight of the Company; and
- reviewing Board performance.

The Board has delegated other matters and the day to day management of the Company to the Managing Director, James Kelly, and established cascading delegated authority levels for senior management and employees. The Managing Director is also responsible for implementing the Company's strategic plan within the Company's risk management framework and ensuring accurate information is provided to the Board.

The Chair, Tim Poole, is primarily responsible for facilitating effective Board meetings by encouraging contribution from all Directors and by promoting constructive and respectful relations between management and the Board.

Director appointment, election and re-election
Vetting is undertaken before new Directors are appointed, elected or re-elected to the Board to ensure they are appropriate candidates. This includes background checks, such as for bankruptcy. Information included in respect of recommendation 2.4 (below) further describes the process undertaken by the Board and the information considered in relation to appointing a person as a Director.

For the election or re-election of Directors at Annual General Meetings, the notice of meeting sets out for shareholders information on candidates, including details of any other directorships and whether they are considered to be independent.

Director and Senior Executive agreements
The Company has a written agreement with each Director and senior executive clearly outlining the terms of their appointment.

For non-executive Directors the agreement includes the Company's expectations concerning involvement with individual committees, remuneration, circumstances under the Company's constitution in which a Director's office becomes vacant, indemnity and insurance arrangements, access to corporate information, confidentiality and a requirement to comply with Company policies.

For the Managing Director and senior executives the agreement includes similar material (where relevant) as well as a description of the position, roles and responsibilities, the term of appointment, resignation and termination processes, and entitlements on resignation or termination. Further details of the key terms for the employment agreements for the Managing Director and senior executives are set out in the Remuneration Report.

Company Secretary
The Company Secretary, Geoff Hollis, has a direct reporting line to the Chair of the Board to ensure that the Board and its committees function efficiently and effectively. The responsibilities of the Company Secretary include advising on governance matters such as Board and committee policies, supporting meetings by preparing agendas and minutes, and communicating with ASIC and the ASX.

Diversity
The Company values diversity and recognises the benefits it brings to the organisation. The Company has developed a Diversity Policy to take advantage of a workforce comprised of people with a diverse range of skills, backgrounds and experience.

The Company supports diversity in its workforce by:

- Treating all employees fairly and with respect and dignity as detailed in the Code of Conduct;
- Actively and promoting a working environment that values diversity and tolerance of differences;
- Ensuring that applicants and employees of all backgrounds are encouraged to apply for, and have fair opportunity to be considered for all available roles;
- Ensuring that the Company's policies encourage diversity and address specific barriers to groups of employees, such as those with domestic responsibilities, by making reasonable provision for the special needs of these employees, by means such as the Flexible Working Arrangements, Parental Leave and Other Leave Standards, and recognising and rewarding innovative strategies to accommodate diverse groups within the workforce;
- Setting, reviewing and reporting annually, measurable objectives; and
- Complying with all anti-discrimination and equal opportunity legislation.

Gender diversity is of particular importance as the Company has over 40% of homes occupied by single females and over 60% the Company's homeowners are female. The Company has the following objectives in relation to gender diversity which are assessed by the HR & Remuneration Committee annually:

- Objective 1: female representation on the Board at all times;
- Objective 2: female representation within the senior management team; and
- Objective 3: 50% or more female employees across its workforce.

This seeks to ensure adequate female representation across all of the Company's business practices. There is a particular emphasis on gender diversity in the sales and community management functions of the Company.
During the 2017 financial year each of the three objectives were achieved.

Measuring performance

The Company has an informal evaluation process for Board and committee performance which focuses on the role of the Board, its size and composition, the procedures and practices of the Board and meeting arrangements. The evaluation also includes an assessment of the future requirements of the Board in relation to the skills and experience required to ensure that Board composition is appropriate for the needs of the Company.

Individual non-executive Director performance is assessed by the Chair informally to ensure that the Director continues to operate effectively within the Board. This may involve discussions with the Director and with other members of the Board, and considering the Director's:

- skills, experience, performance and contributions to the Board, committees and other aspects of the Company;
- degree of independence; and
- availability to attend and prepare for Board and committee meetings.

An evaluation of the Board, committees and individual directors was undertaken during the 2017 financial year.

The Company has an on-going evaluation process for senior management. The HR & Remuneration Committee and Managing Director sets performance objectives for senior executives necessary to achieve the strategic objectives of the Company. Performance of senior executives is assessed annually by the Managing Director.

2. Structure the Board to add value

Board selection process and induction

The Board believes that the composition, including selection, appointment, renewal and retirement of members, is of such importance that it is the role of the Board as a whole to manage.

In considering the nomination and appointment of new Directors, the Board assesses candidates with regard to their experience in the industry, as well as more generally, and their skills, qualifications, personal qualities and background. In addition, in selecting new Directors, the Board looks for candidates with skills that complement and balance those of the existing Directors.

The Board reviews succession planning and senior leadership development on at least an annual basis. Details of the number of Board meetings and attendance at those meetings are set out on page 9 of the Directors' Report.

The mix of skills and diversity that the Company seeks to achieve on the Board includes:

- accounting, finance and capital markets;
- property development, construction and management;
- asset management;
- information technology;
- financial and business management;
- sales and marketing; and
- legal, tax and regulatory.

The Board has an induction program for newly-appointed non-executive Directors. This provides orientation including written materials, briefings, training on accounting principles (where appropriate), site visits and educational opportunities designed to make them familiar with the Company and better equipped to perform their duties. This seeks to build an understanding of the Company's business, the markets in which it operates, customers, suppliers, employees and community residents.

Directors are also encouraged to attend external director education programs to develop and maintain their skills and knowledge.

Independence

The Board comprises Tim Poole, Jim Craig and Philippa Kelly as independent non-executive Directors, Bruce Carter as a non-executive Director and James Kelly as Managing Director. Details of their qualifications, experience and length of service are set out on pages 4 and 5 of the Directors' Report.

The Board considers an independent Director to be a non-executive Director who is not a member of management and who is free of any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the independent exercise of their judgement as a Director of the Company.

Tim Poole, Jim Craig and Philippa Kelly are considered to be independent under this definition. Further, none of the aforementioned non-executive Directors have an interest, position, association or relationship of the type described in item 2.3 of the ASX Principles and Recommendations. Bruce Carter is not considered independent as he transitioned from executive to non-executive Director on 1 July 2015. The Board assesses independence at least annually.

The Chair of the Board, Tim Poole, is an independent Director. James Kelly is the Company's Managing Director.

3. Act ethically and responsibly

The Company recognises that its reputation is one of its most valuable assets to build long-term value for its shareholders. The Company's Code of Conduct applies to its Directors, senior executives and employees.

The Company is committed to promoting and maintaining a high standard of corporate ethics and business integrity. As stated in the Company's Code of Conduct, all Directors, senior executives and employees must act with integrity and professionalism and be scrupulous in the proper use of Company information, funds, equipment and facilities. Directors, senior executives and employees are to exercise fairness, equity, proper courtesy, consideration and sensitivity in dealing with customers, employees and other stakeholders. See also the information in respect of recommendation 7.4 below.

The Code of Conduct is a detailed statement concerning:

- responsibilities of all Directors, senior executives and employees;
- practices to promote the best interests and reputation of the Company;
- confidentiality;
- Company property;
- conflicts of interests;
- public statements;
- policies for preventing the acceptance or offering of bribes or other forms of unlawful or unethical payments or inducements;
- measures to encourage the reporting of unlawful or unethical behaviour;
- compliance; and
- breaches of the Code.

The Company has a Securities Trading Policy. Under the Company's Securities Trading Policy, Directors, senior executives and employees must not trade in any securities of the Company at any time when they are in possession of unpublished, price sensitive information in relation to those securities. Provided dealing would not otherwise contravene the insider trading provisions of the Corporations Act, Directors, senior executives and employees can deal in securities of the Company outside of the following prohibited periods:

- from 1 January to the opening of trading on the second Business Day after the Company's half-yearly results are announced to the ASX;
- from 1 July to the opening of trading on the second Business Day after the Company's annual results for that year are announced to the ASX;
- from the opening of trading on the date that is two weeks prior to the AGM to the opening of trading on the first Business Day after the close of the AGM; and
- any additional period, as specified by the Board.

Trading within a prohibited period can only occur with the prior approval from the Chair.

The Code of Conduct encourages the reporting of unlawful and unethical behaviour and protects whistle-blowers. Any employee who makes a complaint and complies with the reporting process will not be disadvantaged or prejudiced in any way.

All complaints are treated as confidential. Directors, senior executives and employees can report straight to the Managing Director, Company Secretary or the Chair of the Audit Committee if they believe their immediate supervisor may be implicated.

Directors, senior executives and employees must avoid any personal, financial or other interest that may conflict with their duties and responsibilities to the Company. Any interest that may constitute a conflict of interest must be promptly disclosed to the Managing Director, Company Secretary or the Chair of the Audit Committee.

4. Safeguard integrity in corporate reporting

Audit Committee

The Company has an Audit Committee that consists of three members, Philippa Kelly, Jim Craig and Bruce Carter, two of which are independent non-executive Directors (see Recommendation 2.1). All three Committee members have and maintain very good financial literacy. Further information on their skills, qualifications and experience is set out on pages 4 and 5 of the Directors' Report.

The Chair of the Audit Committee is Philippa Kelly, and she is not the Chair of the Board.

Details of the number of Audit Committee meetings and attendance at those meetings are set out on page 7 of the Directors' Report.

The Audit Committee has adopted a formal Charter, which is available on the Company's website. The Charter sets out the Audit Committee's composition, responsibilities and powers to ensure the adequacy of the Company's financial reporting. The Audit Committee oversees the Company's internal financial controls and the appointment of the external auditor. The Audit Committee will consider matters relevant to the preparation of the Company's financial statements for approval by the Board. It also monitors the external auditor's ongoing independence, effectiveness and scope of work, as well as the rotation of the audit engagement partner. The Audit Committee may seek advice from external consultants or specialists where it considers necessary.

External auditor

The external auditor, Pitcher Partners, was appointed in November 2008 and was selected based on having the necessary skills, objectivity and independence. This appointment is reviewed by the Board annually. The Company's policy on audit rotation requires the partner managing the audit for the external auditor be changed within a period of five years.

The Company's external auditor is invited to attend meetings of the Audit Committee when appropriate, including meetings without management being present.

Approval of financial statements

As part of the Company's financial assurance processes, the Directors receive a declaration from the Managing Director and the Chief Financial Officer before approving financial statements for a full year or half year period.

The declaration confirms to the Directors that, in the opinion of the Managing Director and the Chief Financial Officer:

- the Company's financial records have been properly maintained in accordance with the Corporations Act;
- the financial statements and the notes for the financial period or year comply with the accounting standards and give a true and fair view of the financial position and performance of the Company; and
- the declaration is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

Annual General Meeting

The Company holds a general meeting each year and copies of presentations are lodged with the ASX and made available on the Company's website. Shareholders have the opportunity to ask questions at the meeting and meet informally with Directors after the meeting.

The Company's external auditor attends the general meeting each year and is available to answer questions from shareholders regarding the conduct of the audit, the preparation and content of the auditor's report, the accounting policies adopted by the Company in the preparation of its financial statements and the independence of the auditor in relation to the conduct of the audit. The Company considers this is an important safeguard for the integrity of the Company's financial reporting process.

5. Make timely and balanced disclosure

Continuous disclosure

ASX Listing Rule 3.1 requires the Company to inform the ASX immediately once the Company is or becomes aware of any information concerning it that a reasonable person would expect to have a material effect on the price or value of the Company's shares. Procedures are in place to ensure that items which potentially require announcement to the ASX are promptly notified to relevant parties for approval. Depending upon content, either the Board, Managing Director or Company Secretary is responsible for authorising market releases. All market releases are posted to the Company's website.

The Company takes the spirit of its continuous disclosure obligations seriously and issues market releases during the year to satisfy these obligations. All ASX announcements are available on the Company's website.

6. Respect the rights of security holders

Company's website

The Company's website is one of the Company's key communication tools.

The Company endeavours to keep the website up-to-date and accurate in order to provide information about the Company's performance and governance to investors. The Company values transparency in all areas of operation, and understands that quality disclosure can foster the trust and confidence of shareholders and investors.

The Company encourages shareholders to take an active interest in the Company, and publishes information about the Company's history, current projects and corporate structure.

The following key documents are available for shareholders on the Company's website under the 'Investor Information' section:

- corporate profile and biographical information of Directors;
- Board Charter;
- Audit Committee Charter;
- HR and Remuneration Committee Charter;
- Communications Policy;
- Code of Conduct;
- Securities Trading Policy;
- Diversity Policy;
- financial statements;
- notices of Annual General Meetings;
- Annual Reports;
- investor presentations;
- operational updates; and
- announcements lodged with the ASX.

Communication with shareholders

The Company recognises the timeliness, convenience and environmental advantages of electronic communication. Shareholders have the option of communicating with the Company electronically. Shareholders who wish to update their communication preferences should contact the Company's share registry.

The Annual General Meeting allows the Company to provide shareholders with a greater understanding of the Company's operations, governance, performance and prospects, and gives shareholders the opportunity to raise questions or concerns.

Communications with analysts, investors, media and others

The Managing Director, James Kelly and the Chief Financial Officer and Company Secretary, Geoff Hollis, generally deal with analysts, investors, media and others, taking account of regulatory guidelines including those issued by the ASX on continuous disclosure. The presentations on the 30 June and 31 December results and other presentations are sent to the ASX and are available promptly on the Company's website. A teleconference held in respect of the 30 June and 31 December presentations is conducted on the afternoon of the release.

The Company's Communications Policy is available on the Company's website.

7. Recognise and manage risk

The Company considers risk management as a core principle of sound corporate governance. The Company recognises the importance of managing risk and controlling its business activities in a manner which enables it to protect established value, identify and capitalise on opportunities to create value, enhance resilience to external events and avoid or reduce risks which may cause injury or loss.

Risk management

In view of its size and operational structure, the Board considers that it is able to oversee the Company's risk management framework efficiently and effectively without establishing a risk committee (stand-alone or part of the responsibilities of the audit committee).

A formal risk register has been developed and approved by the Board. The register identifies specific risks at an operational and strategic level and provides the framework for the reporting and monitoring of material risks across the Company.

The full Board is responsible for oversight of the Company's risk management and control framework. The Board receives periodic reports from management on risk management matters.

The Company has disclosed its current material business risks within the Operating and Financial Review on page 16 of the Annual Report.

The Company's risk management processes and systems that were in place over the reporting period include:

- robust planning and budgeting process providing a long-term financial model that enables the Board to review timely financial forecasts as well as analyse future opportunities and sensitivities. The Board also receives regular forecasts in relation to the liquidity of the business;
- comprehensive site selection process that requires Board approval of any acquisition case prior to any land acquisition. The Board is then notified and approves any changes (positive or negative) to the acquisition case prior to the commencement of construction;
- a system of delegated authorities that cascades authority levels for expenditure and commitments from the Board, the delegation to the Managing Director and further cascading of authorities from the Managing Director to the rest of the organisation;
- maintaining insurance cover appropriate to the size and nature of the Company's operations to reduce the financial impact of any significant insurable losses;
- establishing a risk register which identifies the material risks facing the Company and which is regularly reviewed and updated. This includes providing a risk rating, assessment of the key controls in place to manage the risk and the person(s) responsible for implementing and reviewing controls; and
- all members of the senior management team report to the Board on financial and non-financial matters and meet with the Board at least quarterly.

Internal audit

The Company does not have a formal internal audit function. In view of the size of the Company, such a function is not considered necessary or appropriate at this time. A natural control mechanism exists in companies of this size as the Board works closely with the staff and, because the transactional volume is small, the Directors have a detailed knowledge of the Company.

During the 2017 financial year the Company commenced process improvements in relation to the following areas: accounts payable and purchase order systemisation; new payroll and HR management system; fixed assets reporting; and monthly reporting processes. These improvements are anticipated to be completed during the 2018 financial year.

Environmental risk management

The Company's risk register (described above), identifies specific risks for the Company at an operational and strategic level.

The sustainability of the Company's business could also be adversely impacted by the way in which the Company conducts its business and the effects on the Company's residents, employees, suppliers as well as the Company's shareholders.

The Board has regard to economic, environmental and social sustainability risks. It does so by considering:

- what issues are important to the sustainability of the Company's business;
- how those issues could be addressed; and
- whether it is in the interests of the Company to adopt particular measures having regard to the materiality of the risk addressed and the likely costs of doing so or failing to do so.

This process is applied by the Board as part of its annual planning and budget approval process, when setting the Company's strategy and when considering significant transactions for the Company.

By having regard to economic, environmental and social sustainability risks in the manner described above, the Board seeks to ensure that it acts in the best interests of the Company.

8. Remunerate fairly and responsibly

Remuneration Committee

The Company has an HR & Remuneration Committee that consists of three members, Jim Craig, Philippa Kelly and Tim Poole who are all independent non-executive Directors (see Recommendation 2.1). The Chair of the HR and Remuneration Committee is Jim Craig, and he is not the Chair of the Board.

Details of the number of HR & Remuneration Committee meetings and attendance at those meetings are set out on page 7 of the Directors' Report.

The HR & Remuneration Committee has adopted a formal Charter which is available on the Company's website. The Charter sets out the HR & Remuneration Committee’s responsibilities including oversight and approval of the human resources and remuneration policies and practices of the Company. The HR & Remuneration Committee may seek advice from external consultants or specialists where it considers necessary.

Details of remuneration

Details of remuneration of Directors, the Managing Director and senior management are included in the Remuneration Report on pages 24 and 25 of the 2017 Annual Report and in notes 24 and 26 to the financial statements (set out on pages 68 and 69 of the 2017 Annual Report).

Consolidated Statement of Profit or loss and other Comprehensive income
For the year ended 30 June 2017

	Note	2017 $	2016 $
Development revenue			
Home settlement revenue		79,941,727	54,877,337
Cost of sales		(64,360,083)	(43,080,471)
Gross profit from home settlements		15,581,644	11,796,866
Management and other revenue			
Rental revenue		13,751,895	11,074,970
Deferred management fees	6	4,112,152	2,508,705
Utilities revenue		1,662,257	1,385,214
Sub-division revenue		925,000	95,455
Finance revenue		17,122	209,884
Total management and other revenue		20,468,426	15,274,228
Fair value adjustments	5	26,664,208	18,924,865
less expenses			
Development expenses (sales and marketing)		(5,039,082)	(4,175,959)
Management rental expenses	6	(6,263,887)	(5,259,487)
Management deferred management fee expenses	6	(1,231,412)	(540,369)
Utilities expenses		(1,663,379)	(1,657,542)
Corporate overheads		(5,774,937)	(4,871,622)
Sub-division expenses		(1,194,475)	(95,455)
Loss on disposal of assets		(31,898)	-
Finance costs	6	(1,181,811)	(842,529)
Profit before income tax		40,333,397	28,552,996
Income tax expense	7	(12,636,296)	(7,937,280)
Net profit from continuing operations		27,697,101	20,615,716
Profit is attributable to:			
Members of the parent		27,695,112	19,268,682
Non-controlling interests		1,989	1,347,034
		27,697,101	20,615,716
Total comprehensive income for the year		27,697,101	20,615,716
Total comprehensive income is attributable to:			
Members of the parent		27,695,112	19,268,682
Non-controlling interests		1,989	1,347,034
		27,697,101	20,615,716

Earnings per share for profit attributable to the ordinary equity holders of the parent entity:			
		cents	cents
Basic earnings per share	22	26.555	18.586
Diluted earnings per share	22	26.505	18.474

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

Consolidated Statement of Financial Position
For the year ended 30 June 2017

	Note	2017 $	2016 $
ASSETS			
Current assets			
Cash and cash equivalents	9	3,653,118	3,352,040
Trade and other receivables	10	1,324,805	819,425
Inventories	11	34,368,842	35,548,272
Other current assets	12	320,888	650,553
Total current assets		39,667,653	40,370,290
Non-current assets			
Inventories	11	10,564,461	14,197,573
Property, plant and equipment	13	4,590,889	4,227,618
Investment properties	14	211,294,274	163,676,707
Total non-current assets		226,449,624	182,101,898
TOTAL ASSETS		266,117,277	222,472,188
LIABILITIES			
Current liabilities			
Bank overdraft	9	12,364	2,558,487
Trade and other payables	15	26,844,367	14,364,641
Current tax payable	7	574,467	360,801
Provisions	16	316,016	251,792
Total current liabilities		27,747,214	17,535,721
Non-current liabilities			
Interest-bearing loans and borrowings	17	47,000,000	46,000,000
Provisions	16	374,094	311,074
Deferred tax liabilities	7	35,471,964	27,320,528
Total non-current liabilities		82,846,058	73,631,602
TOTAL LIABILITIES		110,593,272	91,167,323
NET ASSETS		155,524,005	131,304,865
EQUITY			
Contributed equity	18	63,204,070	63,822,710
Reserves	19	1,801,816	1,561,850
Retained earnings	19	90,518,119	65,920,305
Members' interest in equity		155,524,005	131,304,865
Non-controlling interest	20	-	-
TOTAL EQUITY		155,524,005	131,304,865

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

Consolidated Statement of Changes in Equity
For the year ended 30 June 2017

	Contributed equity	Reserves	Retained earnings	Non-controlling interest	Total equity
	$	$	$	$	$
Balance at 1 July 2015	63,027,710	1,493,481	49,246,482	-	113,767,673
Profit for the year	-	-	19,268,682	1,347,034	20,615,716
Total comprehensive income for the year	-	-	19,268,682	1,347,034	20,615,716
Transactions with owners in their capacity as owners:					
Net distributions to non-controlling interests	-	-	-	(1,347,034)	(1,347,034)
Issue of shares - exercise of options	795,000	-	-	-	795,000
Employee share schemes	-	68,369	-	-	68,369
Dividends paid	-	-	(2,594,859)	-	(2,594,859)
	795,000	68,369	(2,594,859)	(1,347,034)	(3,078,524)
Balance as at 30 June 2016	63,822,710	1,561,850	65,920,305	-	131,304,865
Profit for the year	-	-	27,695,112	1,989	27,697,101
Total comprehensive income for the year	-	-	27,695,112	1,989	27,697,101
Transactions with owners in their capacity as owners:					
Net distributions to non-controlling interests	-	-	-	(1,989)	(1,989)
Treasury shares purchased	(715,000)	-	-	-	(715,000)
Employee share schemes	-	239,966	30,058		270,024
Issue of shares - exercise of options	96,360	-	-	-	96,360
Dividends paid	-	-	(3,127,356)	-	(3,127,356)
	(618,640)	239,966	(3,097,298)	(1,989)	(3,477,961)
Balance as at 30 June 2017	63,204,070	1,801,816	90,518,119	-	155,524,005

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

Consolidated Cash Flow Statement
For the year ended 30 June 2017

	Note	2017 $	2016 $
Cash flows from operating activities			
Receipts from customers		107,772,898	76,445,342
Payments to suppliers and employees		(84,067,078)	(84,947,737)
Income tax paid		(4,271,195)	(3,753,146)
Interest received		17,122	209,884
Interest paid		(1,807,002)	(2,150,799)
Net cash flows provided by / (used in) operating activities	21	17,644,745	(14,196,456)
Cash flows from investing activities			
Purchase of property, plant and equipment	13(a)	(768,823)	(1,043,609)
Proceeds from long-term deposit		-	5,000,000
Purchase of investment properties		(11,997,725)	(1,155,105)
Net cash flows provided by / (used in) investing activities		(12,766,548)	2,801,286
Cash flows from financing activities			
Proceeds from exercise of options / CRES shares		96,360	795,000
Proceeds from external borrowings		19,500,000	23,110,819
Repayment of external borrowings		(18,500,000)	(13,712,038)
Distributions paid to non-controlling interests		-	(3,409,351)
Dividends paid	8(a)	(3,127,356)	(2,594,859)
Net cash flows provided by / (used in) financing activities		(2,030,996)	4,189,571
Net increase / (decrease) in cash held		2,847,201	(7,205,599)
Cash at the beginning of the financial year		793,553	7,999,152
Cash at the end of the financial year	9	3,640,754	793,553

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

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

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

The financial report covers Lifestyle Communities Limited and controlled entities as a consolidated entity. Lifestyle Communities Limited is a company limited by shares, incorporated and domiciled in Australia. Lifestyle Communities Limited is a for-profit entity for the purpose of preparing the financial statements.

The financial report was authorised for issue by the directors as at the date of the director's report.

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

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

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

(b) Principles of consolidation

The consolidated financial statements are those of the consolidated entity, comprising the financial statements of the parent entity and of all entities which the parent entity controls. The group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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

All inter-company balances and transactions, including any unrealised profits and losses have been eliminated on consolidation. Subsidiaries are consolidated from the date on which control is established and are de-recognised from the date that control ceases.

Equity interests in a subsidiary not attributable, directly or indirectly, to the group are presented as non-controlling interests.

Non-controlling interests in the results of subsidiaries are shown separately in the Consolidated Statement of Profit or loss and other Comprehensive income and consolidated Statement of Financial Position respectively.

(c) Cash and cash equivalents

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

(d) Inventories

Inventories are measured at the lower of cost and net realisable value. Inventories include housing units built but not sold as well as capitalised civils and infrastructure, wages and holding costs. With effect from 1 January 2009 sales contract terms were changed and inventories include civil and infrastructure costs. Inventories are classified as either current or non-current assets pursuant to the timing of their anticipated sale.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Revenue recognition

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

(i) Home settlement revenue
Revenue from home settlements is recognised when there is persuasive evidence, usually in the form of settlement of the home, indicating that there has been a transfer of risks and rewards to the customer, no further work or processing is required, the quantity and quality of the goods has been determined, the price is fixed and generally ownership has passed. The consolidated entity considers all risks and rewards as transferred to the customer upon receipt of final settlement.

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

(iii) Rental revenue
Rental revenue from investment properties is derived from home owners and is accounted for on a straight-line basis over the lease term.

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

(v) Deferred management fee
The deferred management fee is receivable upon a resident selling their home. Revenue is recorded upon the resale settlement of the home.
For all contracts entered into prior to 1 January 2009, the fee payable is 15% on the resale value of the unit and after a period of occupation of a year and one day.
For all contracts entered into post 1 January 2009, the fee payable is up to 20% (the fee accumulates by 4% per year over 5 years up to 20%) on the resale value of the unit.

(vi) Sub-division revenue
Sub-division revenue is derived from land sold that is surplus to requirements for the residential communities. Sub-division revenue is recognised upon the exchange of an unconditional contract or if the contract is conditional once those conditions have been satisfied.

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

(f) Property, plant and equipment

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

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

Depreciation is calculated on a straight-line basis (prior year included some diminishing value assets) over the estimated useful life of the assets as follows:

	2017	2016
Buildings	40 years	40 years
Plant and equipment	4 to 25 years	2 to 13 years
Computer equipment	2 to 3 years	2 to 9 years
Motor vehicles	4 to 7 years	4 to 7 years

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

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Investment properties

Investment properties are measured initially at cost, including transaction costs. Investment properties include undeveloped land and land subject to residential site lease agreements. Subsequent to initial recognition, investment properties are re-measured at fair value, which reflects market conditions. Gains or losses arising from changes in the fair values of investment properties are recognised in profit or loss in the year in which they arise.

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

(h) Leases

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

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

(i) Impairment

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

An impairment loss is recognised where the carrying amount of the asset or cash generating unit exceeds its recoverable amount. The recoverable amount of an asset cash generating unit is defined as the higher of its fair value less costs of disposal and value in use.

(j) Borrowing costs

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

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

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Income tax

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

Deferred tax balances
Deferred tax assets and liabilities are recognised for temporary differences at the applicable tax rates when the assets are expected to be recovered or liabilities are settled. No deferred tax asset or liability is recognised in relation to temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

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

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

Tax consolidation
The parent entity and its wholly owned subsidiaries have implemented tax consolidation and have formed an income tax-consolidated group from 18 March 2011. This means that: each entity recognises their own current and deferred tax amounts in respect of the transactions, events and balances of the entity; and the parent entity is assumes the current tax liabilities and deferred tax assets arising in respect of tax losses, arising in the subsidiary, and recognises a contribution to (or distribution from) the subsidiaries. The tax consolidated group also has a tax sharing agreement in place to limit the liability of subsidiaries in the tax-consolidated group, arising under the joint and several liability provisions of the tax consolidation system, in the event of default by the parent entity to meet its payment obligations.

(l) Employee benefits

(i) Short-term employee benefit obligations
Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits expected to be settled wholly within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. The expected cost of short-term employee benefits in the form of compensated absences such as annual leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

(ii) Long-term employee benefit obligations
The provision for employee benefits in respect of long service leave and annual leave which, are not expected to be settled wholly within twelve months of reporting date, are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date.

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

(iii) Retirement benefit obligations
Defined contribution superannuation plan
The consolidated entity makes contributions to defined contribution superannuation plans in respect of employee services rendered during the year. These superannuation contributions are recognised as an expense in the same period when the employee services are received.

(iv) Share based payments
The consolidated entity operates an employee share loan scheme (ESLP) and an equity incentive scheme (EIS). Refer to Note 24 for further information.

For the ESLP, convertible repurchase-able employee shares (CRES) are issued to employees. For accounting purposes CRES are treated like options until the time of vesting. At the time of vesting an interest-free limited recourse loan is made to the participant with the value reflected as equity. The CRES are then convertible to ordinary shares at the discretion of the participant prior to their expiry with the loan being due and payable on or before expiry of the CRES. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The number of employee share loans expected to vest is reviewed and adjusted at each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. There are no further plans to issue CRES pursuant to the ESLP.

For the EIS, the Company provides a contribution to an Employee Share Trust for the estimated number of shares relating to the relevant financial year. The Employee Share Trust purchases shares on-market and issues the relevant shares to participating employees within three months of the end of the financial year. As the shares have not vested the contribution is recognised as treasury shares within contributed equity. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Goods and services tax (GST)

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

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

(n) Financial instruments

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

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

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

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

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

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

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

Financial liabilities
Financial liabilities include trade payables, other creditors and loans from third parties.

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

(o) Comparatives

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

(p) Rounding of amounts

The parent entity and the consolidated entity have applied the relief available under ASIC Corporations (Rounding in Financial / Directors' Reports) Instrument 2016/191 and accordingly, the amounts in the consolidated financial statements and in the directors' report have been rounded to the nearest dollar.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Accounting standards issued but not yet effective at 30 June 2017

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

(i) AASB 15: Revenue from Contracts with Customers (applicable for annual reporting periods commencing on or after 1 January 2018)

AASB 15 introduces a five step process for revenue recognition with the core principle of the new Standard being for entities to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the entity expects to be entitled in exchange for those goods or services. The five step approach is as follows: step 1 - identify the contracts with the customer; step 2 - identify the separate performance obligations; step 3 - determine the transaction price; step 4 - allocate the transaction price; and step 5 - recognise revenue when a performance obligation is satisfied.

AASB 15 will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements.

The changes in revenue recognition requirements in AASB 15 are not expected to materially impact the timing and amount of revenue recorded in the financial statements. There may be additional disclosure requirements which have not yet been quantified.

(ii) AASB 9: Financial Instruments (applicable for annual reporting periods commencing on or after 1 January 2018)

Significant revisions to the classification and measurement of financial assets, reducing the number of categories and simplifying the measurement choices, including the removal of impairment testing of assets measured at fair value. The amortised cost model is available for debt assets meeting both business model and cash flow characteristics tests. All investments in equity instruments using AASB 9 are to be measured at fair value.

AASB 9 amends measurement rules for financial liabilities that the entity elects to measure at fair value through profit and loss. Changes in fair value attributable to changes in the entity's own credit risk are presented in other comprehensive income.

Revised disclosures about an entity's hedge accounting have also been added to *AASB 7 Financial Instruments: Disclosures* .

Impairment of assets is now based on expected losses in AASB 9 which requires entities to measure: the 12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date); or full lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument.

The changes in AASB 9 are not expected to materially impact the measurement of financial instruments recorded in the financial statements. There may be additional disclosure requirements which have not yet been quantified.

(iii) AASB 16: Leases (applicable for annual reporting periods commencing on or after 1 January 2019)

AASB 16 will replace AASB 117: Leases and introduces a single lessee accounting model that will require a lessee to recognise right-of-use assets and lease liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Right-of-use assets are initially measured at their cost and lease liabilities are initially measured on a present value basis. Subsequent to initial recognition:
- right-of-use assets are accounted for on a similar basis to non-financial assets, whereby the right-of-use asset is accounted for in accordance with a cost model unless the underlying asset is accounted for on a revaluation basis, in which case if the underlying asset is:
- investment property, the lessee applies the fair value model in AASB 140: Investment Property to the right-of-use asset; or
- property, plant or equipment, the lessee can elect to apply the revaluation model in AASB 116: Property, Plant and Equipment to all of the right-of-use assets that relate to that class of property, plant and equipment; and
- lease liabilities are accounted for on a similar basis as other financial liabilities, whereby interest expense is recognised in respect of the liability and the carrying amount of the liability is reduced to reflect lease payments made.

AASB 16 substantially carries forward the lessor accounting requirements in AASB 117. Accordingly, under AASB 16 a lessor would continue to classify its leases as operating leases or finance leases subject to whether the lease transfers to the lessee substantially all of the risks and rewards incidental to ownership of the underlying asset, and would account for each type of lease in a manner consistent with the current approach under AASB 117.

Although the directors anticipate that the adoption of AASB 16 may have an impact on the Group's accounting for its operating leases, it is impracticable at this stage to provide a reasonable estimate of such impact.

NOTE 2: SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The estimates and assumptions based on future events have a significant inherent risk, and where future events are not anticipated there could be a material impact on the carrying amounts of the assets and liabilities in future periods, as discussed below.

(i) Significant accounting judgments

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

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

Consolidation of subsidiaries
The Company consolidates its interests in joint venture entities Cameron Street Developments Pty Ltd and Lifestyle Chelsea Heights Pty Ltd in accordance with *AASB 10 Consolidated Financial Statements* requirements. The Company is exposed to variable returns and is able to influence these returns via the power over the investee due to the structure of the arrangements with its joint venture entities.

(ii) Significant accounting estimates and assumptions

Valuation of investment properties
The Group values investment properties at fair value. Fair value is determined by a combination of the discounted annuity streams associated with the completed and settled home units and the fair value of the undeveloped land. Inputs for the fair value of investment properties are derived from independent and Directors' valuations and are adjusted to reflect actual rental income.

Share based payment transactions
The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value of the EIS is measured based on the share price at grant date and the fair value of the ESLP is determined using the Black-Scholes model. Refer to Note 24 for further detail. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

NOTE 3: FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES

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

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

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

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

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

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates to the Group's long-term debt obligations. The level of debt is disclosed in Note 17.

In August 2015 the Group re-financed a $27.6 million long-term loan facility that was subject to variable interest rates with an $80 million facility that is subject to variable interest rates.

Long-term debt obligations

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

	2017	2016
	$	$
Financial assets		
Cash and cash equivalents	3,653,118	3,352,040
Financial liabilities		
Bank overdraft	12,364	2,558,487
Secured loans - bank finance	47,000,000	46,000,000
	47,012,364	48,558,487
Net exposure	**(43,359,246)**	**(45,206,447)**

If interest rates had moved and been effective for the period, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

	Post Tax Profit Higher/(Lower)		Equity Higher/(Lower)	
	2017	2016	2017	2016
	$	$	$	$
Consolidated				
+1% (100 basis points)	(303,515)	(316,445)	(303,515)	(316,445)
-1% (100 basis points)	303,515	316,445	303,515	316,445

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

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

Market risk

At balance date, the Group has no financial instruments exposed to material market risks other than interest rate risk.

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

Risk exposure and responses (continued)

Credit risk

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

Credit risk arises from the financial assets for the Group, which comprise cash and cash equivalents, and trade and other receivables. The Group's exposure to credit risk arises from potential default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. Exposure at balance date has been assessed as minimal as the financial assets have been assessed as having a high likelihood of being received.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of a bank facility. The Group ensures that there is sufficient liquidity within the bank facility by maintaining internal credit requirements that are more conservative than the financier.

The Group's debt as at balance date is outlined at Note 17.

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

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

	2017	2016
	$	$
6 months or less [(1)]	7,588,567	14,364,641
6-12 months [(2)]	19,255,800	-
1-2 years	-	-
2-3 years	-	-
3-4 years [(3)]	47,000,000	-
4-5 years	-	46,000,000
	73,844,367	**60,364,641**

[(1)] This amount is represented by the following financial liabilities:
- $1,022,250 relates to customer deposits which typically convert to settlement within six months or less.
- $1,265,795 relates to deferred revenue which will be bought to account within six month or less.
- $5,300,522 relates to trade and other payables, refer to Note 15 for further detail.

[(2)] This amount is represented by the following financial liabilities:
- $12,102,300 relates to a contractual obligation for the unconditional contract to purchase land in Ocean Grove.
- $7,153,500 relates to a contractual obligation for the unconditional contract to purchase land in Bittern.

[(3)] On 26 August 2015 the company re-financed its bank facilities with Westpac Banking Corporation securing an $80,000,000 facility with the first drawdown occurring on 25 September 2015. This facility is subject to internal credit management procedures whereby funds drawn are allocated between development debt (capitalised to inventory) and pre-development debt (expensed). Development debt includes funding for inventory and pre-development debt includes funding for undeveloped land. As at 30 June 2017 total debt was $47,000,000 with $18,717,722 allocated to development debt and $28,282,278 allocated to pre-development debt (as at 30 June 2016 total debt was $46,000,000 with $33,607,940 allocated to development debt and $12,392,060 allocated to pre-development debt).

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

NOTE 4: FAIR VALUE MEASUREMENTS

(a) Fair value hierarchy

Assets and liabilities measured and recognised at fair value have been determined by the following fair value measurement hierarchy:
Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities
Level 2: Input other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
Level 3: Inputs for the asset or liability that are not based on observable market data

30-Jun-17	**Level 1**	**Level 2**	**Level 3**	**Total**
Recurring Fair Value Measurements	**$**	**$**	**$**	**$**
Investment properties	-	-	211,294,274	211,294,274
Total assets measured at fair value	-	-	211,294,274	211,294,274

30-Jun-16	**Level 1**	**Level 2**	**Level 3**	**Total**
Recurring Fair Value Measurements	**$**	**$**	**$**	**$**
Investment properties	-	-	163,676,707	163,676,707
Total assets measured at fair value	-	-	163,676,707	163,676,707

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

(i) Investment properties

The fair value of investment properties is determined by a combination of inputs from independent valuations and Directors' valuations. Fair value is determined by a combination of the discounted annuity streams associated with the completed home units and the fair value of the undeveloped land. Inputs, including discount rates, deferred management fee annuity value, and management expense rates are derived from independent valuations. Rental capitalisation rates are derived from a combination of independent and Directors' valuations. Some inputs relating to the rental annuity streams are adjusted to reflect appropriate data relating to the rental at those communities that weren't valued in the current year. The fair value of undeveloped land is based on inputs from independent valuations. Inputs from independent valuations are provided by property valuers who are industry specialists in valuing these types of investment properties.

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

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

Rental capitalisation rates - rates were taken directly from the valuations for the six communities independently valued in the current year. In relation to the remaining seven communities (independently valued in the prior year) the Directors have adjusted the rental capitalisation rates to reflect those adopted by the independent valuers.
Deferred management fee annuity - the valuation for this component is taken directly from independent valuations.
Rental annuity - weekly rental rates were taken directly from the valuations for the six communities independently valued in the current year. In relation to the remaining seven communities (independently value in the prior year) the Directors have adjusted the rate adopted in the prior year by inflation to reflect annual rent increases.
Undeveloped land - the valuation for this component is taken from inputs within the independent valuations.

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

	Adopted	**Per valuations**
Weekly rentals ($)	180.22 - 188.12	174.13 - 188.12
Anticipated % expenses (as a percentage of rental income)	30.0% - 41.5%	30.0% - 41.5%
Rental capitalisation rates (%)	7.75%	7.75%
Rental values per unit ($)	72,549 - 87,472	72,549 - 87,472
Deferred management fee discount rates (%)	13.00% - 14.25%	13.00% - 14.25%
Deferred management fee values per unit ($)	21,262 - 46,083	21,262 - 46,083
Valuation of undeveloped land (per hectare) ($'million)	0.17 - 1.75	0.17 - 1.75

NOTE 4: FAIR VALUE MEASUREMENTS (continued)

(d) Reconciliation of recurring level 3 fair value movements

(i) Investment properties

	2017 $	2016 $
Opening balance	163,676,707	132,757,442
Additions (contracted land and capitalised costs)	19,818,775	11,994,400
Net unrealised gain from fair value adjustments	27,798,792	18,924,865
Closing balance	**211,294,274**	**163,676,707**

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

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

(i) Investment properties

The Company obtains independent valuations of each community at least every two years. The Company uses the independent valuers' inputs in relation to the rental and deferred management fee annuity streams for communities valued in the current year. For those communities valued in the prior year the Directors utlise inputs from independent valuations to assess whether rental capitalisation rates and weekly rental income should be adjusted. These adjustments are assessed at each period end. The directors assess the value attributed to undeveloped land annually. Land contracted in any period is recognised at cost until the first valuation is obtained.

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

(i) Investment properties

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

Rental income

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

	Post Tax Profit Higher/(Lower)		Equity Higher/(Lower)	
	2017 $	2016 $	2017 $	2016 $
Management expense as a percentage of rental income				
+2%	(2,582,472)	(1,947,205)	(2,582,472)	(1,947,205)
-2%	2,582,472	1,947,205	2,582,472	1,947,205
Rental capitalisation rate				
+0.50%	(5,147,094)	(3,774,935)	(5,147,094)	(3,774,935)
-0.50%	5,857,038	4,272,198	5,857,038	4,272,198
Deferred management fee per unit				
+5%	2,031,444	1,441,886	2,031,444	1,441,886
-5%	(2,031,444)	(1,441,886)	(2,031,444)	(1,441,886)
Land prices (undeveloped land)				
+10%	2,782,406	2,084,286	2,782,406	2,084,286
-10%	(2,782,406)	(2,084,286)	(2,782,406)	(2,084,286)

NOTE 5: FAIR VALUE ADJUSTMENTS

	2017 $	2016 $
Net unrealised gain from fair value adjustments - investment properties (Note 14) (a)	27,798,792	18,924,865
Other fair value adjustments (b)	(1,134,584)	-
	26,664,208	**18,924,865**

(a) Fair value adjustment results from restating communities to their fair value at balance date. This income represents incremental adjustments to the fair value of investment properties upon settlement of units and reflects the discounted value of future rental and deferred management fee revenues net of expenses as well as the fair value of undeveloped land.

(b) Other fair value adjustments relate to transactions incurred that are not directly relating to investment properties but are fair value in nature.

	2017	2016
	$	$

NOTE 6: PROFIT FROM CONTINUING OPERATIONS

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

Revenues

	2017 $	2016 $
(i) Deferred management fee		
Deferred management fees received	3,471,230	2,044,930
Selling and administration fees	640,922	463,775
	4,112,152	2,508,705

Expenses

	2017 $	2016 $
(i) Finance costs expensed		
Bank loans	893,213	708,196
Other	213,543	-
Amortisation of loan facility fees	75,055	134,334
	1,181,811	842,529

(ii) Finance costs capitalised
Finance costs expensed excludes the following interest capitalised as part of inventory:

	2017 $	2016 $
Bank loans	1,107,820	1,247,543

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

	2017 $	2016 $
(iii) Management rental expenses		
Management expenses attributable to communities	5,209,778	4,289,730
Surplus applicable to joint venture partners	1,054,109	969,757
	6,263,887	5,259,487
(iv) Management deferred management fee expenses		
Deferred management fee sales and marketing expenses	577,429	348,689
Surplus applicable to joint venture partners	653,983	191,680
	1,231,412	540,369
(v) Plant and equipment		
Depreciation (Note 13)	438,473	339,995
Write-off of plant and equipment (Note 13)	31,899	-
	470,372	339,995
(vi) Employee benefits expense		
Wages and salaries	5,072,679	4,036,162
Defined contribution superannuation expense	428,504	340,825
Share based payments expense	270,024	68,369
Movement in employee provisions	127,244	139,080
	5,898,451	4,584,436

	2017 $	2016 $
NOTE 7: INCOME TAX		
(a) Components of tax expense		
Current tax	4,484,861	2,431,998
Deferred income tax	8,151,436	5,630,702
Over provision in prior years	-	(125,420)
	12,636,296	7,937,280
(b) Deferred income tax expense included in income tax expense comprises		
Decrease / (increase) in deferred tax assets	(69,772)	(26,770)
Increase in deferred tax liabilities	8,221,207	5,657,472
	8,151,436	5,630,702
(c) Reconciliation between tax expense recognised in the income statement and tax expense		
Accounting profit before tax	40,333,397	28,552,996
At the statutory income tax rate of 30% (2015:30%)	12,100,019	8,565,899
Add / (less):		
Share based payments	81,007	20,510
Non-controlling interests accounting and tax adjustments	(6,943)	(517,737)
Capital loss adjustments	240,000	-
Other	222,213	(131,392)
Income tax expense	12,636,296	7,937,280
(d) Current tax		
Current tax relates to the following:		
Opening balance	360,801	1,807,369
Income tax	4,484,861	2,431,998
Tax payments	(4,271,195)	(3,753,146)
Over provision	-	(125,420)
Current tax liabilities	574,467	360,801
(e) Deferred tax		
Deferred tax relates to the following:		
Deferred tax assets		
The balance comprises:		
Borrowing costs	-	70,298
Capital raising costs	35,702	107,075
Capital losses	241,872	465,831
Inventory	41,794	-
Tax losses	719,977	889,425
Provision for employee entitlements	207,033	168,860
Accruals & business expenses	697,521	172,639
	1,943,900	1,874,128
Deferred tax liabilities		
The balance comprises:		
Interest capitalised	1,003,416	1,249,347
Receivables	277,500	-
Investment property fair value adjustments	36,134,948	27,945,309
	37,415,864	29,194,656
Net deferred tax liability	35,471,964	27,320,528
(e) Deferred tax assets not brought to account		
Capital tax losses	240,000	-

	2017	2016
	$	$

NOTE 8: DIVIDENDS

(a) Dividends

	2017 $	2016 $
Dividends paid $0.030 per share (2016: $0.025 per share) fully franked	3,127,356	2,594,859

(b) Dividends declared after balance date and not recognised

	2017 $	2016 $
Since balance date the directors have recommended a dividend of 2.0 cents per share fully franked at 30%	2,090,903	1,563,177
Balance of franking account on a tax paid basis at balance date adjusted for franking credits arising from payment of current tax payable and franking debits arising from the payment of dividends declared at balance date:	7,927,602	6,340,221

NOTE 9: CASH & CASH EQUIVALENTS

	2017 $	2016 $
CURRENT ASSETS		
Cash at bank and on hand	3,653,118	3,145,540
Short-term deposits	-	206,500
	3,653,118	3,352,040
CURRENT LIABILITIES		
Bank overdraft	12,364	2,558,487
NET CASH	3,640,754	793,553

NOTE 10: TRADE AND OTHER RECEIVABLES

	2017 $	2016 $
CURRENT		
Other receivables	399,805	819,425
Land proceeds receivable (a)	925,000	-
	1,324,805	819,425

(a) Land proceeds receivable relates to an unconditional contract that was signed prior to balance date and is expected to settle within six months or less. The land being sold is surplus land at Casey Fields that is unable to be incorporated within the current community.

Fair value and credit risk

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

NOTE 11: INVENTORIES

	2017 $	2016 $
CURRENT		
Housing	21,263,729	19,333,323
Civils & infrastructure	13,105,113	16,214,949
	34,368,842	35,548,272
NON-CURRENT		
Housing	46,243	1,625,640
Civils & infrastructure	10,518,218	12,571,933
	10,564,461	14,197,573
TOTAL INVENTORIES	44,933,303	49,745,845

(a) Inventory expense

Inventories recognised as an expense for the year ended 30 June 2017 totalled $64,360,083 for the Group (2016: $43,080,471). The expense has been included in the cost of sales line item.

	2017	2016
	$	$
NOTE 12: OTHER CURRENT ASSETS		
Security deposits	160,456	189,067
Other assets	159,273	252,306
Prepayments	1,159	209,180
	320,888	650,553

Fair value and credit risk

Due to the short term nature of other current assets, their carrying amount is assumed to approximate their fair value. The maximum exposure to credit risk is the fair value of other current assets.

NOTE 13: PROPERTY, PLANT AND EQUIPMENT

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

Year end 30 June 2017	*Buildings*	*Plant and equipment*	*Computer equipment*	*Motor vehicles*	*Total*
	$	$	$	$	$
At 1 July 2016 net of accumulated depreciation	1,985,542	1,697,329	164,280	380,467	4,227,618
Additions	49,126	366,308	208,083	145,306	768,823
Write-off	-	(30,853)	(1,046)	-	(31,899)
Transfers / change in depreciation rate (i)	(8,198)	(45,628)	9,125	109,521	64,821
Depreciation charge for the year	(54,842)	(247,768)	(70,074)	(65,789)	(438,473)
At 30 June 2017 net of accumulated depreciation	1,971,628	1,739,388	310,368	569,505	4,590,889
At 30 June 2017					
Cost	2,233,149	2,462,180	462,549	871,191	6,029,069
Accumulated depreciation	(261,521)	(722,792)	(152,181)	(301,686)	(1,438,180)
Net carrying amount	1,971,628	1,739,388	310,368	569,505	4,590,889
Year end 30 June 2016					
At 1 July 2015 net of accumulated depreciation	1,263,814	1,125,844	98,389	306,383	2,794,430
Additions	38,502	739,723	124,402	140,982	1,043,609
Transfer (i)	729,573	-	-	-	729,573
Depreciation charge for the year	(46,347)	(168,238)	(58,511)	(66,899)	(339,995)
At 30 June 2015 net of accumulated depreciation	1,985,542	1,697,329	164,280	380,467	4,227,618
At 30 June 2016					
Cost	2,184,023	2,589,508	506,412	718,959	5,998,902
Accumulated depreciation	(198,481)	(892,179)	(342,132)	(338,493)	(1,771,285)
Net carrying amount	1,985,542	1,697,329	164,280	380,467	4,227,618

(i) the fixed asset register was streamlined for depreciation type / rate consistency across all asset sub-categories during the year.

	2017	2016
	$	$

NOTE 14: INVESTMENT PROPERTIES

	2017	2016
Investment properties at fair value	211,294,274	163,676,707
(a) Reconciliation of carrying amounts at the beginning and end of the period		
Opening balance as at 1 July	163,676,707	132,757,442
Additions	19,818,775	11,994,400
Net gain from fair value adjustments	27,798,792	18,924,865
Closing balance as at 30 June	211,294,274	163,676,707

Investment properties are carried at fair value, which has been determined by a combination of inputs from independent valuations and Directors' valuations. Fair value is determined by a combination of the discounted annuity streams associated with the completed home units and the fair value of the undeveloped land. Inputs, including discount rates, deferred management fee annuity value, and management expense rates are derived from independent valuations. Rental capitalisation rates are derived from a combination of independent and Directors' valuations, rates were taken directly from independent valuations for the six communities independently valued in the current year. In the remaining communities (independently valued in the prior year) the directors have adjusted the rental capitalisation rates to reflect those adopted by the independent valuers. Weekly rental rates were taken directly from the valuations for the six communities independently valued in the current year. In relation to the remaining seven communities (independently value in the prior year) the Directors have adjusted the rate adopted in the prior year by inflation to reflect annual rent increases. The fair value of the land is based on independent valuations. Inputs from independent valuations are provided by property valuers who are industry specialists in valuing these types of investment properties.

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

All rental income and deferred management fee income disclosed in the income statement was generated from investment properties. All management expense relates to investment properties that generated rental income.

Investment properties are subject to a first charge, forming, in part, the security of the Group's loans as disclosed in Note 17.

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

	2017	2016
(b) Carrying amount of investment properties if the cost method had been applied	86,546,962	66,728,187

NOTE 15: TRADE AND OTHER PAYABLES

	2017	2016
CURRENT		
Trade payables (a)	1,459,544	1,005,733
Customer deposits (b)	1,022,250	878,575
GST payable	885,932	391,673
Other payables and accruals (c)	2,955,046	945,765
Contracted land (d)	19,255,800	10,934,750
Deferred revenue (e)	1,265,795	208,145
	26,844,367	14,364,641

(a) Trade payables
Trade payables are non-interest bearing and are normally settled on 7 to 30 day terms. Due to the short term nature of trade payables, their carrying amount is assumed to approximate their fair value.

(b) Customer deposits
These represent deposits received from customers that are recognised as revenue upon home settlement.

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

(d) Contracted land
Includes $11,340,000 payable on the settlement of land at Ocean Grove (scheduled to settle in the second-half of the 2018 financial year), $6,730,000 payable on the settlement of land at Bittern (scheduled to settle in the second-half of the 2018 financial year) and $1,185,800 accrued stamp duty due upon settlement of both parcels.

(e) Deferred revenue
These represent cash received upon the payment of rental and home settlement invoices that relates to a future financial period and will be recognised as income within the next financial year.

	2017	2016
	$	$
NOTE 16: PROVISIONS		
CURRENT		
Employee provisions	316,016	251,792
NON-CURRENT		
Employee provisions	374,094	311,074
NOTE 17: INTEREST-BEARING LOANS AND BORROWINGS		
NON-CURRENT		
Secured loans - bank finance	47,000,000	46,000,000

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

(a) Secured loans - bank finance maturity
As at reporting date the company has drawn $47,012,364 comprising a facility a loan of $47,000,000 and a bank overdraft of $12,364 of the $80,000,000 facility with Westpac Banking Corporation. The facility has an expiry of greater than one year, expiring on 26 August 2020.

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

(c) Terms and conditions
(i) *Bank overdraft*
As at reporting date the company has a bank overdraft of $12,364. The Company has a $5,000,000 overdraft sub-limit as part of the $80,000,000 facility with Westpac Banking Corporation.

(i) *Non-current secured loans - bank finance*
As at reporting date the company has drawn $47,000,000 in addition to the bank overdraft of $12,364. The $80,000,000 facility agreement was signed on 26 August 2015. The facility has an expiry of greater than one year, expiring on 26 August 2020.

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

(d) Assets pledged as security
The $80,000,000 facility held with Westpac Banking Corporation is secured by the following:
- General Security Deeds between Westpac Banking Corporation and Lifestyle Communities Limited, Lifestyle Investments 1 Pty Ltd, Lifestyle Developments 1 Pty Ltd, Lifestyle Management 1 Pty Ltd, Brookfield Village Development Pty Ltd, Brookfield Village Management Pty Ltd, Lifestyle Investments 2 Pty Ltd, Lifestyle Developments 2 Pty Ltd, Lifestyle Management 2 Pty Ltd and Lifestyle Communities Investments Cranbourne Pty Ltd.

Mortgage by Lifestyle Investments 1 Pty Ltd over Melton, Tarneit and Warragul properties.
Mortgage by Lifestyle Investments 2 Pty Ltd over the Shepparton, Hasting, Wollert, Geelong, Officer, and Berwick Waters properties.

(e) Defaults and breaches
During the current or prior year there have been no defaults or breaches of any banking covenants as set out in the Business Finance Agreements with Westpac.

NOTE 18: CONTRIBUTED EQUITY

	2017 $	2016 $
104,545,131 Ordinary shares (2016: 104,211,800 Ordinary shares)	63,919,070	63,822,710
Nil Convertible repurchase-able employee shares (CRES) (2016: 453,331 CRES)	-	-
174,086 Treasury shares (2016: nil)	(715,000)	-
	63,204,070	63,822,710

(i) Reconciliation of Ordinary shares

	2017 Number	2017 $	2016 Number	2016 $
Opening balance	104,211,800	63,822,710	102,961,799	63,027,710
Repayment of CRES loan	-	96,360	-	-
Issue of shares - conversion of CRES to ordinary shares	333,331	-	200,001	-
Issue of shares - conversion of options to ordinary shares	-	-	1,050,000	795,000
Closing balance	104,545,131	63,919,070	104,211,800	63,822,710

(ii) Reconciliation of CRES

	2017 Number	2017 $	2016 Number	2016 $
Opening balance	453,331	-	533,332	-
Conversion to ordinary shares	(333,331)	-	(200,001)	-
Issue of CRES shares	-	-	120,000	-
Cancellation of CRES shares	(120,000)	-	-	-
Closing balance	-	-	453,331	-

(ii) Reconciliation of Treasury shares

	2017 Number	2017 $	2016 Number	2016 $
Opening balance	-	-	-	-
Purchase of treasury shares	174,086	(715,000)	-	-
Closing balance	174,086	(715,000)	-	-

(a) Ordinary shares

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

(b) CRES

800,000 convertible repurchase-able employee shares were issued on 22 May 2013 pursuant to the employee share loan plan approved at the 2012 AGM. All CRES have now been converted to ordinary shares. The conversion of 800,000 CRES to ordinary shares has crystallised a non-recourse loan with selected employees. This loan will only be brought to account upon settlement of the loan by the employee. Loans in respect of 110,000 CRES were brought to account in FY2017 (FY2016: nil). For further information relating to the value prescribed to the CRES refer to Note 24.

120,000 CRES shares issued in the prior year were cancelled in the current year due to a cessation of employment.

(c) Treasury shares

Treasury shares represent shares purchased by an Employee Share Trust that have not been issued to employees at balance date pursuant to the Equity Incentive Scheme.

(d) Capital management

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

Dividends

As a general principle, the Directors of Lifestyle Communities intend to declare dividends out of post tax, operating cash flow generated from community management. In FY2017 community management cash flows delivered a sufficient surplus to declare and pay an interim fully franked dividend of 1.5 cent per share ($1,564,179) and declare a final fully franked dividend of 2.0 cents per share ($2,090,903).

Considerations in determining the level of free cash flow from which to pay dividends include: operating cash flow generated from community management; the projected tax liability of Lifestyle Communities Limited; the level of corporate overheads attributable to community roll out; the level of interest to be funded from free cash flow; and additional capital needs of the development business.

The Group is not subject to externally imposed capital requirements.

NOTE 19: RETAINED EARNINGS AND RESERVES

(a) Movements in retained earnings were as follows:

	2017 $	2016 $
Balance 1 July	65,920,305	49,246,482
Net profit	27,695,112	19,268,682
Transfer from reserves	30,058	-
Dividends paid	(3,127,356)	(2,594,859)
	90,518,119	65,920,305

(b) Reserves

	Share based payments reserve	
	$ 2017	$ 2016
Opening balance	1,561,850	1,493,481
Option expense (CRES)	23,010	68,369
Other share based payments expense (EIS)	247,014	-
Reversal to retained earnings due to cancelled CRES	(30,058)	-
Closing balance	1,801,816	1,561,850

The option reserve is used to record the fair value of options / CRES issued to employees as part of their remuneration as well as expenses pursuant to the Equity Incentive Scheme. Refer Note 24 for further details.

NOTE 20: NON-CONTROLLING INTERESTS

	2017 $	2016 $
Interest in:		
Retained earnings	-	-

Details of subsidiaries with non-controlling interests

(a) The Group has a 50% interest (2015: 50%) in the subsidiary entity, Cameron Street Developments Unit Trust, whose principal activity is the development of a master planned residential village. The Group's voting power is equal to its ownership interest. The entity is registered and operates in Australia.

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

	2017 $	2016 $
(i) Summarised financial information for subsidiary:		
Current assets	446,051	477,523
Non-current assets	-	-
Total assets	446,051	477,523
Current liabilities	446,051	477,523
Non-current liabilities	-	-
Total liabilities	446,051	477,523
Net assets	-	-

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

	2017 $	2016 $
Revenues	4,455	653,320
Expenses	(3,221)	(464,541)
Net profit after tax from continuing operations	1,234	188,779
Profit allocated to non-controlling interest	617	94,389

NOTE 20: NON-CONTROLLING INTERESTS (continued)

Details of subsidiaries with non-controlling interests (continued)

(ii) Summarised financial information for subsidiaries' cash flows:

	2017 $	2016 $
Cash flows from operating activities	(30,238)	454,315
Cash flows from investing activities	-	(4,169)
Cash flows from financing activities	(300,838)	(383,341)
Net cash flows	(331,076)	66,805

(iii) Summarised financial information for subsidiaries' trust distributions:

	2017 $	2016 $
Trust distributions	1,234	188,779

(iv) Summarised financial information for subsidiaries' contingent liabilities:

	2017 $	2016 $
Bank guarantees	-	100,000

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

(b) The Group has a 50% interest (2015: 50%) in the subsidiary entity, Lifestyle Chelsea Heights Unit Trust, whose principal activity is the development of a master planned residential village. The Group's voting power is equal to its ownership interest. The entity is registered and operates in Australia.

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

(i) Summarised financial information for subsidiary:

	2017 $	2016 $
Current assets	8,330	111,630
Non-current assets	-	-
Total assets	8,330	111,630
Current liabilities	8,330	111,630
Non-current liabilities	-	-
Total liabilities	8,330	111,630
Net assets	-	-

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

	2017 $	2016 $
Revenues	4,306	8,342,057
Expenses	(1,562)	(5,836,768)
Net profit after tax from continuing operations	2,744	2,505,289
Profit allocated to non-controlling interest	1,372	1,252,645

(ii) Summarised financial information for subsidiaries' cash flows:

	2017 $	2016 $
Cash flows from operating activities	(21,496)	3,898,397
Cash flows from investing activities	(85,232)	(31,220)
Cash flows from financing activities	-	(5,269,303)
Net cash flows	(106,728)	(1,402,126)

(iii) Summarised financial information for subsidiaries' trust distributions:

	2017 $	2016 $
Trust distributions	2,744	2,505,289

(v) Summarised financial information for subsidiaries' contingent liabilities:

	2017 $	2016 $
Bank guarantees	-	106,182

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

	2017	2016
	$	$
NOTE 21: CASH FLOW STATEMENT RECONCILIATION		
a) Reconciliation of net cash flows from operating activities to operating profit		
Operating profit after income tax	27,697,101	20,615,716
Adjustment for non-cash items:		
Depreciation	373,653	339,995
Amortisation	75,055	134,334
Write-off of plant and equipment	31,899	-
Share option expense	270,024	68,369
Fair value adjustment	(26,664,208)	(18,924,865)
Add back/(subtract) changes in operating assets and liabilities:		
(Increase)/decrease in trade and other receivables	(914,098)	(102,771)
(Increase)/decrease in inventories	7,445,552	(20,051,895)
Increase/(decrease) in trade and other payables	837,419	(598,551)
Increase/(decrease) in provisions	127,244	139,080
Increase/(decrease) in current tax	213,667	(1,446,568)
Increase in deferred tax	8,151,438	5,630,701
Net cash flow from operating activities	17,644,745	(14,196,456)

NOTE 22: EARNINGS PER SHARE

The following reflects the income and weighted average number of shares used in the basic and diluted earnings per share computations:

(a) Earnings used in calculating earnings per share

	2017	2016
For basic and diluted earnings per share:		
Net profit	27,695,112	19,268,682

(b) Weighted average number of shares

	2017	2016
Weighted average number of ordinary shares for basic earnings per share	104,292,165	103,673,650
Effect of dilution:		
Share options	198,250	629,841
Weighted average number of ordinary shares adjusted for dilution	104,490,415	104,303,491

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

NOTE 23: RELATED PARTY DISCLOSURES

(a) Subsidiaries

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

Name	Country of incorporation	% Equity interest 2017	% Equity interest 2016	Carrying value of parent entity's interest 2017	Carrying value of parent entity's interest 2016
				$	$
Lifestyle Investments 1 Pty Ltd	Australia	100%	100%	8,751,551	8,751,551
Lifestyle Developments 1 Pty Ltd	Australia	100%	100%	-	-
Lifestyle Management 1 Pty Ltd	Australia	100%	100%	-	-
Lifestyle Seasons Pty Ltd	Australia	100%	100%	3	3
Lifestyle Cranbourne Pty Ltd	Australia	100%	100%	3	3
Brookfield Management Trust (Trustee: Brookfield Village Management Pty Ltd)	Australia	100%	100%	-	-
Brookfield Development Trust (Trustee: Brookfield Village Development Pty Ltd)	Australia	100%	100%	-	-
Lifestyle Communities Investments Cranbourne Pty Ltd	Australia	100%	100%	-	-
Cameron Street Developments Pty Ltd	Australia	50%	50%	-	-
Cameron Street Developments Unit Trust (Trustee: Cameron Street Developments Pty Ltd)	Australia	50%	50%	-	-
Lifestyle Investments 2 Pty Ltd	Australia	100%	100%	2	2
Lifestyle Developments 2 Pty Ltd	Australia	100%	100%	2	2
Lifestyle Management 2 Pty Ltd	Australia	100%	100%	2	2
Lifestyle Chelsea Heights Pty Ltd	Australia	50%	50%	-	-
Lifestyle Chelsea Heights Unit Trust (Trustee: Lifestyle Chelsea Heights Trust Pty Ltd)	Australia	50%	50%	-	-
Lifestyle Warragul Pty Ltd	Australia	100%	100%	120	120
Lifestyle Shepparton Pty Ltd	Australia	100%	100%	120	120
Lifestyle Whirakee Pty Ltd	Australia	100%	100%	3	3
Lifestyle Parks Australia Pty Ltd	Australia	100%	100%	3	3
				8,751,809	8,751,809

(b) Ultimate parent

Lifestyle Communities Limited is the ultimate Australian parent entity.

(c) Loans from related parties

There are no loans from related parties.

(d) Transactions with related parties

There were no transactions with related parties in the current or prior years.

	2017	2016
	$	$

NOTE 24: SHARE-BASED PAYMENTS

(a) Recognised share-based payment expenses

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

	2017 $	2016 $
Expenses arising pursuant to the ESLP	23,010	68,369
Expenses arising pursuant to the EIS	247,014	-
Total	270,024	68,369

(b) Types of share-based payment plans

Employee Share Loan Plan, 'ESLP'

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

The ESLP was approved at the Company's 2012 AGM and 920,000 CRES shares have been issued under this plan to date, with 120,000 of these being cancelled in the financial year. The ESLP is available for selected employees but excludes directors. It is current policy not to issue further CRES under the ESLP.

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

Equity Incentive Scheme, 'EIS'

The purpose of the EIS is to offer all employees (excluding Directors) the ability to obtain shares in the Company and enable them to participate in any growth in the value of the Company, encouraging them to improve the longer term performance of the Company and its returns to shareholders, and to motivate and retain them. Under this scheme, employees are offered ordinary shares in the Company by way of share units issued by the share plan trustee in the Employee Share Trust.

There are two concurrent schemes, one for the senior management team and another for all other employees. Shares are offered in September each year based on the business successfully meeting pre-determined home settlement targets in the prior financial year. The first shares pursuant to this scheme will be issued in September 2017. Senior management shares have service conditions whereby 100% of shares in respect of the 2017 financial year will be issued in September 2017 however 75% will be subject to a service condition until September 2018 and then a further 50% will be subject to a service condition until September 2019 when all shares will vest to the employees. The other scheme has no service requirements. An expense of $247,014 has been recorded in the 2017 financial year to reflect the estimated number of shares that will be issued in September 2017 in respect of home settlement targets met in the 2017 financial year.

The fundamentals of the scheme was approved by the board of directors in the 2016 financial year and was formally adopted by the board of directors in the 2017 financial year. The scheme will not result in new shares in the Company being issued. The Company will make a cash contribution to the share plan trustee who will arrange the purchase of the required amount of shares on-market. The Employee Share Trust has an independent share plan trustee and is not considered to be controlled by the Company.

(c) Share based payment expense pursuant to the EIS

The following table outlines expenses recognised pursuant to the EIS:

	Senior management	Others	Total
Shares earned in respect of the 2017 financial year	20,000	77,180	97,180
Vested at 30 June 2017	20,000	61,744	81,744
Average share price at measurement date ($)	2.59	3.16	3.02
Value recorded as share based payments expense ($)	51,800	195,214	247,014

NOTE 24: SHARE-BASED PAYMENTS (continued)

(d) Summaries of options and CRES granted
The following table illustrates the number (No.) and weighted average exercise price (WAEP) of, and movements in, share options

	2017 No.	2017 WAEP A$	2016 No.	2016 WAEP A$
Outstanding at the beginning of the year	453,331	1.358	1,583,332	0.797
CRES issued during the year	-	-	120,000	2.696
Options exercised during the year	-	-	(1,050,000)	0.757
CRES exercised during the year	(333,331)	0.876	(200,001)	0.876
CRES cancelled during the year	(120,000)	2.696	-	-
Outstanding at the end of the year	-	-	453,331	1.358
Exercisable at the end of the year	-	-	66,667	0.876

(e) Weighted average remaining contractual life
The weighted average remaining contractual life for the share options and CRES outstanding as at 30 June 2017 is nil years (2016: 2.5).

(f) Range of exercise price
The range of exercise prices for options and CRES outstanding at the end of the year was nil (2016: $0.876 to $2.696).

(g) Weighted average fair value of options and CRES granted during the year
There were no options or CRES granted in the current year. The prior year weighted average fair value of CRES granted was $0.608.

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

	ESOP FY2011	ESLP (CRES) FY2013	Options for services FY2013	ESLP (CRES) FY2016
Dividend yield (%)	0%	3%	5%	3%
Expected volatility (%) (4 year historical monthly)	67%	41%	43%	28%
Risk-free interest rate (%)	5.28%	2.81%	2.73%	2.20%
Vesting period at issue (years)	2	2, 3, 4	-	2, 3, 4
Time to expiry at issue (years)	5	5	5	5
Option/CRES exercise price ($)	$0.650	$0.876	$0.800	$2.696
Weighted average share price at measurement date ($)	$0.700	$0.700	$0.700	$2.451

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

NOTE 25: SEGMENT INFORMATION

Operating segments are reported based on internal reporting provided to the Managing Director who is the Group's chief operating decision maker.

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

NOTE 26: KEY MANAGEMENT PERSONNEL

	2017 $	2016 $
Compensation of Key Management Personnel		
Short-term employee benefits	1,443,988	1,344,078
Post-employment benefits	121,690	101,831
Share-based payments	56,586	43,582
	1,622,264	1,489,491

There were no changes to employees defined as key management personnel during the 2017 financial year.

	2017	2016
	$	$

NOTE 27: COMMITMENTS AND CONTINGENCIES

(a) Commitments

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

These non-cancellable leases have remaining terms of between 82 and 90 years and are transferable. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.

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

	2017 $	2016 $
Within one year	15,665,465	12,581,362
After one year but not more than five years	62,661,862	50,325,446
After more than five years	1,278,233,029	1,030,380,327
Total minimum lease payments	1,356,560,356	1,093,287,134

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

Operating lease commitments payable - Group as lessee
The Group has entered into commercial property lease with its landlord for office premises. The contract provides for future lease commitments payable as disclosed below.

The lease has an initial term of four years from the commencement date being 1 May 2014.

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

	2017 $	2016 $
Within one year	166,441	162,464
After one year but not more than five years	-	135,386
Total minimum lease payments	166,441	297,850
Contracted construction commitments		
Payable not later than one year	4,290,530	5,080,611

(b) Contingencies

(i) The Australian Taxation Office is continuing to undertake the GST Business Systems Review with the Company as part of their usual review process. The Company has made a voluntary disclosure upon review of its lodgements with the ATO. The Australian Tax Office is yet to finalise their review and as a result, the Directors remain unable to form a view on whether any additional GST liability will be incurred.

	2017 $	2016 $
(ii) Bank guarantees (secured by term deposits)	-	206,182

	2017	2016
	$	$

NOTE 28: AUDITORS REMUNERATION

The auditor of Lifestyle Communities Limited is Pitcher Partners.

Amounts received or due and receivable for current auditors:

	2017 $	2016 $
An audit or review of the financial report of the entity and any other entity in the consolidated group.	113,000	115,984
Other services in relation to the entity and any other entity in the consolidated group - tax compliance, general tax advice, GST advice and other agreed upon procedures.	114,345	50,773
	227,345	166,757

NOTE 29: PARENT ENTITY DISCLOSURES

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

	2017 $	2016 $
Current assets	99,201,418	96,179,594
Total assets	118,797,183	113,856,573
Current liabilities	1,585,496	3,752,740
Total liabilities	49,114,890	50,219,113
Net assets	69,682,293	63,637,460
Equity:		
Contributed equity	62,847,055	63,465,695
Reserves:		
Option reserve	1,801,816	1,561,850
Accumulated profits / (losses)	5,033,422	(1,390,085)
Total equity	69,682,293	63,637,460
Net profit	9,520,807	16,289,454
Total comprehensive income	9,520,807	16,289,454

Subsequent to year end Lifestyle Developments 2 Pty Ltd, a subsidiary of Lifestyle Communities Limited, declared a dividend of $20,000,000. This ensures that there are sufficient retained earnings within Lifestyle Communities Limited to declare its dividend.

NOTE 30: SIGNIFICANT EVENTS AFTER BALANCE SHEET DATE

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

NOTE 31: DEED OF CROSS GUARANTEE

Pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 dated 17 December 2016, the wholly-owned subsidiaries listed below are relieved from the *Corporations Act 2001* requirements for preparation, audit and lodgement of financial reports, and Directors' reports.

It is a condition of the Instrument that the Company and each of the subsidiaries enter into a Deed of Cross Guarantee. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the *Corporations Act 2001* . If a winding up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up.

The parties subject to the Deed are:
- Lifestyle Communities Limited
- Lifestyle Investments 2 Pty Ltd
- Lifestyle Developments 2 Pty Ltd

The Deed was executed on 19 June 2015. Lifestyle Developments 2 Pty Ltd obtained relief pursuant to the Instrument for the year ended 30 June 2017 (and prior year). Lifestyle Investments 2 Pty Ltd is ineligible for relief pursuant to the Class Order for the year ended 30 June 2017 (and prior year) as it was a small proprietary company.

A consolidated statement of comprehensive income and consolidated statement of financial position, comprising the Company and controlled entities which are a party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee, for the year ended 30 June 2017 (including prior year comparatives) is set out as follows:

	2017 $	2016 $
(a) Consolidated Statement of Comprehensive Income of the closed group		
Development revenue		
Home settlement revenue	79,726,920	45,247,665
Cost of sales	(64,160,895)	(36,671,617)
Gross profit from home settlements	15,566,025	8,576,048
Management and other revenue		
Rental revenue	3,889,191	1,627,355
Management fee income	490,961	760,098
Trust distributions	1,372	1,252,644
Finance revenue	8,081	134,178
Total management and other revenue	4,389,605	3,774,275
Fair value adjustments	23,161,070	14,350,213
less Expenses		
Development expenses	(4,951,534)	(3,994,273)
Management expenses	(3,889,191)	(1,627,355)
Corporate overheads	(5,770,625)	(4,850,339)
Finance costs	(1,154,756)	(612,831)
Loss on disposal of assets	(4,848)	-
Profit before income tax	27,345,746	15,615,738
Income tax expense	(6,868,673)	(4,606,034)
Net profit from continuing operations	20,477,073	11,009,704
Profit is attributable to:		
Members of the parent	20,477,073	11,009,704
Non-controlling interests	-	-
	20,477,073	11,009,704

NOTE 31: DEED OF CROSS GUARANTEE (continued)

(b) Summary of movements in consolidated retained earnings of the closed group

	2017 $	2016 $
Balance 1 July	17,294,345	8,879,500
Dividends paid	(3,127,356)	(2,594,859)
Net profit	20,477,073	11,009,704
	34,644,062	17,294,345

(c) Consolidated Statement of Financial Position of the closed group

	2017 $	2016 $
ASSETS		
Current assets		
Cash and cash equivalents	3,617,285	2,886,063
Trade and other receivables	115,841	1,781
Inventories	34,817,532	34,982,475
Other financial assets	-	-
Other current assets	441,679	611,225
Total current assets	38,992,337	38,481,544
Non-current assets		
Inventories	10,564,461	15,085,060
Property, plant and equipment	1,736,532	1,481,389
Other financial assets	8,893,334	8,893,334
Investment properties	129,070,031	84,567,276
Total non-current assets	150,264,358	110,027,059
TOTAL ASSETS	189,256,695	148,508,603
LIABILITIES		
Current liabilities		
Bank overdraft	12,364	2,558,487
Trade and other payables	25,110,022	6,978,478
Current tax payable	574,467	360,801
Provisions	316,016	251,792
Total current liabilities	26,012,869	10,149,558
Non-current liabilities		
Trade and other payables	155,300	155,300
Interest-bearing loans and borrowings	47,000,000	46,000,000
Provisions	374,094	311,073
Deferred tax liabilities	16,064,484	9,213,767
Total non-current liabilities	63,593,878	55,680,140
TOTAL LIABILITIES	89,606,747	65,829,698
NET ASSETS	99,649,948	82,678,905
EQUITY		
Contributed equity	63,204,070	63,822,710
Reserves	1,801,816	1,561,850
Retained earnings	34,644,062	17,294,345
TOTAL EQUITY	99,649,948	82,678,905

Directors' Declaration

The directors declare that the:

1. In the directors' opinion, the financial statements and notes thereto, as set out on pages 42 to 73, are in accordance with the *Corporations Act 2001,* including:

(a) complying with Australian Accounting Standards and the *Corporations Regulations 2001*, and other mandatory professional reporting requirements;

(b) as stated in Note 1(a), the consolidated financial statements also comply with International Financial Reporting Standards; and

(c) giving a true and fair view of the financial position of the consolidated entity as at 30 June 2017 and its performance for the year ended on that date.

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

At the date of this declaration, there are reasonable grounds to believe that the members of the closed group identified in Note 31 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in Note 31.

This declaration has been made after receiving the declarations required to be made by the chief executive officer and the managing director to the directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ending 30 June 2017.

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

Tim Poole	James Kelly
Chairman	Managing Director

Melbourne, 16 August 2017

LIFESTYLE COMMUNITIES LIMITED
AND CONTROLLED ENTITIES
ABN 11 078 675 153

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

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Lifestyle Communities Limited "the Company" and its controlled entities "the Group", which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended; and
(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* "the Code" that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Valuation of investment properties - $211.3m *Refer to Note 14*	
This is the largest asset on the balance sheet, representing 79% of total assets. Our audit effort has increased in this area as the Group's investment property portfolio has grown in recent years. In particular, there is significant focus in ensuring the underlying investments are valued appropriately. The valuation of the investment properties held at fair value is based on key inputs and assumptions noted in the valuation. Judgement is applied to a number of the key inputs including: • management fee expense percentages; • capitalisation rates; and • the value of deferred management fees. The Group engages external independent valuers to undertake valuations of each investment property every 2 years. It is due to the size of the balance and use of key input and assumption judgements that this is a key area of audit focus.	Our procedures included amongst others: • Evaluating the external property valuations obtained by management and performing an assessment as to the appropriateness of key inputs and assumptions used in the valuation; • Challenging the key inputs and assumptions provided by management to the external valuers; • Comparing movements between key inputs and assumptions in valuations from prior periods to ensure they were in line with our knowledge and expectation of the specific property and the overall applicable market conditions; • Reviewing the properties which were not subject to an external valuation, and comparing the inputs to those used in the prior period and indicators from current external valuations.

LIFESTYLE COMMUNITIES LIMITED
AND CONTROLLED ENTITIES
ABN 11 078 675 153

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

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2017, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

LIFESTYLE COMMUNITIES LIMITED
AND CONTROLLED ENTITIES
ABN 11 078 675 153

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

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

LIFESTYLE COMMUNITIES LIMITED
AND CONTROLLED ENTITIES
ABN 11 078 675 153

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

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 17 to 30 of the directors' report for the year ended 30 June 2017. In our opinion, the Remuneration Report of Lifestyle Communities Limited, for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

P A JOSE
Partner

PITCHER PARTNERS
Melbourne

16 August 2017

ASX additional information

Additional information required by the Australian Stock Exchange Limited and not shown elsewhere in this report is as follows. The information is current as at 15 August 2017.

(a) Distribution of equity securities

(i) Ordinary share capital

104,545,131 fully paid ordinary shares are held by 1,927 individual shareholders

(b) Substantial shareholders

Fully paid ordinary shareholders	**Number**	**Percentage**	**Current at (last notification date)**
James Kelly	12,045,566	11.52%	15 August 2017
Cooper Investors Pty Ltd	7,896,352	7.55%	9 February 2017
Commonwealth Bank of Australia	6,092,157	5.85%	8 May 2015
AustralianSuper	5,727,700	5.48%	28 September 2016
Australian Foundation Investment Company Limited	5,470,436	5.22%	27 April 2016
Perlov Family	5,386,637	5.15%	16 September 2016
WH Soul Pattinson / Pengana	5,282,014	5.07%	5 April 2017
BT Investment Management	5,218,147	5.00%	29 August 2016
	53,119,009	**50.81%**	

Voting rights

All ordinary shares carry one vote per share without restriction.

(c) Twenty largest holders of quoted equity securities

Rank	Name	Units	% of Units
1.	J P MORGAN NOMINEES AUSTRALIA LIMITED	10,775,253	10.31
2.	MASONKELLY PTY LTD	9,116,265	8.72
3.	NATIONAL NOMINEES LIMITED	8,828,720	8.44
4.	BNP PARIBAS NOMS PTY LTD <DRP>	7,218,641	6.90
5.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	7,207,603	6.89
6.	CITICORP NOMINEES PTY LIMITED	5,791,846	5.54
7.	AUSTRALIAN FOUNDATION INVESTMENT COMPANY LIMITED	5,470,436	5.23
8.	DAKEN INVESTMENTS PTY LTD	5,149,539	4.93
9.	B S CARTER INVESTMENTS PTY LTD <B S CARTER FAMILY A/C>	4,879,433	4.67
10.	MIRRABOOKA INVESTMENTS LIMITED	3,357,699	3.21
11.	EQUITAS NOMINEES PTY LIMITED <PB-600687 A/C>	3,000,000	2.87
12.	TRACEY RYAN INVESTMENTS PTY LTD <RYAN INVESTMENT A/C>	2,557,142	2.45
13.	AMCIL LIMITED	2,312,022	2.21
14.	KELLY SUPERANNUATION FUND PTY LTD	2,116,801	2.02
15.	ARMADA INVESTMENTS PTY LTD	1,708,229	1.63
16.	SANDHURST TRUSTEES LTD <ENDEAVOR ASSET MGMT MDA>	1,661,008	1.59
17.	CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	1,197,222	1.15
18.	AUST EXECUTOR TRUSTEES LTD <DS CAPITAL GROWTH FUND>	1,104,114	1.06
19.	ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD <CUSTODIAN A/C>	785,811	0.75
20.	MR WILLIAM MCBEATH WILLIAMS	636,509	0.61
Totals: Top 20 holders of ORDINARY FULLY PAID SHARES		**84,874,293**	**81.18**

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

Range of Units Snapshot **Composition : ORD**

Range	Total holders	Units	% of Issued Capital
1 - 1,000	726	285,746	0.27
1,001 - 5,000	673	1,805,897	1.73
5,001 - 10,000	245	1,839,032	1.76
10,001 - 100,000	232	6,432,026	6.15
100,001 - 1,000,000	33	10,730,457	10.26
1,000,001 - 100,000,000	18	83,451,973	79.82
Rounding			**0.01**
Total	**1,927**	**104,545,131**	**100.00**

Unmarketable Parcels

	Minimum Parcel Size	Holders	Units
Minimum $ 500.00 parcel at $3.90 per unit	129	211	7,167

Corporate information

Lifestyle Communities Limited	ABN 11 078 675 153
Registered office	Level 2, 25 Ross Street South Melbourne Vic 3205 Australia
Directors	Tim Poole – Non-executive Chair James Kelly – Managing Director Bruce Carter – Non-executive Director Jim Craig – Non-executive Director Philippa Kelly – Non-executive Director
Company secretary	Geoff Hollis
Principal place of business	Level 2, 25 Ross Street South Melbourne VIC 3205 Australia
Share registry	Computershare Investor Services Pty Limited Yarra Falls 452 Johnston Street, Abbotsford VIC 3067 Telephone 61 3 9415 5000 Fax 61 3 9473 2500. Investor queries (within Australia) 1300 850 505
Lawyers	Thomson Geer Level 39, 525 Collins Street Melbourne VIC 3000 Australia
Bankers	Westpac Banking Corporation Limited Level 7, 150 Collins Street Melbourne VIC 3000 Australia
Auditors	Pitcher Partners Accountants Auditors & Advisors Level 19, 15 William Street Melbourne VIC 3000 Australia