

## APPENDIX 4E

### Annual Financial Report

### Year ended 30 June 2018

<p><b>Name of Entity:</b> Ingenia Communities Group (“INA”), a stapled entity comprising Ingenia Communities Holdings Limited ACN 154 444 925, Ingenia Communities Fund ARSN 107 459 576, and Ingenia Communities Management Trust ARSN 122 928 410.</p>
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Current period:	1 July 2017 - 30 June 2018
Previous corresponding period:	1 July 2016 - 30 June 2017

#### Results for announcement to the market

	2018	2017	Change	Change
	\$'000	\$'000	\$'000	%
Revenue	189,476	149,884	39,592	26%
Net profit for the year attributable to members	34,243	26,408	7,835	30%
Underlying profit	36,771	23,521	13,250	56%
Net tangible assets per security (\$)	\$2.57	\$2.50	\$0.07	3%
<b>Distributions - (cents)</b>				
Final Distribution (payable 14 September 2018)	5.65	5.10	0.55	11%
Interim Distribution (paid 14 March 2018)	5.10	5.10	-	-
<b>Total Distributions</b>	<b>10.75</b>	<b>10.20</b>	<b>0.55</b>	<b>5%</b>
<b>FY18 Final distribution dates</b>				
Ex-dividend date	24 August 2018			
Record date	5 pm 27 August 2018			
Payment date	14 September 2018			
The Dividend and Distribution Reinvestment Plan is operational for this distribution.				

**Other significant information and commentary on results**

See attached ASX announcement and materials referred to below.

**Audit status**

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

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

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



Leanne Ralph  
Company Secretary  
21 August 2018



**INGENIA COMMUNITIES HOLDINGS LIMITED**  
**A.C.N 154 444 925**

**FINANCIAL REPORT**  
**YEAR ENDED 30 June 2018**

[www.ingeniacommunities.com.au](http://www.ingeniacommunities.com.au)  
Registered Office: Level 9, 115 Pitt Street Sydney NSW 2000

# Annual Report

Ingenia Communities Holdings Limited

For the year ended 30 June 2018

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# Directors' Report

Ingenia Communities Holdings Limited

For the year ended 30 June 2018

The Directors of Ingenia Communities Holdings Limited ("ICH" or the "Company") present their report together with the Company's financial report for the year ended 30 June 2018 (the "current period") and the Independent Auditor's Report thereon. The Company's financial report comprises the consolidated financial report of the Company and its controlled entities, including Ingenia Communities Fund ("ICF" or the "Fund") and Ingenia Communities Management Trust ("ICMT") (collectively, the "Trusts").

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

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

## DIRECTORS

The Directors of the Company at any time during or since the end of the current period were:

### Non-Executive Directors (NEDs)

Jim Hazel (Chairman)

Robert Morrison (Deputy Chairman)

Amanda Heyworth

Valerie Lyons

Andrew McEvoy (appointed 1 December 2017)

Philip Clark AM (resigned 4 December 2017)

### Executive Director

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

### *Qualifications, experience and special responsibilities*

#### Jim Hazel - Non-Executive Chairman

Mr Hazel was appointed to the Board in March 2012. Mr Hazel has had an extensive corporate career in both the banking and retirement sectors. His retirement village operations experience includes being Managing Director of Primelife Corporation Limited (now part of Lend Lease). Other current listed company directorships include Bendigo and Adelaide Bank Limited and Centrex Metals Limited. He also serves on the Boards of Coopers Brewery Limited and the University of South Australia. Mr Hazel was previously on the board of ImpediMed Limited.

Mr Hazel holds a Bachelor of Economics and is a Senior Fellow of the Financial Services Institute of Australasia and a Fellow of the Australian Institute of Company Directors.

Mr Hazel is a member of the Investment Committee.

#### Robert Morrison - Non-Executive Deputy Chairman

Mr Morrison was appointed to the Board in February 2013. Mr Morrison brings to the board extensive experience in property investments, property development, portfolio management and capital raising as well as institutional funds management. During his 21 years at AMP Limited, Mr Morrison's executive roles included Head of Property for Asia Pacific and Director of Asian Investments. Mr Morrison's investment experience includes senior portfolio management roles where he managed both listed and unlisted property funds on behalf of institutional investors. Mr Morrison was previously a Non-Executive Director of Mirvac Funds Management Limited, an Executive Director of AMP Capital Limited and a National Director of the Property Council of Australia. He is a founding partner and Executive Director of alternative investments firm, Barwon Investment Partners.

Mr Morrison holds a Bachelor of Town and Regional Planning (Hons) and a Master of Commerce.

Mr Morrison is Chair of the Investment Committee and a member of the Audit and Risk Committee.

## Directors' Report (continued)

Ingenia Communities Holdings Limited

For the year ended 30 June 2018

### **Amanda Heyworth – Non-Executive Director**

Ms Heyworth is a professional company director and currently serves on the boards of a number of private, university and Government bodies. She previously served as Executive Director of a venture capital fund which specialised in technology investments. Early in her career, she worked as a Federal Treasury economist and held management roles in the finance and technology sectors. Ms Heyworth has particular strengths in strategy, managing growth and marketing having worked as a venture capital investor for over a decade.

Ms Heyworth has strong finance and accounting credentials. She has been involved in over 40 capital raisings and M&A transactions and holds a BA (Accounting) with a major in finance, post graduate qualifications in accounting and finance and a MBA from the Australian Graduate School of Management.

Ms Heyworth is Chair of the Audit and Risk Committee and the Remuneration and Nomination Committee.

### **Valerie Lyons – Non-Executive Director**

Ms Lyons was appointed to the Board in March 2017. Ms Lyons has over 30 years' experience in executive, non-executive and advisory roles across the health, aged care and retirement, and finance and superannuation sectors. Ms Lyons has held CEO and CFO roles in well regarded seniors and disability service organisations including Uniting AgeWell, Villa Maria and Southern Cross Care (Vic) with prior directorships including Health Employees Superannuation Trust Australia (HESTA), Leading Age Services Australia (LASA), Catholic Health Australia (CHA) and Aged and Community Services Australia (ACSA). Ms Lyons serves as a non-executive member of the Audit & Risk Board committee for the Australian Digital Health Agency (ADHA), a government agency with responsibility for all national digital health services and systems.

Ms Lyons holds a Bachelor of Business Studies Accounting, is a Fellow of the Australian Institute of Company Directors, CPA Australia and the Governance Institute of Australia and a member of the Australian Institute of Superannuation Trustees.

Ms Lyons is a member of the Audit and Risk Committee, and Remuneration and Nomination Committee.

### **Andrew McEvoy – Non-Executive Director**

Mr McEvoy was appointed to the Board in December 2017. Mr McEvoy has over 20 years' experience in executive and non-executive roles in tourism, digital marketing and e-commerce. Mr McEvoy's prior roles include Managing Director, Tourism Australia, CEO, South Australian Tourism Commission, and CEO, Life Media and Events for Fairfax Media. Mr McEvoy is currently Chairman of SeaLink Travel Group (ASX: SLK). He is also a Director of Lux Group and Founder and Executive Chairman of We Connect China.

Mr McEvoy holds a Master of Arts, International Communications and a Bachelor of Arts.

Mr McEvoy is a member of the Remuneration and Nomination Committee and the Investment Committee.

### **Simon Owen – MD and CEO**

Simon joined the Group in November 2009 as the Chief Executive Officer. He led the turnaround of the business and Ingenia's focus on developing and acquiring a leading portfolio of lifestyle and holiday communities which has seen the Groups' market capitalisation grow from \$30 million to over \$600 million today. Simon brings to the Group in-depth sector experience. Simon is currently a Director of BIG4 Holiday Parks, Australia's leading holiday parks group representing 180 parks across Australia and is a past member of the Retirement Living Division Council (part of the Property Council of Australia). He is also a past National President of the Retirement Villages Association (now part of the Retirement Living Council), the peak industry advocacy group for the owners, operators, developers and managers of retirement communities in Australia, a role he held for four years. Simon has over 20 years' experience working in ASX listed groups with roles across finance, funds management, mergers and acquisitions, business development and sales and marketing. Prior to joining Ingenia Communities, he was the CEO of Aevum, a formerly listed retirement company.

Mr Owen is a qualified accountant (CPA) with a Bachelor of Business (Accounting) and postgraduate diplomas in finance and investment and advanced accounting.

## Directors' Report (continued)

Ingenia Communities Holdings Limited

For the year ended 30 June 2018

### Meetings

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

	Board		Audit & Risk Committee		Remuneration & Nomination Committee		Investment Committee	
	A	B	A	B	A	B	A	B
Jim Hazel	13	13	-	-	-	-	8	8
Amanda Heyworth	13	13	6	6	3	3	-	-
Robert Morrison	13	13	6	6	-	-	8	8
Valerie Lyons	13	13	6	6	3	3	3	3
Andrew McEvoy	7	7	-	-	2	2	5	5
Philip Clark AM	6	6	-	-	1	1	-	-
Simon Owen	13	11	-	-	-	-	-	-

A: Meetings eligible to attend B: Meetings attended

### Interests of Directors

Securities in the Group held by directors or their associates as at 30 June 2018 were:

	Issued stapled securities	Rights
Jim Hazel	344,710	-
Amanda Heyworth	122,485	-
Robert Morrison	125,638	-
Valerie Lyons	27,957	-
Andrew McEvoy	14,815	-
Simon Owen	1,280,528	551,874

### Company Secretaries

#### Leanne Ralph

Ms Ralph was appointed to the position of Company Secretary in April 2012. Ms Ralph has over 20 years' experience in Chief Financial Officer and company secretarial roles for various publicly listed and unlisted entities. Ms Ralph is a member of the Governance Institute of Australia and the Australian Institute of Company Directors.

#### Natalie Kwok

Ms Kwok is responsible for the Group's transactional, legal and tax functions. Ms Kwok joined Ingenia in May 2012 as the Group Tax Manager and moved into the role of General Manager Acquisitions, Legal & Tax. Ms Kwok has over 15 years' experience in corporate and commercial matters, having worked at PwC, Challenger Financial Services and a commercial law firm. Ms Kwok holds a Bachelor of Law (Honours) and a Bachelor of Commerce, and is a Chartered Accountant and a Solicitor.

## OPERATING AND FINANCIAL REVIEW

### Ingenia Communities overview

The Group is an active owner, manager and developer of a diversified portfolio of retirement and holiday communities across Australia. Its real estate assets at 30 June 2018 were valued at \$730.4 million (net of finance leases and resident loans), comprising 31 lifestyle and holiday communities (Ingenia Lifestyle and Holidays), 26 rental communities (Ingenia Gardens) and one deferred management fee retirement village asset (Ingenia Settlers). The Group is in the ASX 300 with a market capitalisation of approximately \$640.9 million at 30 June 2018.

The Group's vision is to create Australia's best lifestyle communities offering affordable permanent and tourism rental accommodation with a focus on the seniors demographic. The Board is committed to delivering sustainable long term earnings per share (EPS) growth to security holders while providing a supportive community environment to permanent residents and holidaymakers.

# Directors' Report (continued)

Ingenia Communities Holdings Limited

For the year ended 30 June 2018

## Our Values

At Ingenia we build community using a foundation of integrity and respect, creating a place where people have a sense of connection and belonging. We strive for continuous improvement in our resident, guest and visitor service, to ensure that they receive the best possible support, attention and experience every day. Whether it's time to play, stay, rest or renew, we deliver freedom of choice with a range of lifestyle and holiday options.

Creating Australia's best lifestyle communities



## Strategy

The Group's strategy is to grow recurring revenue streams, develop lifestyle communities and enhance the operational performance of its investment properties.

Using a disciplined investment framework, the Group plans to continue growing its lifestyle communities business in metropolitan and coastal locations, through the build out of its development pipeline, targeted acquisitions, reinvestment and divestment of non-core assets.

The key immediate business priorities of the Group are:

- Grow permanent and tourism rental sites through development and investment in new cabins at existing properties;
- Grow rental income at a rate above CPI;
- Deliver development projects on time and within budget;
- Achieve at least 350 new home settlements in the 2019 financial year;
- Continue to focus on metropolitan and coastal locations through portfolio remixing, development and acquisitions;
- Improve performance of existing assets through repositioning, driving revenue growth and leveraging the Group's operating and sales platform;
- Expand development margins through innovative home designs and building efficiencies; and
- Continue the divestment of non-core assets to support the Groups capital recycling strategy.

## FY18 financial results

The year to 30 June 2018 has delivered a statutory profit of \$34.2 million, which is up 30% on the prior year. Underlying Profit from continuing operations was \$36.8 million which represents an increase of \$13.3 million (56%) on the prior year.

The Group developed and sold 287 turnkey homes (FY17: 211 homes) and grew rental income from permanent, annual and tourism clients to \$61.5 million (FY17: \$44.5 million).

The underlying result is underpinned by a significantly higher EBIT contribution from the Ingenia Lifestyle and Holidays segment up 51% from the prior year. The statutory result reflects the reduction in fair value of investment property due to the increasing number of home settlements.

Operating cash flow for the year was \$47.2 million, up 56% from the prior year, reflecting growth in recurring rental income and new lifestyle home settlements growing by 36% to 287.



# Directors' Report (continued)

Ingenia Communities Holdings Limited

For the year ended 30 June 2018

Ingenia grew its investment in lifestyle communities during the year, with a continued focus on progressing the Group's development pipeline to enable further growth in its recurring rental base through the expansion and creation of high quality communities. During June, the Group delivered 16 settlements at its first greenfield development at Latitude One, Anna Bay, NSW.

The Group successfully undertook the divestment of eight non-core assets to support the Group's capital recycling strategy. During 2018 Ingenia divested the Tasmanian Ingenia Gardens portfolio of five properties, two Lifestyle Communities and one Settlers village. At 30 June 2018 the Group had also contracted the sale of a further Settlers Village which settled in July 2018 and contracted (subject to conditions) the sale of the Rouse Hill lifestyle community.

## Key metrics

- Statutory profit of \$34.2 million, up 30% on the prior year.
- Underlying profit of \$36.8 million, up 56% on the prior year.
- Basic earnings per share (Statutory) of 16.5 cps, up 13% on the prior year (FY17: 14.6 cps).
- Basic earnings per share (Underlying) of 17.7 cps, up 36% on the prior year (FY17: 13.0 cps).
- Operating cash flows of \$47.2 million compared with \$30.3 million in the prior year.
- Full year distribution of 10.75 cps, up 5.4% on the prior year.
- Net asset value \$2.57 per security compared with \$2.50 at 30 June 2017.

## Group results summary

Underlying profit for the financial year has been calculated as follows, with a reconciliation to statutory profit:

	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
EBIT	48,759	32,093
Net finance expense	(6,114)	(6,936)
Tax expense associated with underlying profit	(5,874)	(1,636)
<b>Underlying profit<sup>(1)</sup></b>	<b>36,771</b>	<b>23,521</b>
Net loss on disposal of investment properties	(1,016)	(8,438)
Net (loss)/gain on change in fair value of:		
Investment properties	(2,644)	12,372
Other	198	(120)
Loss on revaluation of newly constructed retirement villages	-	(633)
Tax benefit/(expense) on items below underlying profit	934	(294)
<b>Statutory profit</b>	<b>34,243</b>	<b>26,408</b>

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

## Segment performance and priorities

### *Ingenia Lifestyle and Holidays Operations*

At 30 June 2018, Ingenia Lifestyle and Holidays comprised 31 communities that offer an affordable community experience for seniors and tourism guests. Ingenia Lifestyle and Holidays EBIT grew 51% on FY17 to \$25.3 million.

During FY18 the Group continued to expand its rental assets by delivering 287 new settlements from its development business, and completing the acquisition of Eight Miles Plains for \$25.0 million. The Group also undertook the divestment of two subscale and non-core assets at Lake Macquarie and Chain Valley Bay to support the Group's capital recycling strategy.

Permanent rental income grew by 46% in FY18, as a result of new acquisitions completed in FY17 and FY18, the settlement of new homes, the investment in new rental cabins and rental growth across the portfolio.

## Directors' Report (continued)

Ingenia Communities Holdings Limited

For the year ended 30 June 2018

### ***Ingenia Lifestyle and Holidays Operations (continued)***

Tourism rental income growth of 38% has been driven largely through the FY17 acquisition of Ingenia Holidays Avina, Ingenia Holidays Cairns Coconut and Ingenia Holidays Bonny Hills and additional investment in new tourism cabins across the portfolio. The Groups continued focus on leveraging its database and brand position within the tourism market also contributed to the improved performance.

The carrying value of the Lifestyle and Holidays investment property at 30 June 2018 is \$449.9 million (2017: \$407.8 million).

#### **Performance**

	<b>2018</b>	<b>2017</b>	<b>Change %</b>
Permanent rental income (\$m)	21.7	14.9	46%
Annuals rental income (\$m)	4.8	4.3	12%
Tourism rental income (\$m)	34.9	25.3	38%
EBIT contribution (\$m)	25.3	16.8	51%
Margin (%)	39.0	35.3	4%

#### *Strategic priorities:*

The strategic priorities for Ingenia Lifestyle and Holidays are: investing in new rental and tourism cabins; integrating and optimising newly settled development sites; growing rental returns; leveraging scale efficiencies and, driving holiday bookings in non-peak periods.

### ***Ingenia Lifestyle Development***

The earnings contribution from development has continued to grow with development now underway at 9 communities and new turnkey settlement volumes up 36% from the prior year, with Ingenia delivering 287 new turnkey settlements in 2018 (2017: 211).

This result reflects increased awareness and interest in the market and Ingenia's investment in the Group's sales and development platform.

During FY18 the Group added to its development pipeline with the acquisition of land at Woolgoolga (Ingenia Plantations), Hervey Bay, Upper Coomera and land adjacent to Latitude One. The Group currently has a strong development pipeline of 3,244 sites (2017: 2,370 sites).

The carrying value of the Ingenia Lifestyle Development investment property at 30 June 2018 is \$142.9 million (2017: \$107.1 million).

#### **Performance**

	<b>2018</b>	<b>2017</b>	<b>Change %</b>
New home settlements (#)	287	211	36%
Gross new home development profit (\$m)	34.8	19.8	76%
Other home settlements (#)	12	20	(40%)
Gross refurbished home development profit (\$m)	0.7	1.3	(46%)
EBIT contribution (\$m)	21.0	10.9	93%
Margin (%)	24.4	17.1	7%

#### **Strategic priorities**

The key strategic priorities for Ingenia Lifestyle Development include: delivering the current development projects on time and within budget; continuing the sales and settlement momentum achieved during 2018 and, securing further development approvals for new homes within our existing communities. The Group will continue to identify future development opportunities and seek to continue to improve margins through building efficiencies and innovation.

# Directors' Report (continued)

Ingenia Communities Holdings Limited

For the year ended 30 June 2018

## ***Ingenia Gardens***

Ingenia Gardens comprises 26 rental communities located across the eastern seaboard and Western Australia. These communities accommodate more than 1,400 residents. During FY18 Ingenia divested the Tasmanian Ingenia Gardens portfolio consisting of five properties. This divestment impacted FY18 results when compared to FY17, however the portfolio continues to perform well with net growth and occupancy closing at 92.4%.

The carrying value of these assets at 30 June 2018 is \$127.3 million (2017: \$141.3 million).

## **Performance**

<b>Ingenia Gardens</b>	<b>2018</b>	<b>2017</b>	<b>%</b>
Rental communities (#)	26	31	(16%)
Occupancy (%)	92.4	92.8	-
Rental income (\$m)	24.6	24.8	(1%)
Catering income (\$m)	3.1	3.2	(3%)
EBIT (\$m)	11.4	11.6	(2%)
Margin (%)	40.8	40.9	-

### *Strategic priorities:*

The strategic priorities of Ingenia Gardens are to: increase occupancy rates; grow rents by at least CPI; improve resident retention and referrals; manage our cost base and leverage scale opportunities; increase the take up of our Ingenia Care offering and, ensure that our residents are actively engaged.

## **Capital management of the Group**

During the year, the Group refinanced a tranche of its common terms debt facilities, increasing the total Group facility capacity by \$50.0 million. The refinance provided increased tenor at a lower average margin. The weighted average term to maturity of Ingenia's debt at 30 June 2018 is 4.3 years.

The Group's Loan to Value Ratio ("LVR") is at the low end of Ingenia's target range of 30-40% at 30 June 2018. As at 30 June 2018, the debt facilities are drawn to \$229.0 million, which represents LVR of 32.6% (inclusive of bank guarantee liabilities).

The Group has interest rate derivatives in place covering 41% of drawn debt at 30 June 2018.

The Group intends to fund near term growth through internal cash flows, divestment of non-core assets and drawing on committed debt facilities. Ingenia continues to explore the concept of capital partnerships to accelerate the development of new lifestyle communities.

## Directors' Report (continued)

Ingenia Communities Holdings Limited

For the year ended 30 June 2018

### Financial position

The following table provides a summary of the Group's financial position as at 30 June 2018:

<b>\$'000</b>	<b>2018</b>	<b>2017</b>	<b>Change</b>
Cash and cash equivalents	14,450	9,645	4,805
Inventories	30,228	21,597	8,631
Assets held for sale	28,675	-	28,675
Investment properties	730,437	693,473	36,964
Deferred tax asset	2,524	7,464	(4,940)
Other assets	19,527	15,977	3,550
<b>Total assets</b>	<b>825,841</b>	<b>748,156</b>	<b>77,685</b>
Borrowings	233,321	170,830	62,491
Retirement village resident loans	8,206	27,201	(18,995)
Liabilities held for sale	3,875	-	3,875
Other liabilities	46,566	34,393	12,173
<b>Total liabilities</b>	<b>291,968</b>	<b>232,424</b>	<b>59,544</b>
<b>Net assets/equity</b>	<b>533,873</b>	<b>515,732</b>	<b>18,141</b>

Inventories, up \$8.6 million, include 93 newly completed homes, reflecting the Group's rapidly growing lifestyle community development business and increased investment in display homes as new projects are launched.

Investment property book value increased by \$37.0 million from the prior year. This was due to:

- Acquisition of new communities and development sites \$50.4 million;
- Capitalised expenditure of \$66.6 million;
- Divestments of investment properties and the transfer of investment properties to assets held for sale of (\$77.4 million); and
- Fair value decrement of (\$2.6 million), driven by the settlements of development sites, partly offset by valuation increases associated with capitalisation rate improvements and improved operations.

Assets held for sale represent the carrying value of the Group's investment in Rouse Hill which is subject of a conditional sale contract and Ingenia Settlers Cessnock, which settled in July 2018.

Borrowings increased by \$62.5 million, partly funding the acquisition and development of lifestyle community assets.

### Cash flow

<b>\$'000</b>	<b>2018</b>	<b>2017</b>	<b>Change</b>
Operating cash flow	47,230	30,257	16,973
Investing cash flow	(87,431)	(168,324)	80,893
Financing cash flow	45,006	132,599	(87,593)
Net change in cash and cash equivalents	<b>4,805</b>	<b>(5,468)</b>	<b>10,273</b>

Operating cash flow for the Group was up 56% to \$47.2 million, reflecting the contribution from new acquisitions in FY17 and FY18, the growth in recurring net rental income from lifestyle and rental communities, and the cash inflow associated with the increased sale of new lifestyle homes.

# Directors' Report (continued)

Ingenia Communities Holdings Limited

For the year ended 30 June 2018

## Distributions

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

- On 20 February 2018, the Directors declared an interim distribution for 2018 of 5.1cps, amounting to \$10.6 million which was paid on 14 March 2018. The distribution was 21.3% tax deferred and the distribution reinvestment plan was in place.
- On 21 August 2018, the Directors declared a final distribution of 5.65 cps amounting to \$11.8 million, to be paid on 14 September 2018. The final distribution is estimated to be fully taxable and the distribution reinvestment plan will apply to the distribution.

During FY18 ICF elected to enter the Attribution Managed Investment Trust ("AMIT") regime. Security holders will receive their first Attribution Managed Investment Trust Member Annual ("AMMA") statement in September 2018.

## FY19 outlook

The Group is well positioned to continue growing its lifestyle communities business in FY19 with a sector leading development pipeline and debt capacity in place to facilitate the accelerated growth in settlement volumes expected as further projects are launched.

Priorities in existing lifestyle and holiday communities are to make appropriate investment in key communities to grow revenue through investing in new cabins and facilities across the rental and tourism business.

Ingenia Gardens remains a key contributor to the Group's rental cash flow. Ingenia's priority is to continue to grow occupancy and rents while delivering the best possible support to our residents.

The divestments made in the second half of FY18 and the divestments contracted at 30 June 2018 will temporarily impact the FY19 result due to lost earnings, while the capital proceeds are reinvested into development to grow long term recurring revenue streams in key locations.

The Group will continue to regularly assess the performance of its existing assets and market opportunities, and make divestments and acquisitions where superior longer term returns are available.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Changes in the state of affairs during the financial year are set out in the various reports in this Financial Report. Refer to Note 11 for Australian investment properties acquired during the year, Note 16 for details of increased debt facility, and Note 18 for issued securities.

## EVENTS SUBSEQUENT TO REPORTING DATE

### Final FY18 distribution

On 21 August 2018, the Directors of the Group resolved to declare a final distribution of 5.65cps (2017: 5.1 cps) amounting to \$11.8 million to be paid at 14 September 2018. The distribution reinvestment plan will apply to the final distribution.

### Acquisition of adjacent land

On 2 July 2018, the Group completed the acquisition of land adjacent to Ingenia Lifestyle Chambers Pines (Chambers Flat, QLD) for a purchase price of \$4.5 million.

### Sale of Settlers Cessnock

On 6 July 2018, the Group completed the sale of Settlers Cessnock (Cessnock, NSW) for \$2.5 million (net of resident loans).

# Directors' Report (continued)

Ingenia Communities Holdings Limited

For the year ended 30 June 2018

## LIKELY DEVELOPMENTS

The Group will continue to pursue strategies aimed at growing its cash earnings, profitability and market share within the senior's rental property and tourism industry during the next financial year, with a continuing focus on the development of lifestyle communities. The Group will continue to pursue the divestment of non-core assets to support the Group's capital recycling strategy.

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

## ENVIRONMENTAL REGULATIONS

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

## GROUP INDEMNITIES

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

## INDEMNIFICATION OF AUDITOR

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

## AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 28.

## NON-AUDIT SERVICES

During the year, non-audit services were provided by the Group's auditor, Ernst & Young Australia. The directors are satisfied that the provision of the non-audit services is compatible with, and did not compromise, the independence for auditors imposed by the Corporations Act 2001 for the following reasons:

- the non-audit services were for taxation, regulatory and assurance related work, and none of this work created any conflicts with the auditor's statutory responsibilities;
- the Audit and Risk Committee resolved that the provision of non-audit services during the financial year by EY as auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001;
- the Board's own review conducted in conjunction with the Audit and Risk Committee, having regard to the Board policy set out in this Report, concluded that it is satisfied the non-audit services did not impact the integrity and objectivity of the auditors; and
- the declaration of independence provided by EY, as auditor of Ingenia.

Refer to Note 27 of the financial statements for details on the audit and non-audit fees.

## Directors' Report (continued)

Ingenia Communities Holdings Limited  
For the year ended 30 June 2018

### **ROUNDING AMOUNTS**

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

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



Jim Hazel  
Chairman  
Sydney, 21 August 2018

## Directors' Report (continued)

Ingenia Communities Holdings Limited

For the year ended 30 June 2018

### Message from the Remuneration and Nomination Committee

Dear Security holders,

The Board of Ingenia Communities Group (Ingenia) is pleased to present the Remuneration Report for FY18.

The Group's strategy is outlined in the FY18 results presentation and Operational and Financial Review section of the Directors' report. The Board has linked remuneration outcomes to the corporate strategy for medium to long-term return on investment.

Ingenia's remuneration framework continues to be "fit for purpose", remuneration levels are sufficient to attract and retain key executives, the performance measures focus management on Board priorities for creating incremental value, and reward outcomes have varied in line with the Group's performance.

Ingenia undertakes regular reviews of its executive remuneration framework to ensure it is in line with Group strategy, group and individual performance and market relativities. The Board has established a strong nexus between executive remuneration and Ingenia's performance and its security holder return.

FY18 short-term incentive (STI) outcomes for key management personnel (KMP) were in line with Ingenia's strong performance. The Group's FY18 result, as measured by underlying profit, showed good growth on the prior year supported by the sales result achieved in the development business and the full year impact of accretive acquisitions made in FY17 and FY18 that have been successfully integrated into the business.

In relation to the FY18 executive remuneration structure a new metric relating to underlying earnings growth was included in the long-term incentive vesting rules. The other key metrics of Total Shareholder Return relative to that of the ASX 300 Industrials Index and Return on Equity targets remain consistent with prior years.

We recommend Ingenia's Remuneration Report to investors and seek your support for the resolution to adopt the Remuneration Report at Ingenia's AGM on Tuesday 13 November 2018.



Amanda Heyworth  
Chair - Remuneration and Nomination Committee  
Sydney, 21 August 2018



# Directors' Report (continued)

Ingenia Communities Holdings Limited

For the year ended 30 June 2018

## REMUNERATION REPORT (AUDITED)

### Introduction

The Board presents the Remuneration Report for the Group for the year ended 30 June 2018, which forms part of the Directors' Report and has been prepared in accordance with section 300A of the *Corporations Act 2001* (Cth) (**Corporations Act**). The data provided in the Remuneration Report was audited as required under section 308(3C) of the Corporations Act.

### Remuneration governance

#### **Remuneration and Nomination Committee (RNC)**

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

The RNC comprises the following NEDs:

- Amanda Heyworth (Chair);
- Valerie Lyons;
- Andrew McEvoy (appointed, 1 December 2017); and
- Philip Clark AM (resigned, 4 December 2017).

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

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

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

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

#### **External remunerations advisers**

Guerdon Associates, initially engaged in March 2014, provided independent remuneration advice during FY18 in respect of KMP and reviewed the rules of the Group's incentive plan. Guerdon Associates have been commissioned by, engaged with, and addressed reports directly to the Chair of the RNC.

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

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

## Directors' Report (continued)

Ingenia Communities Holdings Limited

For the year ended 30 June 2018

### Details of KMP

KMP for the year ended 30 June 2018 are those persons identified as having direct or indirect authority and responsibility for planning, directing and controlling the activities of the Group, and include any Executive Director or NED of the Group.

KMP of the Group for the year ended 30 June 2018 have been determined by the Board as follows:

<b>KMP</b>	<b>Position</b>
<b>Non-Executive Directors</b>	
Jim Hazel	Chairman of the Board Member - Investment Committee
Robert Morrison	Deputy Chairman of the Board Chair - Investment Committee Member - Audit and Risk Committee
Amanda Heyworth	Chair - Audit and Risk Committee Chair - Remuneration and Nomination Committee (Appointed Chair 4 December 2017, upon the retirement of Mr Clark. Ms Heyworth was a member of this committee prior to this date)
Valerie Lyons	Member - Audit and Risk Committee Member - Remuneration and Nomination Committee
Andrew McEvoy (appointed, effective 1 December 2017)	Member - Investment Committee Member - Remuneration and Nomination Committee
Philip Clark AM (resigned, effective 4 December 2017)	Chair - Remuneration and Nomination Committee (Resigned 4 December 2017)
<b>Executive Director</b>	
Simon Owen	MD and CEO
<b>Other Executive KMP</b>	
Scott Noble	CFO
Nicole Fisher	COO

# Directors' Report (continued)

Ingenia Communities Holdings Limited

For the year ended 30 June 2018

## Remuneration of Executive KMP

### Remuneration policy

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

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

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

### Link between remuneration and performance

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

Remuneration component	Link to Group performance
Total Fixed Remuneration (TFR)	TFR is set with reference to the executive KMP's role, responsibilities and performance and remuneration levels for similar positions in the market.
Short-Term Incentive (STI)	<p>STIs are awarded to executive KMP whose achievements, behaviour and focus meet the Group's business plan and individual Key Performance Indicators (KPIs) measured over the financial year. Details of the KPIs are explained separately below.</p> <p>The Board maintains sole discretion over the granting of STIs to employees.</p> <p>For achievement of STIs in relation to executive KMP, the payment is :</p> <ul style="list-style-type: none"><li>- CEO: 33% cash and a 67% deferred equity</li><li>- CFO &amp; COO: 50% cash and a 50% deferred equity</li></ul> <p>Deferred STI's are linked to underlying earnings growth sustainability and subject to a malus provision.</p>
Long-Term Incentive (LTI)	<p>LTIs are granted to executive KMP to align their focus with the Group's strategy. The LTI performance conditions are as follows:</p> <ul style="list-style-type: none"><li>- Total Shareholder Return (TSR), measured over three financial years;</li><li>- Return on Equity (ROE) performance measured in the third year following the LTI grant;</li><li>- Earnings before Interest and Tax (EBIT) cumulative annual growth rate over the grant period.</li></ul> <p>The Board maintains sole discretion over the granting of LTIs.</p> <p>LTI grants are made in equity to ensure alignment with security holders' interests.</p> <p>LTIs are subject to a malus provision.</p>

## Directors' Report (continued)

Ingenia Communities Holdings Limited

For the year ended 30 June 2018

The table below sets out summary information about the Group's earnings and movement in security holder wealth for the five years to 30 June 2018, noting that where applicable, certain amounts have been restated for the security consolidation that occurred in November 2015:

	FY18	FY17	FY16	FY15	FY14
EBIT (\$'000)	48,759	32,093	24,200	18,050	12,144
Total Underlying Profit (\$'000)	36,771	23,521	20,161	17,507	11,568
Statutory profit/(loss) (\$'000)	34,243	26,408	24,280	25,722	11,518
Underlying (Basic) EPS <sup>(1)</sup> (cents)	17.7	13.0	13.4	12.8	10.8
Statutory (Basic) EPS <sup>(1)</sup> (cents)	16.5	14.6	16.1	18.8	10.8
Net asset value per security (\$)	2.57	2.50	2.45	2.34	2.13
Security price at 30 June (\$)	3.08	2.60	2.87	2.58	3.03
Distributions (cents)	10.75	10.20	9.30	8.10	6.90

(1) Basic earnings per security is based on the weighted average number of securities on issue during the period.

### Mix of remuneration components

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

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

The remuneration mix the RNC is aiming to achieve for executives for FY18, expressed as a percentage of total remuneration, is detailed below:

Maximum Total Remuneration Available	TFR	Max STI	Max LTI	Max Total REM
Simon Owen (CEO) (\$)	682,500	614,250	546,000	1,842,750
Percentage (%)	37	33	30	100
Scott Noble (CFO) (\$)	400,000	240,000	120,000	760,000
Percentage (%)	52	32	16	100
Nicole Fisher (COO) (\$)	370,000	222,000	111,000	703,000
Percentage (%)	52	32	16	100

### Total fixed remuneration of Executive KMP

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

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

The TFR for each of the executives for FY18 and FY17 is:

KMP	FY18 TFR (p.a.)	FY17 TFR (p.a.)	Movement
Simon Owen (CEO)	\$682,500	\$682,500	-
Scott Noble (CFO)	\$400,000	N/A	N/A
Nicole Fisher (COO)	\$370,000	\$340,673	\$29,327

Data ranges for the CEO, CFO and COO FY18 TFR were provided by Guerdon Associates. The RNC used an element of judgement to determine the appropriate positioning within this range. Those recommendations were approved by the Board.

## Directors' Report (continued)

Ingenia Communities Holdings Limited

For the year ended 30 June 2018

### Rights Plan

The current Rights Plan was approved by security holders at the Annual General Meeting (AGM) held on 15 November 2016.

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

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

### Short-Term Incentive Plan (STIP)

Under the FY18 Rights Plan, 33% of the maximum STI for the CEO and 50% for the CFO and COO will be paid in cash, with the balance being a deferred equity element. The deferred equity component is for a period of 12 months and subject to forfeiture where earnings growth is not sustained. The deferral element is rights to INA stapled securities, plus additional stapled securities equal to the value of distributions during the deferral period on a reinvestment basis.

KMP	Maximum STIP (Cash)	Maximum STIP Deferred (Rights)	Total Maximum STIP Available
Simon Owen (CEO) <sup>(1)</sup>	30% of TFR \$204,750	60% of TFR \$409,500	90% of TFR \$614,250
Scott Noble (CFO)	30% of TFR \$120,000	30% of TFR \$120,000	60% of TFR \$240,000
Nicole Fisher (COO)	30% of TFR \$111,000	30% of TFR \$111,000	60% of TFR \$222,000

(1) Approved by the security holders at the Annual General Meeting held on 14 November 2017.

The FY18 STI Rights are subject to the following terms and conditions:

- A 'malus' provision during the deferral period, which means that some or all of the STIP Rights may be forfeited if:
  - the Board determines Ingenia's underlying earnings growth is not sustainable; or
  - any of the circumstances set out in the rules of the Rights Plan occur, such as fraud or dishonesty, a breach of obligations or material misstatement of Ingenia's financial statements;
- A one-year deferral period and are eligible to vest on, or following, 1 October 2019;
- On the vesting date Ingenia will cause the relevant number of Ingenia securities to be issued to the executive in accordance with a prescribed formula;
- No amount is payable by the executive KMP for the issue or transfer of Ingenia securities to the executive KMP.

The STI award is subject to performance conditions that are summarised in the following table. These KPIs have been chosen as they aim to focus individuals on meeting the Group's business plan. The KPIs specific to the executive are outlined below, together with what the Board will consider in determining the achievement of the KPI. Each assessment area is weighted.

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

## Directors' Report (continued)

Ingenia Communities Holdings Limited  
For the year ended 30 June 2018

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

<b>KMP</b>	<b>Financial</b>	<b>Health and Safety</b>	<b>Capital Management</b>	<b>Operational</b>	<b>Systems</b>	<b>Culture and Reporting</b>	<b>Total</b>
Simon Owen (CEO)	40%	-	25%	20%	-	15%	<b>100%</b>
Scott Noble (CFO)	40%	-	15%	10%	10%	25%	<b>100%</b>
Nicole Fisher (COO)	30%	5%	-	50%	-	15%	<b>100%</b>

The key considerations in assessing performance against the KPIs are:

<b>KPI</b>	<b>Executive</b>	<b>Key Considerations in achievement</b>
Financial	CEO, CFO, COO	EBIT and underlying profit per security to exceed threshold level.
Health and Safety	COO	Safe work environment culture established across the Group, and lost time injury frequency below benchmark.
Capital management	CEO, CFO	Non-core asset divestment, capital and debt available on competitive pricing and flexible terms.
Systems	CFO	Improvement to the finance systems.
Operational	CEO, CFO, COO	Achievement of operational and sales metrics that deliver on business strategy, established for each executive KMP specific to their area of responsibility.
Culture and reporting	CEO, CFO, COO	Recruit and retain leading industry talent. High calibre leadership team offering clear succession opportunities. High quality Board and statutory reporting, analysis and forecasting. High quality management budgeting, reporting, analysis and forecasting.

For FY18 the Board assessed the performance of the CEO, and the CEO assessed the performance of the CFO and COO, against their respective KPIs. The RNC then recommended and the Board approved STIP awards.

The Board approved the FY18 STIP awards as follows:

<b>KMP</b>	<b>Actual STI awarded</b>	<b>Actual STI awarded as a % of maximum STI</b>
Simon Owen (CEO)	\$568,181	92.5%
Scott Noble (CFO)	\$216,000	90.0%
Nicole Fisher (COO)	\$199,800	90.0%

The CEO's maximum potential FY18 STIP deferred equity component was approved by security holders at the AGM held on 14 November 2017. Any FY19 CEO deferred equity component will be subject to security holder approval at the 2018 AGM to be held on 13 November 2018.

# Directors' Report (continued)

Ingenia Communities Holdings Limited

For the year ended 30 June 2018

## Long-term incentives

### Long Term Incentive Plan (LTIP)

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

The FY18 LTIP Rights are subject to the following LTIP Performance Conditions:

- 40% based on Relative Total Shareholder Return (**Relative TSR**);
- 30% based on Return on Equity (**ROE**); and
- 30% based on Earnings before Interest and Tax (**EBIT**) Compound Annual Growth Rate (**CAGR**).

Refer to page 17 for details of maximum LTIP.

### Relative TSR Performance Condition

The Relative TSR hurdle is growth in Ingenia's TSR relative to growth in the ASX 300 Industrials Index (**Index**), measured over a three-year period ending on 30 September 2020.

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

Ingenia must outperform the Index for the LTIP rights to vest for the Executive KMP. The FY18 LTIP Rights will vest on the following basis:

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

CAGR: Compound Annual Growth Rate

### ROE Performance Condition

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

ROE is defined as underlying profit divided by weighted average net assets (excluding the impact of asset revaluations on Net Assets between LTI issue date and the LTI vesting date). For FY18, the relevant metric is ROE achieved for FY20 on the following basis:

	<b>ROE</b>	<b>% of Rights that vest</b>
At or Below Threshold	Less than 9.0%	Nil
Between Threshold and Maximum	Equal to or greater than 9.0%	30% plus an additional amount progressively vesting on a straight line basis between Threshold and Maximum
Maximum	Equal to or greater than 10.0%	100%

## Directors' Report (continued)

Ingenia Communities Holdings Limited

For the year ended 30 June 2018

### **EBIT CAGR Performance Condition**

The EBIT CAGR Performance Condition is intended to focus executive KMP on improving medium to long-term return on investment.

EBIT CAGR is the compound annual growth rate of underlying earnings before interest and tax. The relevant metric is EBIT CAGR achieved for the period FY18 to FY20, with the base year EBIT on which CAGR will be calculated as the disclosed FY17 EBIT of \$32.1 million.

	<b>EBIT CAGR</b>	<b>% of Rights that vest</b>
At or Below Threshold	Equal to or less than 10.0%	Nil
Between Threshold and Maximum	Between 10% and 20%	10% plus an additional amount progressively vesting on a straight line basis between Threshold and Maximum
Maximum	Equal to or greater than 20%	100%

The FY18 LTIP methodology determines security value as the VWAP of Ingenia securities in the 30 day trading period ending on the grant date of 1 October 2017 (for the CFO and COO) and 14 November 2017 (for the CEO).

The number of LTIP Rights granted in FY18 was calculated by dividing the LTIP value by the 30 day VWAP of the Ingenia security price as above. Each LTI Right vested equals one Ingenia security plus an additional number of Ingenia securities calculated based on the distributions that would have been paid during the relevant period being reinvested.

FY18 LTIP Rights grants will be entitlements to Rights to stapled securities plus additional stapled securities equal to distributions paid during the vesting period. The Board aims to have executive KMP incentivised to grow distributions to security holders. However, executives do not receive distributions on securities underlying any Rights that do not vest or remain unexercised.

LTIP Rights held by KMP during the year were:

<b>Directors</b>	<b>Balance 1 July 2017</b>	<b>Granted</b>	<b>Vested</b>	<b>Lapsed</b>	<b>Balance 30 June 2018</b>
Simon Owen	365,772	205,665	-	(118,236)	<b>453,201</b>
<b>Executives</b>					
Scott Noble	-	46,890	-	-	<b>46,890</b>
Nicole Fisher	71,677	43,373	-	(22,336)	<b>92,714</b>
<b>Total</b>	<b>437,449</b>	<b>295,928</b>	<b>-</b>	<b>(140,572)</b>	<b>592,805</b>

During the year the LTIP rights issued in 2015 lapsed as they did not meet the vesting conditions. No LTIP rights vested during the year.



## Directors' Report (continued)

Ingenia Communities Holdings Limited  
For the year ended 30 June 2018

### Summary of LTIPs on issue to KMP

The following table sets out all LTIPs granted to-date and not vested at 30 June 2018.

KMP	Scheme year	Number of rights granted	Fair value of rights per award at award date	Grant date	Fair value of rights	Vesting date	Maximum to expense in future years
Simon Owen	FY18	205,665	\$1.22	14-Nov-17	\$251,431	1-Oct-20	\$188,803
	FY17	124,598	\$1.44	15-Nov-16	\$179,843	1-Oct-19	\$71,084
	FY16	122,938	\$1.91	17-Nov-15	\$234,444	1-Oct-18	\$19,679
Nicole Fisher	FY18	43,373	\$1.17	1-Oct-17	\$50,932	1-Oct-20	\$38,246
	FY17	24,083	\$1.20	1-Oct-16	\$28,842	1-Oct-19	\$11,405
	FY16	25,258	\$1.91	1-Oct-15	\$48,167	1-Oct-18	\$4,043
Scott Noble	FY18	46,890	\$1.17	1-Oct-17	\$55,062	1-Oct-20	\$41,347
<b>Total</b>		<b>592,805</b>			<b>\$848,721</b>		<b>\$374,607</b>

### LTIP - Termination of Employment

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

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

### LTIP - Change in Control

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

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

## Directors' Report (continued)

Ingenia Communities Holdings Limited

For the year ended 30 June 2018

### KMP Employment Contracts

#### MD and CEO

Contract duration	Commenced 1 October 2016, open-ended.
Fixed remuneration	Total fixed remuneration includes cash salary, superannuation and other non-cash benefits.
Variable remuneration	Eligible for STI of up to 90% for any one year of the fixed annual remuneration, of which 67% is in the form of deferred equity.  Eligible for LTI of up to 80% for any one year of the fixed annual remuneration.  The Board may withdraw or vary the STI and LTI schemes at any time by written notice to the Executive, provided the scheme will not be varied or withdrawn part way through a financial year in respect of that same financial year.
Non-compete period	12 months.
Non-solicitation period	12 months.
Notice by Ingenia	12 months.
Notice by Executive	12 months.
Treatment on termination	Payment in lieu of notice: Payment may be made in lieu of notice, which would include pro rata fixed remuneration and statutory entitlements.  Treatment of incentives: As outlined above.

#### CFO

Contract duration	Commenced 1 January, 2018 open-ended.
Fixed remuneration	Total fixed remuneration includes cash salary, superannuation and other non-cash benefits.
Variable remuneration eligibility	Eligible for STI of up to 60% for any one year of fixed annual remuneration, of which 50% is in the form of deferred equity.  Eligible for LTI of up to 30% for any one year of fixed annual remuneration.  The Board may withdraw or vary the STI and LTI schemes at any time by written notice to the Executive, provided the scheme will not be varied or withdrawn part way through a financial year in respect of that same financial year.
Non-compete period	12 months.
Non-solicitation period	12 months.
Notice by Ingenia	6 months.
Notice by Executive	6 months.
Treatment on termination	Payment in lieu of notice: Payment may be made in lieu of notice, which would include pro rata fixed remuneration and statutory entitlements.  Treatment of incentives: As outlined above.

## Directors' Report (continued)

Ingenia Communities Holdings Limited

For the year ended 30 June 2018

### COO

Contract duration	Commenced 4 June 2012, open-ended.
Fixed remuneration	Total fixed remuneration includes cash salary, superannuation and other non-cash benefits.
Variable remuneration eligibility	Eligible for STI of up to 60% for any one year of fixed annual remuneration, of which 50% is in the form of deferred equity.  Eligible for LTI of up to 30% for any one year of fixed annual remuneration.  The Board may withdraw or vary the STI and LTI schemes at any time by written notice to the Executive, provided the scheme will not be varied or withdrawn part way through a financial year in respect of that same financial year.
Non-compete period	12 months.
Non-solicitation period	12 months.
Notice by Ingenia	6 months.
Notice by executive	6 months.
Treatment on termination	Payment in lieu of notice: Payment may be made in lieu of notice, which would include pro rata fixed remuneration and statutory entitlements. Treatment of incentives: As outlined above.

# Directors' Report (continued)

Ingenia Communities Holdings Limited

For the year ended 30 June 2018

## Remuneration Tables

The following tables outline the remuneration provided to Executive KMP for FY17 and FY18.

FY18 Executive KMP	Financial Year	Short-Term					Fair Value of LTI Rights Granted (subject to vesting conditions) <sup>(2)</sup>	Total	Performance Related	
		Salary	Superannuation Benefits	STI Cash <sup>(1)</sup>	STI Deferred Rights <sup>(1)</sup>	Total Short-term			STI & LTI Percent	LTI Percent
		(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(%)	(%)
Simon Owen	2018	657,408	20,049	189,394	378,788	1,245,639	251,431	1,497,070	55%	17%
Scott Noble <sup>(3)</sup>	2018	380,380	20,049	108,000	108,000	616,429	55,062	671,491	40%	8%
Nicole Fisher	2018	325,010	20,049	99,900	99,900	544,859	50,932	595,791	42%	9%
<b>Total</b>		<b>1,362,798</b>	<b>60,147</b>	<b>397,294</b>	<b>586,688</b>	<b>2,406,927</b>	<b>357,425</b>	<b>2,764,352</b>	<b>49%</b>	<b>13%</b>

(1) Cash STIs were accrued in the year ended 30 June 2018. Deferred STI rights are expensed evenly over the year of service and vesting period.

(2) The fair value of the LTIP rights is calculated at the date of grant using the Black Scholes option-pricing model and expensed to each reporting period evenly over the three year period from grant date to vesting date. The value disclosed is the fair value of rights granted at the date of issue.

(3) Mr Scott Noble was deemed to be a KMP from 1 January 2018, prior to this he was acting CFO. The salary and superannuation disclosed in the above table is for the full year FY18.

FY17 Executive KMP	Financial Year	Short-Term					Fair Value of LTI Rights Granted (subject to vesting conditions) <sup>(2)</sup>	Total	Performance Related	
		Salary	Superannuation Benefits	STI Cash <sup>(1)</sup>	STI Deferred Rights <sup>(1)</sup>	Total Short-term			STI & LTI Percent	LTI Percent
		(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(%)	(%)
Simon Owen	2017	662,885	19,615	252,525	252,525	1,187,550	179,843	1,367,393	50%	13%
Tania Betts <sup>(3)</sup>	2017	235,358	14,712	42,088	42,088	334,246	36,647	370,893	33%	10%
Nicole Fisher <sup>(4)</sup>	2017	252,923	19,615	79,206	79,206	430,950	28,842	459,792	41%	6%
<b>Total</b>		<b>1,151,166</b>	<b>53,942</b>	<b>373,819</b>	<b>373,819</b>	<b>1,952,746</b>	<b>245,332</b>	<b>2,198,078</b>	<b>45%</b>	<b>11%</b>

(1) Cash STIs were accrued in the year ended 30 June 2017. Deferred STI rights are expensed evenly over the year of service and vesting period.

(2) The fair value of the LTIP rights is calculated at the date of grant using the Black Scholes option-pricing model and expensed to each reporting period evenly over the three year period from grant date to vesting date. The value disclosed is the fair value of rights granted at the date of issue.

(3) Ms Tania Betts commenced maternity leave on 1 January 2017 and did not return as a KMP in FY18.

(4) Ms Nicole Fisher's remuneration noted above is based on a four day week.

## Directors' Report (continued)

Ingenia Communities Holdings Limited  
For the year ended 30 June 2018

### Non-Executive Directors' remuneration

#### **NED fees**

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

#### **Performance-based remuneration**

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

#### **Equity-based remuneration**

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

The Board has introduced a policy guideline for NEDs to hold the equivalent of one year's gross fees in Ingenia securities within a period of three years from the date of appointment. Once this hurdle has been met, NEDs are considered compliant with this guideline.

#### **NED remuneration table**

The following table outlines the remuneration provided to NEDs for FY17 and FY18:

<b>NEDs - Directors' fees</b>	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Jim Hazel	180,592	176,250
Amanda Heyworth	114,167	104,000
Robert Morrison	114,158	107,000
Valerie Lyons	97,750	32,000
Andrew McEvoy	57,750	-
Philip Clark	35,333	101,500
Norah Barlow	-	34,000
<b>Total</b>	<b>599,750</b>	<b>554,750</b>

The FY18 NED annual fees were increased effective 1 December 2017 as follows:

- Chairman of the Board: from \$177,500 to \$182,800;
- Non-Executive Directors: from \$96,000 to \$99,000;
- Committee Chairs (ARC, IC and RNC): from an additional \$10,000 to an additional \$10,500; and
- Deputy Chair of the Board: from an additional \$6,000 to an additional \$6,200.

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

## Directors' Report (continued)

Ingenia Communities Holdings Limited  
For the year ended 30 June 2018

### KMP Interests

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

Directors	Balance 1 July 2017	Acquisitions	Disposals	On vesting of rights <sup>(1)</sup>	Balance 30 June 2018
Jim Hazel	331,483	13,227	-	-	344,710
Amanda Heyworth	122,485	-	-	-	122,485
Robert Morrison	107,146	18,492	-	-	125,638
Valerie Lyons	13,969	13,988	-	-	27,957
Andrew McEvoy	-	14,815	-	-	14,815
Simon Owen <sup>(2)</sup>	1,352,772	-	(148,676)	76,432	1,280,528
Scott Noble	-	6,000	-	-	6,000
Nicole Fisher	288,573	-	-	25,523	314,096
<b>Total</b>	<b>2,216,428</b>	<b>66,522</b>	<b>(148,676)</b>	<b>101,955</b>	<b>2,236,229</b>

(1) Includes STIP rights vested during the period.

(2) Mr Owen disposed of his shares in FY18 to meet personal tax obligations.

Philip Clark AM opening shareholding at 1 July 2017 was 52,674 and at the date of his resignation (4 December 2017) remained at 52,674. As he is no longer a KMP he has not been included in the above table.

Signed in accordance with resolution of the Directors.



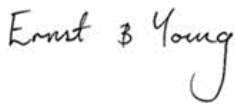
Amanda Heyworth  
Chair - Remuneration and Nomination Committee  
Sydney, 21 August 2018

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

As lead auditor for the audit of Ingenia Communities Holdings Limited for the financial year ended 30 June 2018, I declare to the best of my knowledge and belief, there have been:

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

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



Ernst & Young



Megan Wilson  
Partner  
21 August 2018

# Consolidated Statement of Comprehensive Income

Ingenia Communities Holdings Limited

For the year ended 30 June 2018

	2018	2017
Note	\$'000	\$'000
Rental income	5(a) 86,520	69,976
Manufactured home sales	85,875	63,752
Service station sales	7,356	7,284
Other revenue	5(b) 9,725	8,872
<b>Revenue</b>	<b>189,476</b>	<b>149,884</b>
Property expenses	(25,498)	(22,470)
Cost of manufactured homes sold	(50,347)	(42,699)
Employee expenses	(43,871)	(35,380)
Administrative expenses	(6,513)	(5,784)
Operational, marketing and selling expenses	(6,983)	(5,032)
Service station expenses	(6,338)	(6,229)
Depreciation and amortisation expense	12(b), 13(b) (1,167)	(830)
<b>Operating profit before interest and tax</b>	<b>48,759</b>	<b>31,460</b>
Net finance expense	6 (6,114)	(6,936)
<b>Operating profit before tax</b>	<b>42,645</b>	<b>24,524</b>
Net (loss)/gain on change in fair value of:		
Investment properties	11(c) (2,644)	12,372
Other	198	(120)
Net loss on disposal of investment properties	(1,016)	(8,438)
<b>Profit before tax</b>	<b>39,183</b>	<b>28,338</b>
Income tax expense	7 (4,940)	(1,930)
<b>Net profit</b>	<b>34,243</b>	<b>26,408</b>
<b>Total comprehensive income</b>	<b>34,243</b>	<b>26,408</b>
<b>Profit/(loss) attributable to security holders of:</b>		
Ingenia Communities Holdings Limited	29 (341)	(446)
Ingenia Communities Fund	25,458	(2,738)
Ingenia Communities Management Trust	9,126	29,592
	<b>34,243</b>	<b>26,408</b>
<b>Total comprehensive income attributable to security holders of:</b>		
Ingenia Communities Holdings Limited	29 (341)	(446)
Ingenia Communities Fund	25,458	(2,738)
Ingenia Communities Management Trust	9,126	29,592
	<b>34,243</b>	<b>26,408</b>



# Consolidated Statement of Comprehensive Income (continued)

Ingenia Communities Holdings Limited  
For the year ended 30 June 2018

		<b>2018</b>	<b>2017</b>
		<b>Cents</b>	<b>Cents</b>
<b>Distributions per security paid<sup>(1)</sup></b>		<b>10.2</b>	<b>10.2</b>
<b>Earnings per security:</b>			
Basic earnings			
Per security	4(a)	16.5	14.6
Per security attributable to parent	4(b)	(0.2)	(0.2)
Diluted earnings per security			
Per security	4(a)	16.5	14.6
Per security attributable to parent	4(b)	(0.2)	(0.2)

(1) Distributions relate to the amount paid during the financial year. A final FY18 distribution of 5.65cps was declared on 21 August 2018 (payment due on 14 September 2018) resulting in a total FY18 distribution of 10.75cps.

# Consolidated Balance Sheet

Ingenia Communities Holdings Limited

As at 30 June 2018

	Note	2018 \$'000	2017 \$'000
<b>Current assets</b>			
Cash and cash equivalents		14,450	9,645
Trade and other receivables	8	7,293	5,901
Inventories	9	30,228	21,597
Other		38	38
Assets held for sale	10(a)	28,675	-
<b>Total current assets</b>		<b>80,684</b>	<b>37,181</b>
<b>Non-current assets</b>			
Trade and other receivables	8	3,698	3,002
Investment properties	11	730,437	693,473
Plant and equipment	12	4,279	2,752
Other financial assets		2,263	2,263
Intangibles	13	1,956	2,021
Deferred tax asset	14	2,524	7,464
<b>Total non-current assets</b>		<b>745,157</b>	<b>710,975</b>
<b>Total assets</b>		<b>825,841</b>	<b>748,156</b>
<b>Current liabilities</b>			
Trade and other payables	15	37,546	25,983
Borrowings	16	501	493
Retirement village resident loans	17	8,206	27,201
Employee liabilities		1,770	1,480
Derivatives and other financial instruments	25(i)	73	221
Liabilities held for sale	10(b)	3,875	-
<b>Total current liabilities</b>		<b>51,971</b>	<b>55,378</b>
<b>Non-current liabilities</b>			
Borrowings	16	232,820	170,337
Other financial liabilities		6,500	6,136
Employee liabilities		529	344
Other payables	15	83	168
Derivatives and other financial instruments	25(i)	65	61
<b>Total non-current liabilities</b>		<b>239,997</b>	<b>177,046</b>
<b>Total liabilities</b>		<b>291,968</b>	<b>232,424</b>
<b>Net assets</b>		<b>533,873</b>	<b>515,732</b>
<b>Equity</b>			
Issued securities	18(a)	814,243	809,836
Reserves	19	1,393	1,074
Accumulated losses	20	(281,763)	(295,178)
<b>Total equity</b>		<b>533,873</b>	<b>515,732</b>
<b>Attributable to security holders of:</b>			
Ingenia Communities Holdings Limited	29	10,827	10,494
Ingenia Communities Fund		449,799	441,671
Ingenia Communities Management Trust		73,247	63,567
		<b>533,873</b>	<b>515,732</b>
Net asset value per security (\$)		<b>\$2.57</b>	<b>\$2.50</b>

# Consolidated Cash Flow Statement

Ingenia Communities Holdings Limited  
For the year ended 30 June 2018

	2018	2017
Note	\$'000	\$'000
<b>Cash flows from operating activities</b>		
Rental and other income	102,118	82,699
Property and other expenses	(81,425)	(63,851)
Proceeds from sale of manufactured homes	94,439	63,376
Purchase of manufactured homes	(59,806)	(47,575)
Proceeds from sale of service station inventory	8,091	7,014
Purchase of service station inventory	(7,134)	(6,615)
Proceeds from resident loans	594	3,411
Repayment of resident loans	(767)	(2,191)
Interest received	95	27
Borrowing costs paid	(8,975)	(6,038)
31	<b>47,230</b>	<b>30,257</b>
<b>Cash flows from investing activities</b>		
Purchase and additions of plant and equipment	(2,506)	(1,301)
Purchase and additions of intangible assets	(372)	(364)
Payments for investment properties	(51,214)	(180,311)
Additions to investment properties	(66,081)	(27,190)
Proceeds on sale of investment properties	32,742	40,842
	<b>(87,431)</b>	<b>(168,324)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of stapled securities	4,414	88,044
Payments for security issue costs	-	(3,013)
Finance lease payments	(639)	(643)
Distributions to security holders	(21,104)	(17,951)
Proceeds from borrowings	120,223	181,364
Repayment of borrowings	(57,688)	(114,000)
Payments for debt issue costs	(200)	(1,202)
	<b>45,006</b>	<b>132,599</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		
	<b>4,805</b>	<b>(5,468)</b>
Cash and cash equivalents at the beginning of the year	9,645	15,057
Effects of exchange rate fluctuation on cash held	-	56
<b>Cash and cash equivalents at the end of the year</b>	<b>14,450</b>	<b>9,645</b>

# Consolidated Statement of Changes in Equity

Ingenia Communities Holdings Limited  
For the year ended 30 June 2018

		Attributable to security holders					
		Ingenia Communities Holdings Limited					
Note	Issued Capital \$'000	Reserves \$'000	Retained Earnings \$'000	Total \$'000	ICF & ICMT \$'000	Total Equity \$'000	
	<b>Carrying amount 1 July 2017</b>	<b>11,131</b>	<b>1,074</b>	<b>(1,711)</b>	<b>10,494</b>	<b>505,238</b>	<b>515,732</b>
	Net (loss)/profit	-	-	(341)	(341)	34,584	34,243
	<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>(341)</b>	<b>(341)</b>	<b>34,584</b>	<b>34,243</b>

*Transactions with security holders in their capacity as security holders:*

Issue of securities	18(a)	85	-	-	85	4,322	4,407
Share based payment transactions	19	-	660	270	930	-	930
Payment of distributions to security holders	20	-	-	-	-	(21,098)	(21,098)
Transfers from reserves	19	-	(341)	-	(341)	-	(341)
<b>Carrying amount 30 June 2018</b>		<b>11,216</b>	<b>1,393</b>	<b>(1,782)</b>	<b>10,827</b>	<b>523,046</b>	<b>533,873</b>

		Attributable to security holders					
		Ingenia Communities Holdings Limited					
Note	Issued Capital \$'000	Reserves \$'000	Retained Earnings \$'000	Total \$'000	ICF & ICMT \$'000	Total Equity \$'000	
	<b>Carrying amount 1 July 2016</b>	<b>10,205</b>	<b>1,810</b>	<b>(1,265)</b>	<b>10,750</b>	<b>410,851</b>	<b>421,601</b>
	Net (loss)/profit	-	-	(446)	(446)	26,854	26,408
	<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>(446)</b>	<b>(446)</b>	<b>26,854</b>	<b>26,408</b>

*Transactions with security holders in their capacity as security holders:*

Issue of securities	18(a)	915	-	-	915	84,171	85,086
Share based payment transactions	19	-	631	-	631	-	631
Payment of distributions to security holders	20	-	-	-	-	(17,994)	(17,994)
Transfer from reserves to issued securities	18,19	11	(1,367)	-	(1,356)	1,356	-
<b>Carrying amount 30 June 2017</b>		<b>11,131</b>	<b>1,074</b>	<b>(1,711)</b>	<b>10,494</b>	<b>505,238</b>	<b>515,732</b>

# Notes to the Financial Statements

Ingenia Communities Holdings Limited  
For the year ended 30 June 2018

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) The Group

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

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

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

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

The financial report as at and for the year ended 30 June 2018 was authorised for issue by the Directors on 21 August 2018.

### (b) Basis of preparation

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

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

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

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

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

Where appropriate, comparative amounts have been restated to ensure consistency of disclosure throughout the financial report.

### (c) Adoption of new and revised accounting standards

No new or revised standards and interpretations were issued by the AASB that are relevant to the Group during the period.

### (d) Principles of consolidation

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

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

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

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

# Notes to the Financial Statements (continued)

Ingenia Communities Holdings Limited

For the year ended 30 June 2018

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (d) Principles of consolidation (continued)

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

### (e) Business combinations and goodwill

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

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

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

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

### (f) Assets held for sale

Components of the entity are classified as held for sale if their carrying value will be recovered principally through a sale transaction rather than through continuing use.

They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as investment property, which are carried at fair value.

The liabilities of an asset classified as held for sale are presented separately from other liabilities on the face of the balance sheet.

Details of assets and liabilities held for sale are given at Note 10.

### (g) Dividends and distributions

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

### (h) Foreign currency

*Functional and presentation currencies:*

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

*Translation of foreign currency transactions:*

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

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

# Notes to the Financial Statements (continued)

Ingenia Communities Holdings Limited

For the year ended 30 June 2018

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (i) Leases

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

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

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

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

### (j) Plant and equipment

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

### (k) Financial assets and liabilities

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

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

### (l) Impairment of non-financial assets

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

# Notes to the Financial Statements (continued)

Ingenia Communities Holdings Limited

For the year ended 30 June 2018

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (m) Cash and cash equivalents

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

### (n) Trade and other receivables

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

### (o) Inventories

The Group holds inventory in relation to the acquisition and development of manufactured homes, as well as service station fuel and supplies within the Ingenia Lifestyle and Holidays segment.

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

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

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

### (p) Derivative and financial instruments

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

### (q) Investment property

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

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

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

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

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

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



# Notes to the Financial Statements (continued)

Ingenia Communities Holdings Limited

For the year ended 30 June 2018

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (r) Intangible assets

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

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

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

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

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

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

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

### (s) Trade and other payables

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

### (t) Provisions, including employee benefits

*General:*

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

*Wages, salaries, annual leave and sick leave:*

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

*Long service leave:*

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

# Notes to the Financial Statements (continued)

Ingenia Communities Holdings Limited

For the year ended 30 June 2018

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (u) Retirement village resident loans

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

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

Refer to Notes 1(aa) and 25(k) for information regarding the valuation of retirement village resident loans.

### (v) Borrowings

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

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

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

### (w) Issued equity

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

### (x) Revenue

Revenue from rent, interest and distributions is recognised to the extent it is probable that the economic benefits will flow to the Group, and can be reliably measured. Revenue brought to account but not received at balance date is recognised as a receivable. Interest income is recognised as the interest accrues, using the effective interest rate method.

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

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

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

Service station sales, food and beverage revenue represents the revenue earned from the provision of products and services to external parties. Sales revenue is only recognised when the significant risks and rewards of ownership of the products or service has been passed to the buyer.

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

# Notes to the Financial Statements (continued)

Ingenia Communities Holdings Limited

For the year ended 30 June 2018

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (y) Share-based payment transactions

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

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

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

When the terms of an equity-settled transaction are modified, the minimum expense recognised is the expense as if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the transaction, or is otherwise beneficial to the employee, as measured at the date of modification.

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

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

### (z) Income tax

*Current income tax:*

The Company, ICMT and their subsidiaries are subject to Australian income tax.

Under the current tax legislation, ICF and its subsidiaries are not liable to pay Australian income tax if their taxable income (including any assessable capital gains) is fully distributed to security holders each year. Tax allowances for building and fixtures depreciation are distributed to security holders via the tax-deferred component of distributions.

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

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

During FY18 ICF elected to enter the Attribution Managed Investment Trust (AMIT) regime.

# Notes to the Financial Statements (continued)

Ingenia Communities Holdings Limited

For the year ended 30 June 2018

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (z) Income tax (continued)

#### *Deferred income tax:*

Deferred income tax represents tax (including withholding tax) expected to be payable or recoverable by taxable entities on differences between tax bases of assets and liabilities, and their carrying amounts for financial reporting purposes. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised through continuing use, or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at reporting date. Income taxes related to items recognised directly in equity are not recognised against income.

#### *Tax consolidation:*

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

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

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

### (aa) Fair value measurement

The Group measures financial instruments, such as derivatives, investment properties, resident loans, certain non-financial assets and non-financial liabilities, at fair value at each balance sheet date. Refer to Note 26.

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

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

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

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

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

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

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

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

# Notes to the Financial Statements (continued)

Ingenia Communities Holdings Limited

For the year ended 30 June 2018

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (aa) Fair value measurement (continued)

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

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

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

On a six month basis, management presents valuation results to the Investment Committee as well as the Audit and Risk Committee once approved. This includes a review of the major assumptions used in the valuations.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities based on the nature, characteristics and risks of the asset or liability, and the level of the fair value hierarchy (see Note 25).

### (bb) Goods and services tax (GST)

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

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

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

### (cc) Earnings per share (EPS)

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

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

### (dd) Pending accounting standards

AASB 9 Financial Instruments is applicable to reporting periods beginning on or after 1 January 2018. The Group has not early adopted this standard. This standard provides requirements for the classification, measurement and derecognition of financial assets and financial liabilities. Changes in the Group's credit risk, which affect the value of liabilities designated at fair value through profit and loss, must be presented in other comprehensive income. The impact of the application of the standard is continuously being monitored by the Group, and the Group expects to conclude on the impact in due course.

AASB 15 Revenue from Contracts with Customers is applicable to reporting periods beginning on or after 1 January 2018. The Group has not early adopted this standard. The standard is based on the principle that revenue is recognised when control of a good or service is transferred to a customer. It contains a single model that applies to contracts with customers and two approaches to recognising revenue - at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine if, how much, and when revenue is recognised.

# Notes to the Financial Statements (continued)

Ingenia Communities Holdings Limited

For the year ended 30 June 2018

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (dd) Pending accounting standards (continued)

It applies to all contracts with customers except leases, financial instruments and insurance contracts. It requires reporting entities to provide users of financial statement with more informative and relevant disclosures. The application of the standard is not expected to have any material impact on the Group's financial reporting in future periods.

AASB 16 Leases is applicable to reporting periods beginning on or after 1 January 2019. The Group has not early adopted this standard. This standard provides requirements for classification, measurement, and disclosure of all leases with a term of more than twelve months, unless the underlying asset is of low value. A lessee must now measure right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities. Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments) and payments made in optional periods, if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. The Group is currently the lessee of two non-cancellable operating leases, which will be included under this new standard. These leases relate to the Group's Sydney and Brisbane offices, which have a future minimum lease payments total of \$2,402,000 at 30 June 2018.

The Group is also the lessee of four finance leases (relating to the land component of investment properties), which are not expected to be materially impacted by the new standard as they are already substantially treated in the manner prescribed by the new standard.

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

### (ee) Current versus non-current classification

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

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

A liability is current when it is:

- Expected to be settled in the normal operating cycle;
- Held primarily for the purpose of trading;
- Due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

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

# Notes to the Financial Statements (continued)

Ingenia Communities Holdings Limited

For the year ended 30 June 2018

## 2. ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

### (a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates, by definition, may not equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### i. Valuation of investment property

The Group has investment properties and assets held for sale with a combined carrying amount of \$759,112,000 (30 June 2017: \$693,473,000) (refer Note 10 and Note 11), and combined retirement village resident loans of \$12,081,000 (30 June 2017: \$27,201,000) (refer Note 10 and Note 17) which together represent the estimated fair value of the Group's property business.

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

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

#### ii. Valuation of inventories

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

#### iii. Valuation of retirement village resident loans

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

#### iv. Calculation of deferred management fee (DMF)

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

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

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

# Notes to the Financial Statements (continued)

Ingenia Communities Holdings Limited  
For the year ended 30 June 2018

## 3. SEGMENT INFORMATION

### (a) Description of segments

The group invests predominantly in rental properties located in Australia with four reportable segments:

- Ingenia Lifestyle & Holidays – comprising long-term and tourism accommodation within lifestyle parks;
- Ingenia Lifestyle Development – comprising the development and sale of manufactured homes;
- Ingenia Gardens – rental villages;
- Fuel, Food & Beverage Services – Consists of the Group’s investment in service station operations and food & beverage activities attached to Ingenia Lifestyle & Holiday communities;
- Corporate & Other – comprises deferred management fee villages and corporate overheads.

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

(b) 2018	Lifestyle & Holidays Operations \$'000	Lifestyle Development \$'000	Ingenia Gardens \$'000	Fuel, Food & Beverage Services \$'000	Corporate & Other \$'000	Total \$'000
<b>Segment revenue</b>						
External segment revenue	65,072	85,879	27,984	8,986	1,555	189,476
<b>Total revenue</b>	<b>65,072</b>	<b>85,879</b>	<b>27,984</b>	<b>8,986</b>	<b>1,555</b>	<b>189,476</b>
<b>Segment underlying profit</b>						
External segment revenue	65,072	85,879	27,984	8,986	1,555	189,476
Property expenses	(15,321)	(601)	(7,850)	(496)	(1,230)	(25,498)
Cost of manufactured homes sold	-	(50,347)	-	-	-	(50,347)
Employee expenses	(19,628)	(9,162)	(7,090)	(1,270)	(6,721)	(43,871)
Administrative expenses	(2,576)	(793)	(609)	(27)	(2,508)	(6,513)
Operational, marketing and selling expenses	(1,838)	(3,606)	(915)	(431)	(193)	(6,983)
Service station expenses	-	-	-	(6,338)	-	(6,338)
Depreciation and amortisation expense	(362)	(403)	(109)	(19)	(274)	(1,167)
<b>Earnings before interest and tax</b>	<b>25,347</b>	<b>20,967</b>	<b>11,411</b>	<b>405</b>	<b>(9,371)</b>	<b>48,759</b>
Net finance expense	-	-	-	-	(6,114)	(6,114)
Income tax expense	-	-	-	-	(5,874)	(5,874)
<b>Underlying profit/(loss)</b>	<b>25,347</b>	<b>20,967</b>	<b>11,411</b>	<b>405</b>	<b>(21,359)</b>	<b>36,771</b>
Net (loss)/gain on change in fair value of:						
Investment properties	(2,832)	-	2,260	-	(2,072)	(2,644)
Other	-	-	-	-	198	198
Net (loss)/gain on disposal of investment properties	(152)	-	(886)	-	22	(1,016)
Income tax benefit	-	-	-	-	934	934
<b>Profit/(loss) after tax</b>	<b>22,363</b>	<b>20,967</b>	<b>12,785</b>	<b>405</b>	<b>(22,277)</b>	<b>34,243</b>
<b>Segment assets</b>						
Segment assets	459,742	170,155	129,283	356	37,630	797,166
Assets held for sale	22,325	-	-	-	6,350	28,675
<b>Total assets</b>	<b>482,067</b>	<b>170,155</b>	<b>129,283</b>	<b>356</b>	<b>43,980</b>	<b>825,841</b>



# Notes to the Financial Statements (continued)

Ingenia Communities Holdings Limited

For the year ended 30 June 2018

## 3. SEGMENT INFORMATION (CONTINUED)

(c) 2017	Lifestyle & Holidays Operations \$'000	Lifestyle Development \$'000	Ingenia Gardens \$'000	Fuel, Food & Beverage Services \$'000	Corporate & Other \$'000	Total \$'000
<b>Segment Revenue</b>						
External segment revenue	47,686	63,752	28,389	7,285	3,405	150,517
Reclassification of gain on newly constructed villages	-	-	-	-	(633)	(633)
<b>Total revenue</b>	<b>47,686</b>	<b>63,752</b>	<b>28,389</b>	<b>7,285</b>	<b>2,772</b>	<b>149,884</b>
<b>Segment underlying profit</b>						
External segment revenue	47,686	63,752	28,389	7,285	3,405	150,517
Property expenses	(12,462)	(493)	(8,023)	(106)	(1,386)	(22,470)
Cost of manufactured homes sold	-	(42,699)	-	-	-	(42,699)
Employee expenses	(15,315)	(6,453)	(7,046)	(359)	(6,207)	(35,380)
Administrative expenses	(2,114)	(532)	(606)	(16)	(2,516)	(5,784)
Operational, marketing and selling expenses	(713)	(2,440)	(982)	-	(897)	(5,032)
Service station expenses	-	-	-	(6,229)	-	(6,229)
Depreciation and amortisation expense	(245)	(254)	(118)	(5)	(208)	(830)
<b>Earnings before interest and tax</b>	<b>16,837</b>	<b>10,881</b>	<b>11,614</b>	<b>570</b>	<b>(7,809)</b>	<b>32,093</b>
Net finance expense	-	-	-	-	(6,936)	(6,936)
Income tax expense	-	-	-	-	(1,636)	(1,636)
<b>Underlying profit/(loss)</b>	<b>16,837</b>	<b>10,881</b>	<b>11,614</b>	<b>570</b>	<b>(16,381)</b>	<b>23,521</b>
Net gain/(loss) on change in fair value of:						
Investment properties	7,838	-	4,820	-	(286)	12,372
Other	-	-	-	-	(120)	(120)
Reclassification of gain on newly constructed villages	-	-	-	-	(633)	(633)
Net loss on disposal of investment properties	(870)	-	-	-	(7,568)	(8,438)
Income tax expense	-	-	-	-	(294)	(294)
<b>Profit/(loss) after tax</b>	<b>23,805</b>	<b>10,881</b>	<b>16,434</b>	<b>570</b>	<b>(25,282)</b>	<b>26,408</b>
<b>Segment assets</b>						
Segment assets	412,453	128,541	38,205	183	168,774	748,156
<b>Total assets</b>	<b>412,453</b>	<b>128,541</b>	<b>38,205</b>	<b>183</b>	<b>168,774</b>	<b>748,156</b>

## Notes to the Financial Statements (continued)

Ingenia Communities Holdings Limited

For the year ended 30 June 2018

### 4. EARNINGS PER SECURITY

	2018	2017
<b>(a) Per security</b>		
Profit attributable to security holders (\$'000)	34,243	26,408
Weighted average number of securities outstanding (thousands):		
Issued securities (thousands)	207,329	180,383
Dilutive securities (thousands):		
Long-term incentives	690	486
Short-term incentives	119	111
<b>Weighted average number of issued and dilutive potential securities outstanding (thousands)</b>	<b>208,138</b>	<b>180,980</b>
Basic earnings per security (cents)	16.5	14.6
Dilutive earnings per security (cents)	16.5	14.6

	2018	2017
<b>(b) Per security attributable to parent</b>		
Loss attributable to security holders (\$'000)	(341)	(446)
Weighted average number of securities outstanding (thousands):		
Issued securities (thousands)	207,329	180,383
Dilutive securities (thousands):		
Long-term incentives	690	486
Short-term incentives	119	111
<b>Weighted average number of issued and dilutive potential securities outstanding (thousands)</b>	<b>208,138</b>	<b>180,980</b>
Basic earnings per security (cents)	(0.2)	(0.2)
Dilutive earnings per security (cents)	(0.2)	(0.2)

### 5. REVENUE

	2018 \$'000	2017 \$'000
<b>(a) Rental income</b>		
Residential rental income - Ingenia Gardens	24,569	24,770
Residential rental income - Lifestyle and Holidays	21,748	14,911
Residential rental income - Settlers	123	232
Annuals rental income - Lifestyle and Holidays	4,792	4,348
Tourism rental income - Lifestyle and Holidays	34,922	25,251
Commercial rental income - Lifestyle and Holidays	366	464
<b>Total rental income</b>	<b>86,520</b>	<b>69,976</b>
<b>(b) Other revenue</b>		
Catering income	3,084	3,191
Accrued deferred management fee	636	1,825
Utility recoveries	1,747	1,281
Ancillary lifestyle park income	2,674	1,173
Commissions and administrative fees	351	335
Government incentives	188	267
Sundry income	1,045	800
<b>Total other revenue</b>	<b>9,725</b>	<b>8,872</b>

# Notes to the Financial Statements (continued)

Ingenia Communities Holdings Limited  
For the year ended 30 June 2018

## 6. NET FINANCE EXPENSE

	2018 \$'000	2017 \$'000
Interest income	(95)	(25)
Debt facility interest paid or payable	5,853	6,377
Deferred consideration interest on acquisitions	-	169
Finance lease interest paid or payable <sup>(1)</sup>	356	415
	<b>6,114</b>	<b>6,936</b>

(1) Finance leases relate to certain investment properties and are long term in nature.

Interest costs of \$3,836,000 have been capitalised into investment properties associated with development assets (30 June 2017: \$620,000)

## 7. INCOME TAX EXPENSE

	2018 \$'000	2017 \$'000
<b>(a) Income tax expense</b>		
Current tax	(18)	233
Decrease in deferred tax asset	(4,922)	(2,163)
<b>Income tax expense</b>	<b>(4,940)</b>	<b>(1,930)</b>
<b>(b) Reconciliation between tax expense and pre-tax profit</b>		
Profit before income tax	39,183	28,338
(Less)/add amounts not subject to Australian income tax	(25,458)	2,738
	<b>13,725</b>	<b>31,076</b>
Income tax expense at the Australian tax rate of 30% (2017: 30%)	(4,118)	(9,323)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Prior period income tax return true-ups	(87)	(325)
Movements in carrying value and tax cost base of investment properties <sup>(1)</sup>	-	7,615
Other	(735)	103
<b>Income tax expense</b>	<b>(4,940)</b>	<b>(1,930)</b>

(1) FY17 movement in cost base of investment property impacted by valuation adjustments and resetting of historic cost bases.

### (c) Tax consolidation

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

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

Upon entering into the ICMT tax consolidated group, the tax cost bases for certain assets were reset resulting in income tax benefits being recorded.

## 8. TRADE AND OTHER RECEIVABLES

	2018 \$'000	2017 \$'000
<b>Current</b>		
Trade and other receivables	2,161	2,814
Prepayments	2,609	1,912
Deposits	2,523	1,175
<b>Total current trade and other receivables</b>	<b>7,293</b>	<b>5,901</b>
<b>Non-current</b>		
Other receivables	3,698	3,002

## Notes to the Financial Statements (continued)

Ingenia Communities Holdings Limited

For the year ended 30 June 2018

### 9. INVENTORIES

	2018 \$'000	2017 \$'000
Manufactured homes		
Completed	15,616	15,247
Display homes	4,869	547
Under construction	9,435	5,643
Service station fuel and supplies	308	160
<b>Total inventories</b>	<b>30,228</b>	<b>21,597</b>

The manufactured home balance includes:

- 93 new completed homes (2017: 86)
- 11 refurbished/renovated/annuals completed homes (2017: 9)
- 24 display homes (2017: 4)
- Manufactured homes under construction includes 88 partially completed homes at different stages of development (2017: 56). It also includes demolition, site preparation costs and buybacks on future development sites.

### 10. ASSETS AND LIABILITIES HELD FOR SALE

#### (a) Summary of carrying value - Assets

The following are the carrying values of assets held for sale:

	2018 \$'000	2017 \$'000
Investment properties held for sale		
Cessnock, Cessnock, NSW <sup>(1)</sup>	6,350	-
Rouse Hill, Rouse Hill, NSW <sup>(2)</sup>	22,325	-
<b>Total assets held for sale</b>	<b>28,675</b>	<b>-</b>

(1) This relates to Settlers Cessnock which was sold in July 2018.

(2) A conditional contract for the sale of Rouse Hill was signed in June 2018. As such, the property has been reclassified from investment property to asset held for sale in view of management's expectation that the property will be sold in the twelve months ended 30 June 2019.

#### (b) Summary of carrying amounts - Liabilities

The following is a summary of the carrying amounts of the loans associated with investment properties held for sale:

	2018 \$'000	2017 \$'000
Net resident loans - Cessnock	3,875	-
<b>Total liabilities held for sale</b>	<b>3,875</b>	<b>-</b>

# Notes to the Financial Statements (continued)

Ingenia Communities Holdings Limited  
For the year ended 30 June 2018

## 11. INVESTMENT PROPERTIES

### (a) Summary of carrying amounts

	2018 \$'000	2017 \$'000
Completed properties	587,524	586,392
Properties under development	142,913	107,081
<b>Total carrying amount</b>	<b>730,437</b>	<b>693,473</b>

### (b) Movements in carrying amounts

	Note	2018 \$'000	2017 \$'000
<b>Carrying amount at the beginning of the period</b>		<b>693,473</b>	<b>710,746</b>
Acquisitions		50,386	174,883
Expenditure capitalised		66,636	28,562
Net change in fair value:			
Investment property		(1,651)	12,372
Resident loans		(993)	-
Transfer to assets held for sale	10(a)	(28,675)	-
Disposals		(48,739)	(233,090)
<b>Carrying amount at the beginning of the year</b>		<b>730,437</b>	<b>693,473</b>

Fair value hierarchy disclosures for investment properties have been provided in Note 26(a).

### (c) Reconciliation of fair value

	Ingenia Gardens \$'000	Lifestyle and Holidays \$'000	Ingenia Settlers \$'000	Total \$'000
<b>Carrying amount at 1 Jul 2017</b>	<b>141,290</b>	<b>514,843</b>	<b>37,340</b>	<b>693,473</b>
Acquisitions	-	50,386	-	50,386
Expenditure capitalised	1,898	64,702	36	66,636
Net change in fair value:				
Investment property	2,260	(2,689)	(1,222)	(1,651)
Resident loans	-	(125)	(868)	(993)
Transfer to assets held for sale	-	(22,325)	(6,350)	(28,675)
Disposals	(18,148)	(11,959)	(18,632)	(48,739)
<b>Carrying amount at 30 June 2018</b>	<b>127,300</b>	<b>592,833</b>	<b>10,304</b>	<b>730,437</b>

### (d) Individual property carrying amounts

#### Completed properties

	Carrying amount	
	2018 \$'000	2017 \$'000
<i>Ingenia Settlers:</i>		
Cessnock, Cessnock, NSW <sup>(1)</sup>	-	6,756
Gladstone, South Gladstone, QLD	10,304	11,018
Meadow Springs, Mandurah, WA <sup>(2)</sup>	-	19,566
	<b>10,304</b>	<b>37,340</b>

# Notes to the Financial Statements (continued)

Ingenia Communities Holdings Limited  
For the year ended 30 June 2018

## 11. INVESTMENT PROPERTIES (CONTINUED)

### Completed properties

	Carrying amount	
	2018 \$'000	2017 \$'000
<i><b>Ingenia Gardens:</b></i>		
Brooklyn, Brookfield, VIC	4,950	4,690
Carey Park, Bunbury, WA	4,660	4,400
Elphinwood, Launceston, TAS <sup>(2)</sup>	-	4,100
Horsham, Horsham, VIC	3,940	3,700
Jefferis, Bundaberg North, QLD	4,500	4,550
Oxley, Port Macquarie, NSW	5,020	4,760
Townsend, St Albans Park, VIC	5,040	4,850
Yakamia, Yakamia, WA	4,550	4,500
Goulburn, Goulburn, NSW	4,590	4,420
Claremont, Claremont, TAS <sup>(2)</sup>	-	4,260
Coburns, Brookfield, VIC	4,800	4,500
Devonport, Devonport, TAS <sup>(2)</sup>	-	2,160
Hertford, Sebastopol, VIC	4,230	3,840
Seascape, Erskine, WA	4,360	4,980
Seville Grove, Seville Grove, WA	4,010	3,660
St Albans Park, St Albans Park, VIC	5,730	5,680
Taloumbi, Coffs Harbour, NSW	5,450	5,150
Wheelers, Dubbo, NSW	5,330	5,050
Taree, Taree, NSW	4,220	3,940
Grovedale, Grovedale, VIC	5,560	5,400
Glenorchy, Glenorchy, TAS <sup>(2)</sup>	-	4,280
Marsden, Marsden, QLD	10,050	9,560
Swan View, Swan View, WA	7,790	7,610
Dubbo, Dubbo, NSW	5,670	5,170
Ocean Grove, Mandurah, WA	3,910	3,870
Peel River, Tamworth, NSW	5,120	5,270
Sovereign, Ballarat, VIC	2,640	2,540
Wagga, Wagga Wagga, NSW	3,460	3,950
Bathurst, Bathurst, NSW	4,470	4,100
Launceston, Launceston, TAS <sup>(2)</sup>	-	3,350
Warrnambool, Warrnambool, VIC	3,250	3,000
	<b>127,300</b>	<b>141,290</b>

# Notes to the Financial Statements (continued)

Ingenia Communities Holdings Limited  
For the year ended 30 June 2018

## 11. INVESTMENT PROPERTIES (CONTINUED)

### Completed properties

	Carrying amount	
	2018 \$'000	2017 \$'000
<i>Ingenia Lifestyle and Holidays:</i>		
The Grange, Morisset, NSW	16,262	13,718
Ettalong Beach, Ettalong Beach, NSW <sup>(3)</sup>	7,096	5,968
Albury, Lavington, NSW	3,690	3,132
Nepean River, Emu Plains, NSW	13,259	13,867
Mudgee Valley, Mudgee, NSW	3,000	2,934
Mudgee, Mudgee, NSW	5,110	4,587
Kingscliff, Kingscliff, NSW	13,814	12,524
Lake Macquarie (Lifestyle), Morisset, NSW <sup>(2)</sup>	-	6,778
Chain Valley Bay, Chain Valley Bay, NSW <sup>(2)</sup>	-	2,435
One Mile Beach, One Mile, NSW <sup>(3)</sup>	16,819	14,809
Hunter Valley, Cessnock, NSW	6,900	7,868
Sun Country, Mulwala, NSW	7,520	7,384
Stoney Creek, Marsden Park, NSW	21,188	18,529
Rouse Hill, Rouse Hill, NSW <sup>(1)</sup>	-	10,300
White Albatross, Nambucca Heads, NSW	29,500	28,443
Noosa, Tewantin, QLD	18,092	16,800
Chambers Pines, Chambers Flat, QLD	22,250	19,200
Lake Macquarie (Holidays), Mannering Park, NSW	8,350	8,020
Sydney Hills, Dural, NSW	16,120	15,200
Bethania, Bethania, QLD	6,963	5,401
Conjola Lakeside, Lake Conjola, NSW	28,250	27,500
Soldiers Point, Port Stephens, NSW	14,709	13,027
Lara, Lara, VIC	11,386	4,582
South West Rocks, South West Rocks NSW <sup>(3)</sup>	9,277	7,016
Broulee, Broulee, NSW <sup>(3)</sup>	6,730	6,463
Ocean Lake, Ocean Lake, NSW	9,306	8,900
Avina Van Village, Vineyard, NSW	21,954	17,480
Hervey Bay (Holidays), Hervey Bay, QLD	9,777	9,667
Latitude One, Port Stephens, NSW <sup>(4)</sup>	1,415	-
Blueys Beach, Blueys Beach, NSW	6,023	7,500
Cairns Coconut, Woree, QLD	52,374	51,296
Bonny Hills, Bonny Hills, NSW	12,146	13,500
Durack Gardens, Durack, QLD	25,640	22,934
Eight Mile Plains, QLD	25,000	-
	<b>449,920</b>	<b>407,762</b>
<b>Total completed properties</b>	<b>587,524</b>	<b>586,392</b>

The figures shown above are the fair values of the operating rental streams associated with each property and exclude any valuation attributed to the development component of the Investment Property. The values attributed to development properties are separately disclosed in this note on the following page.

# Notes to the Financial Statements (continued)

Ingenia Communities Holdings Limited

For the year ended 30 June 2018

## 11. INVESTMENT PROPERTIES (CONTINUED)

### Properties under development

	Carrying amount	
	2018 \$'000	2017 \$'000
<i>Ingenia Lifestyle and Holidays:</i>		
The Grange, Morisset, NSW	3,990	1,967
Albury, Lavington, NSW	4,979	3,682
Mudgee Valley, Mudgee, NSW	-	700
Mudgee, Mudgee, NSW	890	2,203
Chain Valley Bay, Chain Valley Bay, NSW <sup>(2)</sup>	-	2,678
Hunter Valley, Cessnock, NSW	2,995	3,395
Sun Country, Mulwala, NSW	1,030	1,904
Stoney Creek, Marsden Park, NSW	2,987	2,560
Rouse Hill, Rouse Hill, NSW <sup>(1)</sup>	-	8,224
Chambers Pines, Chambers Flat, QLD	16,140	9,590
Sydney Hills, Dural, NSW	-	160
Bethania, Bethania, QLD	13,768	15,084
Conjola Lakeside, Lake Conjola, NSW	10,320	5,000
Lara, Lara, VIC	11,134	13,702
South West Rocks, South West Rocks NSW <sup>(3)</sup>	469	2,616
Avina Van Village, Vineyard, NSW	12,940	17,745
Latitude One, Port Stephens, NSW <sup>(4)</sup>	30,230	13,805
Cairns Coconut, Woree, QLD	1,932	-
Bonny Hills, Bonny Hills, NSW	1,648	-
Durack Gardens, Durack, QLD	1,232	2,066
Eight Mile Plains, QLD	2,650	-
Plantations, Woolgoolga, NSW	8,774	-
Hervey Bay (Lifestyle), Hervey Bay, QLD	4,305	-
Upper Coomera, Upper Coomera, QLD	10,500	-
<b>Properties under development</b>	<b>142,913</b>	<b>107,081</b>
<b>Total investment properties</b>	<b>730,437</b>	<b>693,473</b>

(1) Classified as held for sale at 30 June 2018.

(2) Assets sold during the year ended 30 June 2018.

(3) Includes a land component that is leased from the Crown or local municipalities and are recognised as investment property with an associated finance lease.

(4) The carrying value of Latitude One represents 100% of the property value. A profit share arrangement is in place with a third-party liability which is carried at fair value and classified as a non-current financial liability.

Investment properties are carried at fair value in accordance with the Group's accounting policy (Note 1 (q)).

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date in the principal market for the asset or liability, or in its absence, the most advantageous market.

In determining fair values, the Group considers relevant information including the capitalisation of rental streams using market assessed capitalisation rates. For investment properties under development the Group assesses fair value based on expected net cash flows discounted to their present value using market determined risk adjusted discount rates and other available market data such as recent comparable transactions. As such the fair value of an investment property under development will differ depending on the number of settlements realised and the stage that each development is at.

In determining the fair value of certain assets, recent market offers have been taken into consideration.

Refer to Note 11(e) for inputs used in determining fair value.



# Notes to the Financial Statements (continued)

Ingenia Communities Holdings Limited  
For the year ended 30 June 2018

## 11. INVESTMENT PROPERTIES (CONTINUED)

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

	Valuation technique	Significant unobservable inputs	Range (weighted average)		Relationship of unobservable input to fair value
			2018	2017	
<b>Ingenia Gardens</b>	Capitalisation method	Stabilised occupancy	75% - 98% (92.1%)	80% - 98% (92.8%)	As costs are fixed in nature, occupancy has a direct correlation to valuation (i.e. the higher the occupancy, the greater the value). Capitalisation has an inverse relationship to valuation.
		Capitalisation rate	8.8% - 10.9% (9.9%)	9.5% - 10.9% (9.9%)	
<b>Settlers</b>	Discounted cash flow	Current market value per unit	\$125,000 - \$283,000	\$100,000 - \$390,000	Market value and growth in property value have a direct correlation to valuation, while length of stay and discount rate have an inverse relationship to valuation.
		Long-term property growth rate	0.0%	0.0%	
		Average length of stay - future residents	11.4 years	12.6 years	
		Discount rate	14.5% - 16.0%	13.5% - 17.0%	
<b>Ingenia Lifestyle and Holidays</b>	Capitalisation method (for existing rental streams)	Short-term occupancy	20% - 80% for powered and camp sites; 40% - 80% for tourism and short term rental	20% - 80% for powered and camp sites; 15% - 75% for tourism and short term rental	The higher the occupancy, the greater the value.
		Residential occupancy	100%	100%	
		Operating profit margin	42% - 77% dependent upon short-term and residential accommodation mix	35% - 70% dependent upon short-term and residential accommodation mix	The higher the profit margin, the greater the value.
		Capitalisation rate	6.75% - 12.5%	7.4% - 14.0%	Capitalisation has an inverse relationship to valuation.
	Discounted cash flow (for investment properties under development)	Discount rate	12.0% - 24.9%	12.5% - 17.5%	Discount rate has an inverse relationship to valuation.

# Notes to the Financial Statements (continued)

Ingenia Communities Holdings Limited

For the year ended 30 June 2018

## 11. INVESTMENT PROPERTIES (CONTINUED)

### Capitalisation method

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

### Discounted cash flow method

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

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

## 12. PLANT AND EQUIPMENT

	2018 \$'000	2017 \$'000
<b>(a) Summary of carrying amounts</b>		
Plant and equipment	6,752	4,476
Less: accumulated depreciation	(2,473)	(1,724)
<b>Total plant and equipment</b>	<b>4,279</b>	<b>2,752</b>
<b>(b) Movements in carrying amount</b>		
<b>Carrying amount at beginning of year</b>	<b>2,752</b>	<b>1,943</b>
Additions	2,392	1,264
Disposals	(101)	-
Depreciation expense	(764)	(455)
<b>Carrying amount at end of year</b>	<b>4,279</b>	<b>2,752</b>

## 13. INTANGIBLES

	2018 \$'000	2017 \$'000
<b>(a) Summary of carrying amounts</b>		
Software & development	3,164	2,818
Less: accumulated amortisation	(1,208)	(797)
<b>Total Intangibles</b>	<b>1,956</b>	<b>2,021</b>
<b>(b) Movements in carrying amount</b>		
<b>Carrying amount at beginning of year</b>	<b>2,021</b>	<b>1,999</b>
Additions	338	397
Amortisation expense	(403)	(375)
<b>Carrying amount at end of year</b>	<b>1,956</b>	<b>2,021</b>

## Notes to the Financial Statements (continued)

Ingenia Communities Holdings Limited

For the year ended 30 June 2018

### 14. DEFERRED TAX ASSETS AND LIABILITIES

	2018 \$'000	2017 \$'000
<b>Deferred tax assets</b>		
Tax losses	14,833	14,679
Other	17	276
<b>Deferred tax liabilities</b>		
DMF receivable	(1,047)	(1,011)
Investment properties	(11,279)	(6,480)
<b>Net deferred tax asset</b>	<b>2,524</b>	<b>7,464</b>
<b>Deductible temporary differences and carried forward losses tax effected for which no deferred tax asset has been recognised</b>	<b>7,500</b>	<b>7,500</b>

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

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

### 15. TRADE AND OTHER PAYABLES

	2018 \$'000	2017 \$'000
<b>Current</b>		
Trade payables and accruals	31,053	20,071
Deposits	5,266	4,562
Other unearned income	1,227	1,350
<b>Total current</b>	<b>37,546</b>	<b>25,983</b>
<b>Non-current</b>		
Other	83	168
<b>Total non-current</b>	<b>83</b>	<b>168</b>

### 16. BORROWINGS

	2018 \$'000	2017 \$'000
<b>Current</b>		
Finance leases	501	493
<b>Non-current</b>		
Bank debt	228,999	166,464
Prepaid borrowing costs	(1,497)	(1,735)
Finance leases	5,318	5,608
<b>Total non-current</b>	<b>232,820</b>	<b>170,337</b>

#### (a) Bank debt

Ingenia has \$350.0 million in available debt facilities at 30 June 2018 (2017: \$300.0 million). This increase of \$50.0 million was a result of completing a refinance and extension of a tranche of the facilities during the year. The term of this tranche was extended from 12 February 2020 to 13 July 2023.

The total \$350.0 million in debt facilities is provided by three Australian banks. The facility tranche dates are:

- 12 February 2022 (\$175.4 million); and
- 13 July 2023 (\$174.6 million)

As at 30 June 2018, the facilities have been drawn to \$229.0 million (30 June 2017: \$166.5 million). The carrying value of investment property net of resident liabilities at reporting date for the Group's Australian properties pledged as security is \$701.8 million (30 June 2017: \$602.9 million).

## Notes to the Financial Statements (continued)

Ingenia Communities Holdings Limited

For the year ended 30 June 2018

### 16. BORROWINGS (CONTINUED)

#### (b) Bank guarantees

The Group has the ability to utilise its bank facilities to provide bank guarantees, which at 30 June 2018 were \$11.4 million (30 June 2017: \$10.8 million).

#### (c) Finance leases

The Group has entered into finance leases for the following Lifestyle and Holidays investment properties:

- Gosford City Council for the land and facilities of Ettalong Beach
- Crown leases for the land of One Mile Beach
- Crown lease for the land of Big 4 Broulee Beach
- Crown lease for the land of South West Rocks

The leases are long-term in nature and range between 8 years to perpetuity.

#### *Minimum lease payments – excluding perpetual lease*

	2018 \$'000	2017 \$'000
<b>Minimum lease payments:</b>		
Within one year	526	518
Later than one year but not later than five years	2,185	2,152
Later than five years	3,456	4,014
Total minimum lease payments	<b>6,167</b>	<b>6,684</b>
Future finance charges	(1,481)	(1,718)
<b>Present value of minimum lease payments</b>	<b>4,686</b>	<b>4,966</b>
<b>Present value of minimum lease payments:</b>		
Within one year	501	493
Later than one year but not later than five years	1,865	1,837
Later than five years	2,320	2,636
	<b>4,686</b>	<b>4,966</b>

#### Minimum lease payments – perpetual lease:

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

### 17. RETIREMENT VILLAGE RESIDENT LOANS

	2018 \$'000	2017 \$'000
<b>(a) Summary of carrying amounts</b>		
Gross resident loans	9,880	30,155
Accrued deferred management fee	(1,674)	(2,954)
<b>Net resident loans</b>	<b>8,206</b>	<b>27,201</b>
<b>(b) Movements in carrying amounts</b>		
<b>Carrying amount at beginning of year</b>	<b>27,201</b>	<b>207,483</b>
Accrued deferred management fee income	(636)	(1,825)
Deferred management fee cash collected	334	465
Proceeds from resident loans	594	3,411
Repayment of resident loans	(767)	(2,191)
Transfer to liabilities held for sale	(3,875)	-
Disposal of villages	(14,127)	(180,283)
Other	(518)	141
<b>Carrying amount at end of year</b>	<b>8,206</b>	<b>27,201</b>

Fair value hierarchy disclosures for retirement village resident loans have been provided in Note 26(b).

## Notes to the Financial Statements (continued)

Ingenia Communities Holdings Limited

For the year ended 30 June 2018

### 18. ISSUED SECURITIES

	2018 \$'000	2017 \$'000
<b>(a) Carrying values</b>		
<b>Balance at beginning of year</b>	<b>809,836</b>	<b>723,383</b>
Issued during the year:		
Dividend Reinvestment Plan (DRP)	4,407	5,517
Performance Quantum Rights (PQR)	-	1,158
Institutional Placement and Rights issue	-	74,045
Security Purchase Plan	-	8,162
Short-Term Incentive Plan	-	238
Institutional placement and rights issue costs	-	(2,667)
<b>Balance at end of year</b>	<b>814,243</b>	<b>809,836</b>

#### The closing balance is attributable to the security holders of:

Ingenia Communities Holding Limited	11,216	11,131
Ingenia Communities Fund	759,337	755,570
Ingenia Communities Management Trust	43,690	43,135
	<b>814,243</b>	<b>809,836</b>

	2018 Thousands	2017 Thousands
<b>(b) Number of issued securities</b>		
<b>At beginning of year</b>	<b>206,382</b>	<b>172,155</b>
Issued during the year:		
Dividend Reinvestment Plan (DRP)	1,710	2,049
Performance Quantum Rights	-	599
Security Purchase Plan	-	3,023
Short-Term Incentive Plan	-	77
Institutional placement and rights issue	-	28,479
<b>At end of year</b>	<b>208,092</b>	<b>206,382</b>

#### (c) Term of securities

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

### 19. RESERVES

	2018 \$'000	2017 \$'000
<b>Share-based payment reserve</b>		
<b>Balance at beginning of year</b>	<b>1,074</b>	<b>1,810</b>
Granting of securities	(341)	(1,367)
Lapsed rights	(270)	-
Share-based payment expense	930	631
<b>Balance at end of year</b>	<b>1,393</b>	<b>1,074</b>

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

# Notes to the Financial Statements (continued)

Ingenia Communities Holdings Limited

For the year ended 30 June 2018

## 20. ACCUMULATED LOSSES

	2018 \$'000	2017 \$'000
<b>Balance at beginning of year</b>	<b>(295,178)</b>	<b>(303,592)</b>
Net profit for the year	34,243	26,408
Distributions	(21,098)	(17,994)
Lapsed rights	270	-
<b>Balance at end of year</b>	<b>(281,763)</b>	<b>(295,178)</b>
<b>The closing balance is attributable to the security holders of:</b>		
Ingenia Communities Holding Limited	(1,782)	(1,711)
Ingenia Communities Fund	(309,538)	(313,899)
Ingenia Communities Management Trust	29,557	20,432
	<b>(281,763)</b>	<b>(295,178)</b>

## 21. COMMITMENTS

### (a) Capital commitments

There were commitments for capital expenditure on investment properties and inventories contracted but not provided for at reporting date of \$16,785,083 (30 June 2017: \$805,725).

### (b) Operating lease commitments

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

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

	2018 \$'000	2017 \$'000
Within one year	607	502
Later than one year but not later than five years	1,795	990
	<b>2,402</b>	<b>1,492</b>

### (c) Finance lease commitments

Refer to Note 16(c) for future minimum lease payments payable and the present value of minimum lease payments payable at reporting date for the finance leases relating to investment property.

## 22. CONTINGENT LIABILITIES

There are no known contingent liabilities other than the bank guarantees totalling \$11.4 million provided for under the \$350.0 million bank facility. Bank guarantees primarily relate to the Responsible Entity's AFSL capital requirements (\$10.0 million).

## 23. SHARE BASED PAYMENT TRANSACTIONS

The Group's current Rights Plan provides for the issuance of rights to eligible employees, which upon a determination by the Board that the performance conditions attached to the rights have been met, result in the issue of stapled securities in the Group for each right. The Rights Plan was approved at the 12 November 2014 Annual General Meeting and contains the following:

### (a) Short-Term Incentive Plan (STIP)

STIP performance rights are awarded to eligible employees whose achievements, behaviour, and focus meet the Group's business plan and individual Key Performance Indicators (KPIs) measured over the financial year. STIP rights are subject to a one year vesting deferral period from the issue date and allow for certain lapsing conditions within the deferral period, should certain conditions occur. Under the FY18 Rights Plan, 33% of the maximum STI for the CEO and 50% for the CFO and COO will be paid in cash, with the balance being a deferred equity element.

The deferred expense for conditional STIP rights recognised for the period is \$489,187 (2017: \$321,004) and is based on an estimate of the Group's and individual employee's current period performance. The total value of STIP rights is subject to adjustment up until the final full-year audited result is known and KPIs reliably measured, being 1 October 2018.

# Notes to the Financial Statements (continued)

Ingenia Communities Holdings Limited

For the year ended 30 June 2018

## 23. SHARE BASED PAYMENT TRANSACTIONS (CONTINUED)

### (b) Long-Term Incentive Plan (LTIP)

LTIP performance rights are granted to individuals to align their focus to increase alignment with security holder's interests.

The FY18 LTIP Rights are subject to the following LTIP Performance Conditions:

- 40% based on Relative Total Shareholder Return (Relative TSR);
- 30% based on Return on Equity (ROE); and
- 30% based on Earnings before Interest and Tax (EBIT) Compound Annual Growth Rate (CAGR).

TSR is benchmarked against the ASX 300 Industrials Index, whilst ROE and EBIT CAGR is benchmarked against internal targets. The number of LTIP rights that will vest depends on the TSR, ROE and EBIT CAGR achieved and is also conditional on the eligible employee being employed by the Group at the relevant vesting date.

One right equates to one security in the Group. Movements in rights during the year were as follows:

	2018 Thousands	2017 Thousands
<b>STIPs</b>		
<b>Outstanding at beginning of year</b>	<b>123</b>	<b>77</b>
Vested during the year <sup>(1)</sup>	(123)	(77)
Granted during the year	146	123
<b>Outstanding at end of year</b>	<b>146</b>	<b>123</b>
Weighted average remaining life of outstanding rights (years)	0.3	0.3
<b>LTIPs</b>		
<b>Outstanding at beginning of year</b>	<b>699</b>	<b>451</b>
Lapsed during the year <sup>(2)</sup>	(204)	-
Granted during the year	494	248
<b>Outstanding at end of year</b>	<b>989</b>	<b>699</b>
Weighted average remaining life of outstanding rights (years)	1.3	1.3
<b>PQRs<sup>(3)</sup></b>		
<b>Outstanding at beginning of year</b>	-	<b>619</b>
Converted to fully paid stapled securities	-	(619)
Granted during the year	-	-
<b>Outstanding at end of year</b>	-	-
Weighted average remaining life of outstanding rights (years)	-	-

(1) The Group procured the transfer of stapled securities with respect to STIPs that vested during FY18. The STIPs that vested in FY17 were converted to fully paid securities.

(2) 204,453 LTIPs lapsed during the year.

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

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

	01-Oct-17	14-Nov-17
Grant Date		
Security price at grant date	\$2.57	\$2.68
30 day Volume Weighted Average Price (VWAP) at start of performance period	\$2.56	\$2.65
Expected remaining life at grant date	3.0	2.9
Risk-free interest rate at grant date	2.12%	1.98%
Distribution yield	4.44%	4.44%
LTIP fair value	\$1.17	\$1.22

The fair value of LTIPs is recognised as an employee benefit expense with a corresponding increase in reserves. The fair value is expensed on a straight-line basis over the vesting period. The total LTIP expense recognised for the financial year was \$433,430 (2017: \$338,783).

# Notes to the Financial Statements (continued)

Ingenia Communities Holdings Limited

For the year ended 30 June 2018

## 24. CAPITAL MANAGEMENT

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

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

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

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

One measure of the Group's capital position is through the Loan to Value Ratio (LVR) which is a key covenant under the Group's \$350.0 million common terms debt facilities. LVR is calculated as the sum of bank debt, bank guarantees, finance leases, and interest rate swaps, less cash at bank, as a percentage of the value of properties pledged as security. The Group's strategy is to maintain an LVR range of 30-40%. As at 30 June 2018, LVR is 32.6% compared to 27.7% at 30 June 2017.

In addition the Group also monitors Interest Cover Ratio as defined under the common terms of the debt facilities. At 30 June 2018, the Total Interest Cover Ratio was 5.53x (2017: 5.36x) and the Core Interest Cover Ratio was 3.19x (2017: 3.52x).

## 25. FINANCIAL INSTRUMENTS

### (a) Introduction

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

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

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



# Notes to the Financial Statements (continued)

Ingenia Communities Holdings Limited

For the year ended 30 June 2018

## 25. FINANCIAL INSTRUMENTS (CONTINUED)

### (b) Interest rate risk

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

The Group manages the risk of changes in market interest rates by maintaining an appropriate mix of fixed and floating rate borrowings. Fixed rate debt is achieved either through fixed rate debt funding or through derivative financial instruments permitted under the Investment, Derivatives, and Borrowing policy.

At 30 June 2018, after taking into account the effect of interest rate swaps, approximately 21% of the Group's borrowings are at a fixed rate of interest (2017: 29%). Further, the Group has entered into an interest rate collars to provide further interest rate protection.

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

### (c) Interest rate risk exposure

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

2018 \$'000	Fixed interest maturing in:				Total
	Floating interest rate	Less than 1 year	1 to 5 years	More than 5 years	
<b>Financial assets</b>					
Cash at bank	14,450	-	-	-	14,450
<b>Financial liabilities</b>					
Bank debt	228,999	-	-	-	228,999
Finance leases (excluding perpetual lease)	-	501	1,865	2,320	4,686
Interest rate swaps; Group pays fixed rate	(48,000)	28,000	20,000	-	-
<b>2017 \$'000</b>					
<b>Financial assets</b>					
Cash at bank	9,645	-	-	-	9,645
<b>Financial liabilities</b>					
Bank debt	166,464	-	-	-	166,464
Finance leases (excluding perpetual lease)	-	493	1,837	2,636	4,966
Interest rate swaps; Group pays fixed rate	(48,000)	-	48,000	-	-

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

# Notes to the Financial Statements (continued)

Ingenia Communities Holdings Limited

For the year ended 30 June 2018

## 25. FINANCIAL INSTRUMENTS (CONTINUED)

### (d) Interest rate sensitivity analysis

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

	Effect on profit after tax higher/(lower)	
	2018 \$'000	2017 \$'000
<b>Increase in average interest rates of 100 bps:</b>		
Variable interest rate bank debt (AUD denominated)	(2,290)	(1,665)
Interest rate swaps (AUD denominated)	857	1,084
<b>Decrease in average interest rates of 100 bps:</b>		
Variable interest rate bank debt (AUD denominated)	2,290	1,665
Interest rate swaps (AUD denominated)	(1,465)	(1,366)

### (e) Foreign exchange risk

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

### (f) Net foreign currency exposure

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

	Net foreign currency assets	
	2018 \$'000	2017 \$'000
Net foreign currency exposure:		
United States dollars	2,054	2,054
New Zealand dollars	269	254

### (g) Net foreign currency sensitivity analysis

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

#### i. Effect of appreciation in Australian dollar of 10%:

	Effect on profit after tax higher/(lower)	
	2018 \$'000	2017 \$'000
Foreign exchange risk exposures denominated in:		
United States dollars	(187)	(187)
New Zealand dollars	(24)	(23)

# Notes to the Financial Statements (continued)

Ingenia Communities Holdings Limited

For the year ended 30 June 2018

## 25. FINANCIAL INSTRUMENTS (CONTINUED)

### (g) Net foreign currency sensitivity analysis (continued)

#### ii. Effect of depreciation in Australian dollar of 10%:

	Effect on profit after tax higher/(lower)	
	2018 \$'000	2017 \$'000
Foreign exchange risk exposures denominated in:		
United States dollars	228	228
New Zealand dollars	30	28

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

#### (h) Credit risk

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

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

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

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

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

Credit risk also arises from deposits placed with financial institutions and derivatives contracts that may have a positive value to the Group. The Group's Investment, Derivatives, and Borrowing policy sets target limits for credit risk exposure with financial institutions and minimum counterparty credit ratings.

Counterparty exposure is measured as the aggregate of all obligations of any single legal entity or economic entity to the Group, after allowing for appropriate set offs which are legally enforceable.

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

#### (i) Liquidity risk

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

# Notes to the Financial Statements (continued)

Ingenia Communities Holdings Limited

For the year ended 30 June 2018

## 25. FINANCIAL INSTRUMENTS (CONTINUED)

### (i) Liquidity risk (continued)

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

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

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

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

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

	Less than 1 year \$'000	1 to 5 years \$'000	More than 5 years \$'000	Total \$'000
<b>2018</b>				
Trade and other payables	37,546	83	-	37,629
Retirement village residents loans	8,206	-	-	8,206
Borrowings <sup>(1)</sup>	10,177	258,783	-	268,960
Provisions	1,770	529	-	2,299
Finance leases (excluding perpetual lease)	526	2,185	3,456	6,167
Finance lease (perpetual lease) <sup>(2)</sup>	121	483	-	604
	<b>58,346</b>	<b>262,063</b>	<b>3,456</b>	<b>323,865</b>
	Less than 1 year \$'000	1 to 5 years \$'000	More than 5 years \$'000	Total \$'000
<b>2017</b>				
Trade and other payables	25,983	168	-	26,151
Retirement village residents loans	27,201	-	-	27,201
Borrowings <sup>(1)</sup>	7,435	187,635	-	195,070
Provisions	1,480	344	-	1,824
Finance leases (excluding perpetual lease)	518	2,152	4,014	6,684
Finance lease (perpetual lease) <sup>(2)</sup>	121	483	-	604
	<b>62,738</b>	<b>190,782</b>	<b>4,014</b>	<b>257,534</b>

(1) The balance above will not agree to the balance sheet as it includes the implied interest component.

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

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

	Less than 1 year \$'000	1 to 5 years \$'000	More than 5 years \$'000	Total \$'000
<b>2018</b>				
<b>Liabilities</b>				
Derivative liabilities - net settled	73	65	-	138
<b>2017</b>				
<b>Liabilities</b>				
Derivative liabilities - net settled	221	61	-	282

# Notes to the Financial Statements (continued)

Ingenia Communities Holdings Limited

For the year ended 30 June 2018

## 25. FINANCIAL INSTRUMENTS (CONTINUED)

### (j) Other Financial Instrument Risk

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

	Effect on profit after tax higher/(lower)	
	2018 \$'000	2017 \$'000
Increase in market prices of investment properties of 10%	(988)	(3,016)
Decrease in market prices of investment properties of 10%	988	3,016

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

### (k) Fair Value

The Group uses the following fair value measurement hierarchy:

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

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

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

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

## Notes to the Financial Statements (continued)

Ingenia Communities Holdings Limited

For the year ended 30 June 2018

### 25. FINANCIAL INSTRUMENTS (CONTINUED)

#### (k) Fair Value (continued)

Other financial liabilities relates to ongoing obligations for the Latitude One investment property and is linked to the underlying property value. The associated financial liability will move in line with the fair value of the property.

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

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

### 26. FAIR VALUE MEASUREMENT

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

#### (a) Assets measured at fair value

	Date of valuation	Total \$'000	Fair value measurement using:		
			Quoted prices in active markets (Level 1) \$'000	Significant observable inputs (Level 2) \$'000	Significant unobservable inputs (Level 3) \$'000
<b>2018</b>					
Investment properties	30-June-18 Refer Note 11(a)	730,437	-	-	730,437
Assets held for sale - investment property	30-Jun-18 Refer Note 10(a)	28,675	-	-	28,675
Other financial assets	30-June-18	2,263	-	-	2,263
<b>2017</b>					
Investment properties	30-Jun-17 Refer Note 11(a)	693,473	-	-	693,473
Other financial assets	30-Jun-17	2,263	-	-	2,263

#### (b) Liabilities measured at fair value

	Date of valuation	Total \$'000	Fair value measurement using:		
			Quoted prices in active markets (Level 1) \$'000	Significant observable inputs (Level 2) \$'000	Significant unobservable inputs (Level 3) \$'000
<b>2018</b>					
Retirement village resident loans	30-June-18 Refer Note 17(a)	8,206	-	-	8,206
Liabilities held for sale	30-Jun-18 Refer Note 10(b)	3,875	-	-	3,875
Other financial liabilities	30-June-18	6,500	-	-	6,500
Derivatives	30-June-18	138	-	138	-
<b>2017</b>					
Retirement village resident loans	30-Jun-17 Refer Note 17(a)	27,201	-	-	27,201
Other financial liabilities	30-Jun-17	6,136	-	-	6,136
Derivatives	30-Jun-17	282	-	282	-

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

## Notes to the Financial Statements (continued)

Ingenia Communities Holdings Limited

For the year ended 30 June 2018

### 27. AUDITOR'S REMUNERATION

	2018	2017
	\$	\$
Amounts received or receivable by EY for:		
Audit or review of the financial reports	470,089	572,788
Other audit and assurance related services	39,914	58,528
Non audit related services	-	13,000
	<b>510,003</b>	<b>644,316</b>

### 28. RELATED PARTIES

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

	2018	2017
	\$	\$
Directors fees	599,750	554,750
Salaries and other short-term benefits	1,362,798	1,151,166
Short-term incentives (payable in cash)	397,294	373,819
Superannuation benefits	60,147	53,942
Share-based payments	664,769	593,773
	<b>3,084,758</b>	<b>2,727,450</b>

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

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

Issue date	Right Type	Expiry date	Number outstanding	
			2018	2017
FY15	LTIP	FY18	-	163,829
FY16	LTIP	FY19	148,196	173,870
FY16	STIP	FY18	-	122,850
FY17	LTIP	FY20	148,681	173,161
FY17	STIP	FY19	129,623	-
FY18	LTIP	FY21	295,928	-
			<b>722,428</b>	<b>633,710</b>

### 29. COMPANY FINANCIAL INFORMATION

Summary financial information about the Company is:

	2018	2017
	\$'000	\$'000
Current assets	78	106
Total assets	11,602	11,184
Current liabilities	775	690
Total liabilities	775	690
<b>Net assets</b>	<b>10,827</b>	<b>10,494</b>
Security holders' equity		
Issued securities	11,216	11,131
Reserves	1,393	1,074
Accumulated losses	(1,782)	(1,711)
<b>Total security holders' equity</b>	<b>10,827</b>	<b>10,494</b>
Loss from continuing operations	(341)	(446)
<b>Net loss attributable to security holders</b>	<b>(341)</b>	<b>(446)</b>
<b>Total comprehensive income</b>	<b>(341)</b>	<b>(446)</b>

## Notes to the Financial Statements (continued)

Ingenia Communities Holdings Limited

For the year ended 30 June 2018

### 30. SUBSIDIARIES

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

	Country of residence	Ownership interest	
		2018 %	2017 %
Bridge Street Trust	Australia	100	100
Browns Plains Road Trust	Australia	100	100
Casuarina Road Trust	Australia	100	100
Edinburgh Drive Trust	Australia	100	100
Garden Villages Management Trust	Australia	100	100
INA Community Living Lynbrook Trust	Australia	100	100
INA Community Living Subsidiary Trust	Australia	100	100
INA Garden Villages Pty Ltd	Australia	100	100
INA Kiwi Communities Pty Ltd	Australia	100	100
INA Kiwi Communities Subsidiary Trust No. 1	Australia	100	100
INA Management Pty Ltd	Australia	100	100
INA Settlers Co Pty Ltd	Australia	100	100
INA Sunny Communities Pty Ltd	Australia	100	100
INA Sunny Trust	Australia	100	100
Ingenia Communities RE Limited	Australia	100	100
Jefferis Street Trust	Australia	100	100
Lovett Street Trust	Australia	100	100
Settlers Operations Trust	Australia	100	100
Settlers Subsidiary Trust	Australia	100	100
SunnyCove Gladstone Unit Trust	Australia	100	100
SunnyCove Rockhampton Unit Trust	Australia	100	100
Ridge Estate Trust	Australia	100	100
Taylor Street (2) Trust	Australia	100	100
INA Subsidiary Trust No.1	Australia	100	100
INA Subsidiary Trust No.3	Australia	100	100
INA Operations Pty Ltd	Australia	100	100
INA Operations Trust No.1	Australia	100	100
INA Operations Trust No.2	Australia	100	100
INA Operations Trust No.3	Australia	100	100
INA Operations Trust No.4	Australia	100	100
INA Operations Trust No.6	Australia	100	100
INA Operations Trust No.7	Australia	100	100
INA Operations Trust No.8	Australia	100	100
INA Operations Trust No.9	Australia	100	100
Settlers Management Pty Ltd	Australia	100	100
INA Latitude One Pty Ltd	Australia	100	100
INA Latitude One Development Pty Ltd	Australia	100	100
INA Soldiers Point Pty Ltd	Australia	100	100
INA Operations No.3 Pty Limited	Australia	100	100
IGC NZ Student Holdings Ltd	New Zealand	100	100
INA NZ Subsidiary Unit Trust No 1	New Zealand	100	100
INA Community Living LLC (formerly ING Community Living LLC)	USA	100	100



## Notes to the Financial Statements (continued)

Ingenia Communities Holdings Limited

For the year ended 30 June 2018

### 31. NOTES TO CASHFLOW STATEMENT

Reconciliation of profit to net cash flow from operating activities:

	2018	2017
	\$'000	\$'000
<b>Net profit for the year</b>	<b>34,243</b>	<b>26,408</b>
Adjustments for:		
Net loss on disposal of investment properties	1,016	8,438
Net loss/(gain) on change in fair value of:		
Investment properties	2,644	(12,372)
Other	(198)	120
Income tax expense	4,940	1,930
Depreciation and amortisation	1,167	830
Share-based payments expense	930	631
GST recoverable on investing activities	6,510	2,719
Finance costs	(2,767)	925
<b>Operating profit for the year before changes in working capital</b>	<b>48,485</b>	<b>29,629</b>
Changes in working capital:		
(Decrease)/increase in receivables	(44)	1,089
Increase in inventory	(8,631)	(3,932)
(Decrease)/increase in retirement village resident loans	(993)	1
Increase in other payables and provisions	8,413	3,470
<b>Net cash provided by operating activities</b>	<b>47,230</b>	<b>30,257</b>

### 32. SUBSEQUENT EVENTS

#### Final FY18 distribution

On 21 August 2018, the directors of the Group resolved to declare a final distribution of 5.65cps (2017: 5.1 cps) amounting to \$11.8 million to be paid at 14 September 2018. The distribution reinvestment plan will apply to the final distribution.

#### Acquisition of adjacent land

On 2 July 2018, the Group completed the acquisition of land adjacent to Ingenia Lifestyle Chambers Pines (Chambers Flat, QLD) for a purchase price of \$4.5 million.

#### Sale of Settlers Cessnock

On 6 July 2018, the Group completed the sale of Settlers Cessnock (Cessnock, NSW) for \$2.5 million (net of resident loans).

# Directors' Declaration

Ingenia Communities Holdings Limited  
For the year ended 30 June 2018

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

1. In the opinion of the directors:
  - a) The financial statements and notes of Ingenia Communities Holdings Limited for the financial year ended 30 June 2018 are in accordance with the *Corporations Act 2001*, including:
    - (i) giving a true and fair view of its financial position as at 30 June 2018 and of its performance for the year ended on that date; and
    - (ii) complying with Accounting Standards (including Australian Accounting Interpretations) and *Corporations Regulations 2001*; and
  - b) there are reasonable grounds to believe that Ingenia Communities Holdings Limited will be able to pay its debts as and when they become due and payable.
2. The financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1(b).
3. This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the *Corporations Act 2001*.

On-behalf of the board



Jim Hazel  
Chairman  
Sydney, 21 August 2018

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

## Report on the Audit of the Financial Report

### Opinion

We have audited the financial report of Ingenia Communities Holdings Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, 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 consolidated financial position of the Group as at 30 June 2018 and of its consolidated financial performance for the year ended on that date; 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

## 1. Valuation of Investment Property

### Why significant

Approximately 88% of the Group's total assets comprise investment properties. These assets are carried at fair value, which is assessed by the directors with reference to either external independent valuations or internal valuations, and is based on market conditions existing at reporting date.

This was considered a key audit matter as valuations contain a number of assumptions which are based on direct market comparisons, or estimates. Minor changes in certain assumptions can lead to significant changes in the valuation.

The Group has three categories of investment properties as disclosed in Note 11 to the financial report. Two of these categories are considered material and involve significant judgement.

- ▶ The Garden Villages portfolio consists of investment properties earning revenue predominantly from longer term rental agreements and the key judgements include capitalisation rates, discount rates, market and contractual rent and forecast occupancy levels.
- ▶ The Lifestyle & Holidays portfolio consists of investment properties earning revenue from a mix of longer term land rental agreements and short-term accommodation rental. In addition the group earns revenue from the sale of manufactured homes to residents of the properties.

### How our audit addressed the key audit matter

Our audit procedures included the following:

- ▶ We considered the competence, qualifications and objectivity of the external valuers and evaluated the suitability of their valuation scope and methodology for the financial report;
- ▶ We assessed the Group's internal valuation methodology and checked the mathematical accuracy of their valuation models. We also assessed the competence and qualifications of the internal valuer;
- ▶ We compared the property related data used as input for both the external and internal valuations against actual and budgeted property performance;
- ▶ We considered the key inputs and assumptions used in the valuations by comparing this information to external market data;
- ▶ Our real estate valuation specialists reviewed a sample of internal and external valuations to determine whether that the key judgements and methodology used were appropriate; and
- ▶ We assessed the appropriateness of the allocation of capital expenditure between investment property and inventory assets.

The key judgements for the longer term and short-term rental include capitalisation rates, market and contractual rents, forecast short-term and residential occupancy levels, historical transactions and remaining development potential for vacant land. In assessing the development potential, additional key judgments include future new homes sales prices, estimated capital expenditure and allocation between investment property and inventory, discount rates, projected property growth rates and operating profit margins.

## 2. Deferred tax assets

### Why significant

The Group has recorded net deferred tax assets of \$14.8m resulting from temporary differences and tax losses carried forward as disclosed in note 14 of the financial report. The Group recognises these deferred tax assets to the extent that it is probable that future taxable profits will allow the deferred tax assets to be recovered. The probability of recovery is impacted by uncertainties regarding the likely timing and level of future taxable profits and the forecasting of this included assumptions and judgements made by the Group.

### How our audit addressed the key audit matter

Our audit procedures included the following:

- ▶ We evaluated assumptions and judgements made by the Group to forecast future taxable profits to determine the likelihood that the losses will be recovered; and
- ▶ We assessed whether that information used to forecast future taxable profits was derived from the Group's business cash flow forecasts that have been subject to internal reviews and were approved by the Directors.

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

The directors are responsible for the other information. The other information comprises the information included in the Group's 2018 Annual Report other than the financial report and our auditor's report thereon. We obtained the Directors' Report that is to be included in the Annual Report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will 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 on the other information obtained prior to the date of this auditor's report, 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 Group's ability to continue as a going concern, disclosing, as applicable, matters relating 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 have 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.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment 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.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year 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 Audit of the Remuneration Report

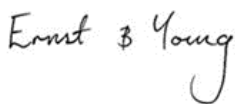
### Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 13 to 27 of the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Ingenia Communities Holdings Limited for the year ended 30 June 2018, 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.



Ernst & Young



Megan Wilson  
Partner  
Sydney  
21 August 2018

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

**FINANCIAL REPORT  
YEAR ENDED 30 JUNE 2018**

[www.ingeniacommunities.com.au](http://www.ingeniacommunities.com.au)  
Registered Office: Level 9, 115 Pitt Street, Sydney NSW 2000

# Annual Report

Ingenia Communities Fund and Ingenia Communities Management Trust

For the year ended 30 June 2018

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# Directors' Report

Ingenia Communities Fund and Ingenia Communities Management Trust  
For the year ended 30 June 2018

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

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

The Directors' Report is a combined Directors' Report that covers the Trusts for the year ended 30 June 2018 (the "current period").

## DIRECTORS

The Directors of the Responsible Entity at any time during or since the end of the current period were:

### Non-Executive Directors (NEDs)

Jim Hazel (Chairman)  
Robert Morrison (Deputy Chairman)  
Amanda Heyworth  
Valerie Lyons  
Andrew McEvoy (appointed 1 December 2017)  
Philip Clark AM (resigned 4 December 2017)

### Executive Directors

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

## OPERATING AND FINANCIAL REVIEW

### ICF and ICMT overview

ICF and ICMT are two of the entities forming part of Ingenia Communities Group, which is a triple staple structure traded on the ASX.

The Group is an active owner, manager and developer of a diversified portfolio of retirement and holiday communities across Australia. Its real estate assets at 30 June 2018 were valued at \$730.4 million (net of finance leases and resident loans), comprising 31 lifestyle and holiday communities (Ingenia Lifestyle and Holidays), 26 rental communities (Ingenia Gardens) and one deferred management fee retirement village asset (Ingenia Settlers). The Group is in the ASX 300 with a market capitalisation of approximately \$640.9 million at 30 June 2018.

The Group's vision is to create Australia's best lifestyle communities offering affordable permanent and tourism rental accommodation with a focus on the seniors demographic. The Board is committed to delivering sustainable long term earnings per share (EPS) growth to security holders while providing a supportive community environment to permanent residents and holidaymakers.

## Our Values

At Ingenia we build community using a foundation of integrity and respect, creating a place where people have a sense of connection and belonging. We strive for continuous improvement in our resident, guest and visitor service, to ensure that they receive the best possible support, attention and experience every day. Whether it's time to play, stay, rest or renew, we deliver freedom of choice with a range of lifestyle and holiday options.



# Directors' Report (continued)

Ingenia Communities Fund and Ingenia Communities Management Trust  
For the year ended 30 June 2018

## Strategy

The strategies of ICF and ICMT are aligned with the Group's strategy to grow recurring revenue streams, develop lifestyle communities and enhance the operational performance of its investment properties.

Using a disciplined investment framework, the Group plans to continue growing its lifestyle communities business in metropolitan and coastal locations, through the build out of its development pipeline, targeted acquisitions, reinvestment and divestment of non-core assets.

The key immediate business priorities of the Trusts are:

- Grow permanent and tourism rental sites through development and investment in new cabins at existing properties;
- Grow rental income at a rate above CPI;
- Deliver development projects on time and within budget;
- Achieve at least 350 new home settlements in the 2019 financial year;
- Continue to focus on metropolitan and coastal locations through portfolio remixing, development and acquisitions;
- Improve performance of existing assets through repositioning, driving revenue growth and leveraging the operating and sales platform;
- Expand development margins through innovative home designs and building efficiencies; and
- Continue the divestment of non-core assets to support the Groups capital recycling strategy.

## FY18 financial results

The financial results for Ingenia Communities Group are disclosed in the results of Ingenia Communities Holdings Limited (ICH), which does not form part of these accounts, but is relevant as ICH is stapled with ICF and ICMT.

The year to 30 June 2018 has delivered a statutory profit of \$34.2 million, which is up 30% on the prior year. Underlying Profit from continuing operations was \$36.8 million which represents an increase of \$13.3 million (56%) on the prior year.

The Group developed and sold 287 turnkey homes (FY17: 211 homes) and grew rental income from permanent, annual and tourism clients to \$61.5 million (FY17: \$44.5 million).

The underlying result is underpinned by a significantly higher EBIT contribution from the Ingenia Lifestyle and Holidays segment up 51% from the prior year. The statutory result reflects the reduction in fair value of investment property due to the increasing number of home settlements.

Operating cash flow for the year was \$47.2 million, up 56% from the prior year, reflecting growth in recurring rental income and new lifestyle home settlements growing by 36% to 287.

Ingenia grew its investment in lifestyle communities during the year, with a continued focus on progressing the development pipeline to enable further growth in its recurring rental base through the expansion and creation of high quality communities.

The Group successfully undertook the divestment of eight non-core assets to support the Group's capital recycling strategy. During 2018 Ingenia divested the Tasmanian Ingenia Gardens portfolio of five properties, two Lifestyle Communities and one Settlers village. At 30 June 2018 the Group had also contracted the sale of a further Settlers Village which settled in July 2018 and contracted (subject to conditions) the sale of the Rouse Hill lifestyle community.

## Key metrics

- Net profit for the year for ICF \$25.5 million (FY17: \$2.7 million loss).
- Net profit for the year for ICMT of \$9.1 million (FY17: \$29.6 million profit).
- Full year distributions of 10.75 cents per unit by ICF, nil from ICMT.

## Directors' Report (continued)

Ingenia Communities Fund and Ingenia Communities Management Trust  
For the year ended 30 June 2018

### Capital management

The Trusts adopt a prudent and considered approach to capital management. During the year, the Group refinanced a tranche of its common terms facilities, increasing the total Group facility limit by \$50.0 million. The refinance provided increased tenor at a lower average margin. The weighted average term to maturity of Ingenia's debt at 30 June 2018 is 4.3 years.

As at 30 June 2018, the common terms facilities are drawn to \$229.0 million, which represents a loan to value ratio ("LVR") of 32.6% (inclusive of bank guarantees). The LVR is at the lower end of our target range of 30-40%.

The Group has interest rate derivatives in place covering 41% of drawn debt at 30 June 2018.

In line with the Groups strategy, the Trusts intend to fund near term growth through internal cash flows, divestment of non-core assets and drawing on committed debt facilities. Ingenia continues to explore the concept of capital partnerships to accelerate the development of new lifestyle communities.

### Distributions

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

- On 20 February 2018, the Directors declared an interim distribution for 2018 of 5.1cps, amounting to \$10.6 million which was paid on 14 March 2018. The distribution was 21.3% tax deferred and the distribution reinvestment plan was in place.
- On 21 August 2018, the Directors declared a final distribution of 5.65 cps amounting to \$11.8 million, to be paid on 14 September 2018. The final distribution is estimated to be fully taxable and the distribution reinvestment plan will apply to the distribution.

During FY18 the ICF elected to enter the Attribution Managed Investment Trust ("AMIT") regime. Security holders will receive their first Attribution Managed Investment Trust Member Annual ("AMMA") statement in September 2018.

### FY19 outlook

The Group is well positioned to continue growing its lifestyle communities business in FY19 with a sector leading development pipeline and debt capacity in place to facilitate the accelerated growth in settlement volumes expected as further projects are launched.

Priorities in existing lifestyle and holiday communities are to make appropriate investment in key communities to grow revenue through investing in new cabins and facilities across the rental and tourism business.

Ingenia Gardens remains a key contributor to the Group's rental cash flow. Ingenia's priority is to continue to grow occupancy and rents while delivering the best possible support to our residents.

The divestments made in the second half of FY18 and the divestments contracted at 30 June 2018 will temporarily impact the FY19 result due to lost earnings, while the capital proceeds are reinvested into development to grow long term recurring revenue streams in key locations.

The Trusts will continue to regularly assess the performance of its existing assets and market opportunities, and make divestments and acquisitions where superior longer term returns are available.

### SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Changes in the state of affairs during the current period are set out in the various reports in the year-end financial report. Refer to Note 9 for investment properties acquired or disposed of during the year and Note 16 for issued units.

# Directors' Report (continued)

Ingenia Communities Fund and Ingenia Communities Management Trust  
For the year ended 30 June 2018

## EVENTS SUBSEQUENT TO REPORTING DATE

### Final FY18 distribution

On 21 August 2018, the directors of the Group resolved to declare a final distribution of 5.65cps (2017: 5.1 cps) amounting to \$11.8 million to be paid at 14 September 2018. The distribution reinvestment plan will apply to the final distribution.

### Acquisition of adjacent land

On 2 July 2018, the Group completed the acquisition of land adjacent to Ingenia Lifestyle Chambers Pines (Chambers Flat, QLD) for a purchase price of \$4.5 million.

### Sale of Settlers Cessnock

On 6 July 2018, the Group completed the sale of Settlers Cessnock (Cessnock, NSW) for \$2.5 million (net of resident loans).

## LIKELY DEVELOPMENTS

The Trusts will continue to pursue strategies aimed at growing its cash earnings, profitability and market share within the senior's rental property and tourism industry during the next financial year, with a continuing focus on the development of lifestyle communities. The Trusts will continue to pursue the divestment of non-core assets to support the Group's capital recycling strategy.

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

## ENVIRONMENTAL REGULATION

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

## GROUP INDEMNITIES

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

## INDEMNIFICATION OF AUDITORS

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

## INTERESTS OF DIRECTORS OF THE RESPONSIBLE ENTITY

Units in each Trust held by directors of the Responsible Entity or associates of the directors as at 30 June 2018 were:

	Issued stapled securities	Rights
Jim Hazel	344,710	-
Amanda Heyworth	122,485	-
Robert Morrison	125,638	-
Valerie Lyons	27,957	-
Andrew McEvoy	14,815	-
Simon Owen	1,280,528	551,874

## OTHER INFORMATION

Fees paid to the Responsible Entity and its associates, and the number of units in each Trust held by the Responsible Entity and its associates as at the end of the financial year are set out in Note 24 in the financial report.

## Directors' Report (continued)

Ingenia Communities Fund and Ingenia Communities Management Trust  
For the year ended 30 June 2018

### AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 7.

### NON-AUDIT SERVICES

During the year, non-audit services were provided by the Group's auditor, Ernst & Young Australia. The directors are satisfied that the provision of the non-audit services is compatible with, and did not compromise, the independence for auditors imposed by the Corporations Act 2001 for the following reasons:

- the non-audit services were for taxation, regulatory and assurance related work, and none of this work created any conflicts with the auditor's statutory responsibilities;
- the Audit and Risk Committee resolved that the provision of non-audit services during the financial year by EY as auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001;
- the Board's own review conducted in conjunction with the Audit and Risk Committee, having regard to the Board policy set out in this Report, concluded that it is satisfied the non-audit services did not impact the integrity and objectivity of the auditors; and
- the declaration of independence provided by EY, as auditor of Ingenia.

Refer to Note 23 of the financial statements for details on the audit and non-audit fees.

### ROUNDING OF AMOUNTS

The Trusts are of the kind referred to in ASIC Instrument 2016/191, and in accordance with that Class Order, amounts in the financial report and Director's Report have been rounded to the nearest thousand dollars, unless otherwise stated.

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



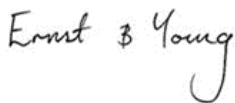
Jim Hazel  
Chairman  
Sydney, 21 August 2018

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

As lead auditor for the audit of Ingenia Communities Fund and its controlled entities and Ingenia Communities Management Trust and its controlled entities for the financial year ended 30 June 2018, I declare to the best of my knowledge and belief, there have been:

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

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



Ernst & Young



Megan Wilson  
Partner  
21 August 2018



# Consolidated Statement of Comprehensive Income

Ingenia Communities Fund and Ingenia Communities Management Trust

For the year ended 30 June 2018

	Note	ICF		ICMT	
		2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Rental income		10,628	9,101	86,520	69,976
Manufactured home sales		-	-	85,875	63,752
Service station revenue		-	-	7,356	7,284
Other revenue		-	-	9,709	8,872
<b>Revenue</b>		<b>10,628</b>	<b>9,101</b>	<b>189,460</b>	<b>149,884</b>
Property expenses		(785)	(877)	(36,640)	(32,155)
Cost of manufactured homes sold		-	-	(50,347)	(42,699)
Employee expenses		-	-	(37,807)	(30,451)
Administrative expenses		(347)	(310)	(4,582)	(3,779)
Operational, marketing and selling expenses		-	-	(6,825)	(4,849)
Service station expenses		-	-	(6,338)	(6,229)
Responsible entity fee and expenses	24(b)	(3,343)	(2,677)	(3,146)	(2,769)
Depreciation and amortisation expense	10(b), 11(b)	(26)	(24)	(912)	(650)
<b>Operating profit before interest and tax</b>		<b>6,127</b>	<b>5,213</b>	<b>42,863</b>	<b>26,303</b>
Net finance income/(expense)		19,670	13,821	(25,848)	(20,407)
<b>Operating profit before tax</b>		<b>25,797</b>	<b>19,034</b>	<b>17,015</b>	<b>5,896</b>
Net gain/(loss) on change in fair value of:					
Investment properties	9(b)	2,182	6,000	(4,826)	6,373
Other		181	(216)	436	96
Net (loss)/gain on disposal of investment properties		(2,702)	(27,556)	1,267	19,117
<b>Profit/(loss) before tax</b>		<b>25,458</b>	<b>(2,738)</b>	<b>13,892</b>	<b>31,482</b>
Income tax expense	5	-	-	(4,766)	(1,890)
<b>Net profit/(loss)</b>		<b>25,458</b>	<b>(2,738)</b>	<b>9,126</b>	<b>29,592</b>
<b>Total comprehensive income/(loss)</b>		<b>25,458</b>	<b>(2,738)</b>	<b>9,126</b>	<b>29,592</b>
<b>Profit/(loss) attributable to unit holders of:</b>					
Ingenia Communities Fund		25,458	(2,738)	-	-
Ingenia Communities Management Trust		-	-	9,126	29,592
		<b>25,458</b>	<b>(2,738)</b>	<b>9,126</b>	<b>29,592</b>
<b>Total comprehensive income/(loss) attributable to unit holders of:</b>					
Ingenia Communities Fund		25,458	(2,738)	-	-
Ingenia Communities Management Trust		-	-	9,126	29,592
		<b>25,458</b>	<b>(2,738)</b>	<b>9,126</b>	<b>29,592</b>
<b>Earnings per security:</b>		<b>Cents</b>	<b>Cents</b>	<b>Cents</b>	<b>Cents</b>
Basic earnings per unit	4	12.3	(1.5)	4.4	16.4
Diluted earnings per unit	4	12.2	(1.5)	4.4	16.4

# Consolidated Balance Sheet

Ingenia Communities Fund and Ingenia Communities Management Trust

As at 30 June 2018

	Note	ICF		ICMT	
		2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
<b>Current assets</b>					
Cash and cash equivalents		3,622	991	10,751	8,547
Trade and other receivables	6	372	719	7,271	5,708
Inventories	7	-	-	30,228	21,597
Income tax receivable		19	19	19	19
Assets held for sale	8(a)	-	-	28,675	-
<b>Total current assets</b>		<b>4,013</b>	<b>1,729</b>	<b>76,944</b>	<b>35,871</b>
<b>Non-current assets</b>					
Trade and other receivables	6	6,691	10,129	1,651	458
Receivable from related party	24(d)	524,363	441,244	-	-
Investment properties	9	143,561	154,556	586,876	538,918
Plant and equipment	10	57	73	3,699	1,991
Other financial assets		773	773	1,490	1,490
Intangibles	11	-	-	1,919	2,021
Deferred tax asset	12	-	-	455	5,233
<b>Total non-current assets</b>		<b>675,445</b>	<b>606,775</b>	<b>596,090</b>	<b>550,111</b>
<b>Total assets</b>		<b>679,458</b>	<b>608,504</b>	<b>673,034</b>	<b>585,982</b>
<b>Current liabilities</b>					
Trade and other payables	13	2,019	1,822	34,759	23,474
Borrowings	14	-	-	859	1,212
Retirement village resident loans	15	-	-	8,206	27,201
Employee liabilities		-	-	1,770	1,480
Derivatives and other financial instruments		73	221	-	-
Liabilities held for sale	8(b)	-	-	3,875	-
<b>Total current liabilities</b>		<b>2,092</b>	<b>2,043</b>	<b>49,469</b>	<b>53,367</b>
<b>Non-current liabilities</b>					
Other payables	13	-	-	83	167
Payable to related party	24(d)	-	-	534,537	449,907
Borrowings	14	227,502	164,729	9,369	13,194
Other financial liabilities		-	-	6,500	6,136
Employee liabilities		-	-	529	344
Derivatives and other financial instruments		65	61	-	-
<b>Total non-current liabilities</b>		<b>227,567</b>	<b>164,790</b>	<b>551,018</b>	<b>469,748</b>
<b>Total liabilities</b>		<b>229,659</b>	<b>166,833</b>	<b>600,487</b>	<b>523,115</b>
<b>Net assets</b>		<b>449,799</b>	<b>441,671</b>	<b>72,547</b>	<b>62,867</b>
<b>Equity</b>					
Issued units	16(a)	759,337	755,571	43,690	43,136
(Accumulated losses)/Retained earnings	17	(309,538)	(313,900)	29,557	20,431
<b>Unit holders interest</b>		<b>449,799</b>	<b>441,671</b>	<b>73,247</b>	<b>63,567</b>
Non-controlling interest		-	-	(700)	(700)
<b>Total equity</b>		<b>449,799</b>	<b>441,671</b>	<b>72,547</b>	<b>62,867</b>
Attributable to unit holders of:					
Ingenia Communities Fund		449,799	441,671	(700)	(700)
Ingenia Communities Management Trust		-	-	73,247	63,567
		<b>449,799</b>	<b>441,671</b>	<b>72,547</b>	<b>62,867</b>

# Consolidated Cash Flow Statement

Ingenia Communities Fund and Ingenia Communities Management Trust

For the year ended 30 June 2018

Note	ICF		ICMT	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
<b>Cash flows from operating activities</b>				
	-	-	102,061	82,706
	(502)	(77)	(84,121)	(58,523)
15(b)	-	-	594	3,411
15(b)	-	-	(767)	(2,191)
	-	-	94,439	63,376
	-	-	(59,806)	(47,575)
	-	-	8,091	7,014
	-	-	(7,134)	(6,615)
	40	157	53	27
	(8,975)	(5,803)	-	(353)
27	<b>(9,437)</b>	<b>(5,723)</b>	<b>53,410</b>	<b>41,277</b>
<b>Cash flows from investing activities</b>				
	(9)	-	(2,436)	(1,259)
	-	-	(331)	(284)
	-	-	(51,214)	(180,311)
	(6,805)	(3,829)	(59,276)	(23,361)
	17,854	-	14,888	41,297
	<b>11,040</b>	<b>(3,829)</b>	<b>(98,369)</b>	<b>(163,918)</b>
<b>Cash flows from financing activities</b>				
	-	78,226	-	8,937
	-	(4,472)	-	(299)
	-	-	(639)	(643)
	(16,690)	(17,952)	-	-
	(200)	(1,126)	-	-
	(44,617)	(119,879)	47,802	116,564
	120,223	181,364	-	-
	(57,688)	(114,000)	-	-
	<b>1,028</b>	<b>2,161</b>	<b>47,163</b>	<b>124,559</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>				
	<b>2,631</b>	<b>(7,391)</b>	<b>2,204</b>	<b>1,918</b>
	991	8,329	8,547	6,621
	-	53	-	8
	<b>3,622</b>	<b>991</b>	<b>10,751</b>	<b>8,547</b>

# Consolidated Statement of Changes in Equity

Ingenia Communities Fund and Ingenia Communities Management Trust

For the year ended 30 June 2018

		Attributable to unit holders				
		ICF				
	Note	Issued Capital \$'000	Retained Earnings \$'000	Total \$'000	Non- controlling interest \$'000	Total equity \$'000
<b>Carrying amount 1 July 2017</b>		<b>755,571</b>	<b>(313,900)</b>	<b>441,671</b>	-	<b>441,671</b>
Net profit		-	25,458	25,458	-	25,458
<b>Total comprehensive income</b>		<b>-</b>	<b>25,458</b>	<b>25,458</b>	<b>-</b>	<b>25,458</b>

*Transactions with unit holders in their capacity as unit holders:*

Issue of units	16	3,766	-	3,766	-	3,766
Payment of distributions to unit holders	17	-	(21,096)	(21,096)	-	(21,096)
<b>Carrying amount 30 June 2018</b>		<b>759,337</b>	<b>(309,538)</b>	<b>449,799</b>	<b>-</b>	<b>449,799</b>

<b>Carrying amount 1 July 2016</b>		<b>679,161</b>	<b>(293,168)</b>	<b>385,993</b>	-	<b>385,993</b>
Net loss		-	(2,738)	(2,738)	-	(2,738)
<b>Total comprehensive income</b>		<b>-</b>	<b>(2,738)</b>	<b>(2,738)</b>	<b>-</b>	<b>(2,738)</b>

*Transactions with unit holders in their capacity as unit holders:*

Issue of units	16	75,122	-	75,122	-	75,122
Payment of distributions to unit holders	17	-	(17,994)	(17,994)	-	(17,994)
Transfer from reserves of ICH	16	1,288	-	1,288	-	1,288
<b>Carrying amount 30 June 2017</b>		<b>755,571</b>	<b>(313,900)</b>	<b>441,671</b>	<b>-</b>	<b>441,671</b>

		Attributable to unit holders				
		ICMT				
	Note	Issued Capital \$'000	Retained Earnings \$'000	Total \$'000	Non- controlling interest \$'000	Total equity \$'000
<b>Carrying amount 1 July 2017</b>		<b>43,136</b>	<b>20,431</b>	<b>63,567</b>	<b>(700)</b>	<b>62,867</b>
Net profit		-	9,126	9,126	-	9,126
<b>Total comprehensive income</b>		<b>-</b>	<b>9,126</b>	<b>9,126</b>	<b>-</b>	<b>9,126</b>

*Transactions with unit holders in their capacity as unit holders:*

Issue of units	16	554	-	554	-	554
<b>Carrying amount 30 June 2018</b>		<b>43,690</b>	<b>29,557</b>	<b>73,247</b>	<b>(700)</b>	<b>72,547</b>

<b>Carrying amount 1 July 2016</b>		<b>34,019</b>	<b>(9,161)</b>	<b>24,858</b>	<b>(700)</b>	<b>24,158</b>
Net profit		-	29,592	29,592	-	29,592
<b>Total comprehensive income</b>		<b>-</b>	<b>29,592</b>	<b>29,592</b>	<b>-</b>	<b>29,592</b>

*Transactions with unit holders in their capacity as unit holders:*

Issue of units	16	9,049	-	9,049	-	9,049
Transfer from reserves of ICH	16	68	-	68	-	68
<b>Carrying amount 30 June 2017</b>		<b>43,136</b>	<b>20,431</b>	<b>63,567</b>	<b>(700)</b>	<b>62,867</b>

# Notes to the Financial Statements

Ingenia Communities Fund and Ingenia Communities Management Trust  
For the year ended 30 June 2018

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) The Trusts

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

The parent company of Ingenia Communities RE Limited is Ingenia Communities Holdings Limited (the Company). The shares of the Company are stapled with the units of the Trusts and trade on the Australian Securities Exchange (ASX) effectively as one security. In this report, the Company and the Trusts are referred to collectively as the Group.

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

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

The financial report as at and for the year ended 30 June 2018 was authorised for issue by the Directors on 21 August 2018.

### (b) Basis of preparation

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

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

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

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

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

Where appropriate, comparative amounts have been restated to ensure consistency of disclosure throughout the financial report.

### (c) Adoption of new and revised accounting standards

No new or revised standards and interpretations were issued by the AASB that are relevant to the Trusts during the period.

### (d) Principles of consolidation

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

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

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

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

# Notes to the Financial Statements (continued)

Ingenia Communities Fund and Ingenia Communities Management Trust

For the year ended 30 June 2018

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (e) Business combinations and goodwill

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

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

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

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

### (f) Assets held for sale

Components of the entity are classified as held for sale if their carrying value will be recovered principally through a sale transaction rather than through continuing use.

They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as investment property, which are carried at fair value.

The liabilities of an asset classified as held for sale are presented separately from other liabilities on the face of the balance sheet.

Details of assets and liabilities held for sale are given at Note 8.

### (g) Distributions

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

### (h) Foreign currency

*Functional and presentation currencies:*

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

*Translation foreign currency transactions:*

Transactions in foreign currency are initially recorded in the functional currency at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currency are retranslated at the rate of exchange prevailing at the balance date. All differences in the consolidated financial report are taken to the statement of comprehensive income.

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

### (i) Leases

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

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

# Notes to the Financial Statements (continued)

Ingenia Communities Fund and Ingenia Communities Management Trust

For the year ended 30 June 2018

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (i) Leases (continued)

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

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

### (j) Plant and equipment

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

### (k) Financial assets and liabilities

Current and non-current financial assets and liabilities within the scope of AASB 139 Financial Instruments: Recognition and Measurement are classified as; fair value through profit or loss; loans and receivables; held-to-maturity investments; or as available-for-sale. The Trusts determine the classification of their financial assets and liabilities at initial recognition with the classification depending on the purpose for which the asset or liability was acquired or issued.

Financial assets and liabilities are initially recognised at fair value, plus directly attributable transaction costs unless their classification is at fair value through profit or loss. They are subsequently measured at fair value or amortised cost using the effective interest method. Changes in fair value of available-for-sale financial assets are recorded directly in equity. Changes in fair values of financial assets and liabilities classified as at fair value through profit or loss are recorded in the statement of comprehensive income.

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

### (l) Impairment of non-financial assets

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

### (m) Cash and cash equivalents

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

### (n) Trade and other receivables

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

# Notes to the Financial Statements (continued)

Ingenia Communities Fund and Ingenia Communities Management Trust  
For the year ended 30 June 2018

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (o) Inventories

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

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

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

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

### (p) Derivative and financial instruments

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

### (q) Investment property

Land and buildings have the function of an investment, and are regarded as composite assets. In accordance with applicable accounting standards, the buildings, including plant and equipment, are not depreciated. Investment property includes property under construction, tourism cabins and associated amenities.

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

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

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

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

### (r) Intangible assets

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

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

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

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

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



# Notes to the Financial Statements (continued)

Ingenia Communities Fund and Ingenia Communities Management Trust

For the year ended 30 June 2018

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (r) Intangible assets (continued)

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

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

### (s) Trade and other payables

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

### (t) Retirement village resident loans

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

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

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

### (u) Borrowings

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

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

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

### (v) Issued units

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

### (w) Revenue

Revenue from rent, interest and distributions is recognised to the extent it is probable that the economic benefits will flow to the Group, and can be reliably measured. Revenue brought to account but not received at balance date is recognised as a receivable. Interest income is recognised as the interest accrues, using the effective interest rate method.

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

# Notes to the Financial Statements (continued)

Ingenia Communities Fund and Ingenia Communities Management Trust

For the year ended 30 June 2018

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (w) Revenue (continued)

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

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

Service station sales, food and beverage revenue represents the revenue earned from the provision of products and services to external parties. Sales revenue is only recognised when the significant risks and rewards of ownership of the products or service has been passed to the buyer.

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

### (x) Provisions, including for employees benefits

#### *General:*

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

#### *Wages, salaries, annual leave and sick leave:*

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

#### *Long service leave:*

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

### (y) Income tax

#### *Current income tax:*

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

Current tax assets and liabilities are measured at the amount expected to be recovered from, or paid to, the taxation authorities based on the current period's taxable income. The tax rates and laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date. The subsidiaries that previously held the Trusts' foreign properties may be subject to corporate income tax and withholding tax in the countries in which they operate. Under current Australian income tax legislation, unit holders may be entitled to receive a foreign tax credit for this withholding tax.

During FY18 ICF elected to enter the Attribution Managed Investment Trust (AMIT) regime.

# Notes to the Financial Statements (continued)

Ingenia Communities Fund and Ingenia Communities Management Trust

For the year ended 30 June 2018

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (y) Income tax (continued)

*Deferred income tax:*

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

### (z) Goods and services tax (GST)

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

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

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

### (aa) Fair value measurement

The Trusts measure financial instruments, such as derivatives, investment properties, resident loans, certain non-financial assets and non-financial liabilities, at fair value at each balance sheet date. Refer to Note 22.

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

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

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

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

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

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

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

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

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

# Notes to the Financial Statements (continued)

Ingenia Communities Fund and Ingenia Communities Management Trust

For the year ended 30 June 2018

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (aa) Fair value measurement (continued)

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

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

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

For the purpose of fair value disclosures, the Trusts have determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy (see Note 22).

### (bb) Pending accounting standards

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

AASB 9 Financial Instruments is applicable to reporting periods beginning on or after 1 January 2018. The Trusts' have not early adopted this standard. This standard provides requirements for the classification, measurement and derecognition of financial assets and financial liabilities. Changes in the Trusts' credit risk, which affect the value of liabilities designated at fair value through profit and loss, must be presented in other comprehensive income. The impact of the application of the standard is continuously being monitored by the Trusts', and the Trusts' expect to conclude on the impact in due course.

AASB 15 Revenue from Contracts with Customers is applicable to reporting periods beginning on or after 1 January 2018. The Trusts have not early adopted this standard. The standard is based on the principle that revenue is recognised when control of a good or service is transferred to a customer. It contains a single model that applies to contracts with customers and two approaches to recognising revenue - at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

It applies to all contracts with customers except leases, financial instruments and insurance contracts. It requires reporting entities to provide users of financial statement with more informative and relevant disclosures. The application of the standard is not expected to have any material impact on the Trusts' financial reporting in future periods.

AASB 16 Leases is applicable to reporting periods beginning on or after 1 January 2019. The Group has not early adopted this standard. This standard provides requirements for classification, measurement, and disclosure of all leases with a term of more than twelve months unless the underlying asset is of low value. A lessee must now measure right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities. Assets and liabilities arising from a lease are initially measured on a present value basis.

The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. The Group is currently the lessee of two non-cancellable operating leases which would be captured under this new standard. These leases relate to the Group's Sydney and Brisbane offices, which have a future minimum lease payments total of \$2,402,000 at 30 June 2018.

The Group is also the lessee of four existing finance leases which relate to the land of certain investment properties. The application of the Standard is not expected to have any material impact on these finance leases.

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

# Notes to the Financial Statements (continued)

Ingenia Communities Fund and Ingenia Communities Management Trust

For the year ended 30 June 2018

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (cc) Current versus non-current classification

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

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

A liability is current when:

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

All other assets are classified as non-current. The Trusts classify all other liabilities as non-current. Deferred tax assets and liabilities are classified as non-current assets and liabilities.

## 2. ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

### (a) Critical accounting estimates and assumptions

The Trusts makes estimates and assumptions concerning the future. The resulting accounting estimates, by definition, may not equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### i. Valuation of investment property

The Trusts have investment properties with a combined carrying amount of \$759,112,000 (30 June 2017: \$693,473,000) (refer Note 8 and Note 9), and combined retirement village resident loans of \$12,081,000 (30 June 2017: \$27,201,000) (refer Note 8 and 15) which together represent the estimated fair value of the Trust's property business.

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

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

#### ii. Valuation of inventories

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

## Notes to the Financial Statements (continued)

Ingenia Communities Fund and Ingenia Communities Management Trust

For the year ended 30 June 2018

### 2. ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

#### iii. Fair value of derivatives

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

#### iv. Valuation of assets acquired in business combinations

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

#### v. Valuation of retirement village resident loans

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

#### vi. Calculation of deferred management fee (DMF)

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

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

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

## Notes to the Financial Statements (continued)

Ingenia Communities Fund and Ingenia Communities Management Trust

For the year ended 30 June 2018

### 3. SEGMENT INFORMATION

#### (a) Description of segments

The Trusts invests predominantly in rental properties located in Australia with four reportable segments:

- Ingenia Lifestyle & Holidays – comprising long-term and tourism accommodation within lifestyle parks;
- Ingenia Lifestyle Development – comprising the development and sale of manufactured homes;
- Ingenia Gardens – rental villages;
- Fuel, Food & Beverage Services – Consists of the Group's investment in service station operations and food & beverage activities attached to Ingenia Lifestyle & Holiday communities;
- Corporate & Other – comprises deferred management fee villages and corporate overheads.

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

(b) ICF – 30 June 2018	L&H Operations \$'000	Ingenia Gardens \$'000	Corporate & Other \$'000	Total \$'000
<b>Segment revenue</b>				
External segment revenue	464	10,148	16	10,628
<b>Total revenue</b>	<b>464</b>	<b>10,148</b>	<b>16</b>	<b>10,628</b>
<b>Segment underlying profit</b>				
External segment revenue	464	10,148	16	10,628
Property expenses	-	-	(785)	(785)
Administrative expenses	-	-	(347)	(347)
Depreciation expense	(2)	-	(24)	(26)
<b>Earnings before interest and tax</b>	<b>462</b>	<b>10,148</b>	<b>(1,140)</b>	<b>9,470</b>
Net finance income	-	-	19,670	19,670
<b>Underlying profit</b>	<b>462</b>	<b>10,148</b>	<b>18,530</b>	<b>29,140</b>
Net (loss)/gain on change in fair value of:				
Investment properties	(78)	2,260	-	2,182
Other	-	-	181	181
Net loss on disposal of investment properties	-	-	(2,702)	(2,702)
Responsible entity fees	-	-	(3,343)	(3,343)
<b>Profit after tax</b>	<b>384</b>	<b>12,408</b>	<b>12,666</b>	<b>25,458</b>
Segment assets	15,077	127,299	537,082	679,458
<b>Total assets</b>	<b>15,077</b>	<b>127,299</b>	<b>537,082</b>	<b>679,458</b>

## Notes to the Financial Statements (continued)

Ingenia Communities Fund and Ingenia Communities Management Trust

For the year ended 30 June 2018

### 3. SEGMENT INFORMATION (CONTINUED)

(c) ICF - 30 June 2017	L&H Operations \$'000	Ingenia Gardens \$'000	Corporate & Other \$'000	Total \$'000
<b>Segment revenue</b>				
External segment revenue	384	8,717	-	9,101
<b>Total revenue</b>	<b>384</b>	<b>8,717</b>	<b>-</b>	<b>9,101</b>
<b>Segment underlying profit</b>				
External segment revenue	384	8,717	-	9,101
Property expenses	-	(8)	(869)	(877)
Administrative expenses	-	-	(310)	(310)
Depreciation expense	-	-	(24)	(24)
<b>Earnings before interest and tax</b>	<b>384</b>	<b>8,709</b>	<b>(1,203)</b>	<b>7,890</b>
Net finance income	-	-	13,821	13,821
<b>Underlying profit</b>	<b>384</b>	<b>8,709</b>	<b>12,618</b>	<b>21,711</b>
Net gain/(loss) on change in fair value of:				
Investment properties	1,196	4,820	(16)	6,000
Other	-	-	(216)	(216)
Net loss on disposal of investment properties	-	-	(27,556)	(27,556)
Responsible entity fees	-	-	(2,677)	(2,677)
<b>Profit/(loss) after tax</b>	<b>1,580</b>	<b>13,529</b>	<b>(17,847)</b>	<b>(2,738)</b>
Segment assets	11,125	141,290	456,089	608,504
<b>Total assets</b>	<b>11,125</b>	<b>141,290</b>	<b>456,089</b>	<b>608,504</b>



## Notes to the Financial Statements (continued)

Ingenia Communities Fund and Ingenia Communities Management Trust

For the year ended 30 June 2018

### 3. SEGMENT INFORMATION (CONTINUED)

(d) ICMT - 30 June 2018	L&H Operations \$'000	L&H Development \$'000	Ingenia Gardens \$'000	Fuel, Food & Beverage Services \$'000	Corporate & Other \$'000	Total \$'000
<b>Segment revenue</b>						
External segment revenue	65,072	85,879	27,984	8,986	1,539	189,460
<b>Total revenue</b>	<b>65,072</b>	<b>85,879</b>	<b>27,984</b>	<b>8,986</b>	<b>1,539</b>	<b>189,460</b>
<b>Segment underlying profit</b>						
External segment revenue	65,072	85,879	27,984	8,986	1,539	189,460
Property expenses	(15,785)	(601)	(17,998)	(496)	(1,760)	(36,640)
Cost of manufactured homes sold	-	(50,347)	-	-	-	(50,347)
Employee expenses	(19,628)	(9,162)	(7,090)	(1,270)	(657)	(37,807)
Administrative expenses	(2,576)	(793)	(605)	(27)	(581)	(4,582)
Operational, marketing and selling expenses	(1,838)	(3,606)	(915)	(431)	(35)	(6,825)
Service station expenses	-	-	-	(6,338)	-	(6,338)
Depreciation and amortisation expense	(360)	(404)	(109)	(19)	(20)	(912)
<b>Earnings before interest and tax</b>	<b>24,885</b>	<b>20,966</b>	<b>1,267</b>	<b>405</b>	<b>(1,514)</b>	<b>46,009</b>
Net finance expense	-	-	-	-	(25,848)	(25,848)
Income tax expense	-	-	-	-	(5,700)	(5,700)
<b>Underlying profit/(loss)</b>	<b>24,885</b>	<b>20,966</b>	<b>1,267</b>	<b>405</b>	<b>(33,062)</b>	<b>14,461</b>
Net (loss)/gain on change in fair value of:						
Investment properties	(2,754)	-	-	-	(2,072)	(4,826)
Other	-	-	-	-	436	436
Net (loss)/gain on disposal of investment properties	(151)	-	-	-	1,418	1,267
Income tax benefit	-	-	-	-	934	934
Responsible entity fees	-	-	-	-	(3,146)	(3,146)
<b>Profit/(loss) after tax</b>	<b>21,980</b>	<b>20,966</b>	<b>1,267</b>	<b>405</b>	<b>(35,492)</b>	<b>9,126</b>
<b>Segment assets</b>						
Segment assets	450,888	173,263	3,004	356	16,848	644,359
Assets held for sale	22,325	-	-	-	6,350	28,675
<b>Total assets</b>	<b>473,213</b>	<b>173,263</b>	<b>3,004</b>	<b>356</b>	<b>23,198</b>	<b>673,034</b>

## Notes to the Financial Statements (continued)

Ingenia Communities Fund and Ingenia Communities Management Trust  
For the year ended 30 June 2018

### 3. SEGMENT INFORMATION (CONTINUED)

(e) ICMT - 30 June 2017	L&H Operations \$'000	L&H Development \$'000	Ingenia Gardens \$'000	Fuel, Food & Beverage Services \$'000	Corporate & Other \$'000	Total \$'000
<b>Segment revenue</b>						
External segment revenue	47,686	63,752	28,389	7,285	3,405	150,517
Reclassification of gain on newly constructed villages	-	-	-	-	(633)	(633)
<b>Total revenue</b>	<b>47,686</b>	<b>63,752</b>	<b>28,389</b>	<b>7,285</b>	<b>2,772</b>	<b>149,884</b>
<b>Segment underlying profit</b>						
External segment revenue	47,686	63,752	28,389	7,285	3,405	150,517
Property expenses	(12,846)	(493)	(16,731)	(106)	(1,979)	(32,155)
Cost of manufactured homes sold	-	(42,699)	-	-	-	(42,699)
Employee expenses	(15,315)	(6,453)	(7,046)	(359)	(1,278)	(30,451)
Administrative expenses	(2,114)	(531)	(605)	(17)	(512)	(3,779)
Operational, marketing and selling expenses	(713)	(2,440)	(982)	-	(714)	(4,849)
Service Station expenses	-	-	-	(6,229)	-	(6,229)
Depreciation and amortisation expense	(244)	(253)	(120)	(5)	(28)	(650)
<b>Earnings before interest and tax</b>	<b>16,454</b>	<b>10,883</b>	<b>2,905</b>	<b>569</b>	<b>(1,106)</b>	<b>29,705</b>
Net finance expense	-	-	-	-	(20,407)	(20,407)
Income tax expense	-	-	-	-	(1,595)	(1,595)
<b>Underlying profit/(loss)</b>	<b>16,454</b>	<b>10,883</b>	<b>2,905</b>	<b>569</b>	<b>(23,108)</b>	<b>7,703</b>
Net gain/(loss) on change in fair value of:						
Investment properties	6,642	-	-	-	(269)	6,373
Other	-	-	-	-	96	96
Reclassification of gain on newly constructed villages	-	-	-	-	(633)	(633)
Net (loss)/gain on disposal of investment properties	(871)	-	-	-	19,988	19,117
Income tax expense	-	-	-	-	(295)	(295)
Responsible entity fees	-	-	-	-	(2,769)	(2,769)
<b>Profit/(loss) after tax</b>	<b>22,225</b>	<b>10,883</b>	<b>2,905</b>	<b>569</b>	<b>(6,990)</b>	<b>29,592</b>
<b>Segment assets</b>						
Segment assets	371,081	166,223	3,012	183	45,483	585,982
<b>Total assets</b>	<b>371,081</b>	<b>166,223</b>	<b>3,012</b>	<b>183</b>	<b>45,483</b>	<b>585,982</b>

## Notes to the Financial Statements (continued)

Ingenia Communities Fund and Ingenia Communities Management Trust  
For the year ended 30 June 2018

### 4. EARNINGS PER UNIT

	ICF		ICMT	
	2018	2017	2018	2017
Profit/(loss) attributable to unit holders (\$'000)	25,458	(2,738)	9,126	29,592
Weighted average number of units outstanding (thousands)				
Issued units (thousands)	207,329	180,383	207,329	180,383
Dilutive units (thousands)				
Long-term incentives	690	486	690	486
Short-term incentives	119	111	119	111
<b>Weighted average number of issued and dilutive potential units outstanding (thousands)</b>	<b>208,138</b>	<b>180,980</b>	<b>208,138</b>	<b>180,980</b>
Basic earnings per unit (cents)	12.3	(1.5)	4.4	16.4
Dilutive earnings per unit (cents)	12.2	(1.5)	4.4	16.4

### 5. INCOME TAX EXPENSE

	ICF		ICMT	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
<b>(a) Income tax expense</b>				
Current tax	-	-	134	-
Decrease in deferred tax asset	-	-	(4,900)	(1,890)
<b>Income tax expense</b>	<b>-</b>	<b>-</b>	<b>(4,766)</b>	<b>(1,890)</b>
<b>(b) Reconciliation between tax expense and pre-tax net profit</b>				
Profit/(loss) before income tax	25,458	(2,738)	13,892	31,482
(Less)/add amounts not subject to Australian income tax	(25,458)	2,738	-	-
	<b>-</b>	<b>-</b>	<b>13,892</b>	<b>31,482</b>
Income tax at the Australian tax rate of 30%	-	-	(4,168)	(9,445)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:				
Prior period income tax return true-ups	-	-	(99)	-
Movement in tax cost base of investment properties <sup>(1)</sup>	-	-	-	7,615
Other	-	-	(499)	(60)
<b>Income tax expense</b>	<b>-</b>	<b>-</b>	<b>(4,766)</b>	<b>(1,890)</b>

(1) FY17 movement in cost base of investment property impacted by valuation adjustments and resetting of historic cost bases.

## Notes to the Financial Statements (continued)

Ingenia Communities Fund and Ingenia Communities Management Trust  
For the year ended 30 June 2018

### 6. TRADE AND OTHER RECEIVABLES

	ICF		ICMT	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
<b>Current</b>				
Rental and other amounts due	-	-	5,832	4,906
Finance lease receivable from stapled entity	358	719	-	-
Other receivables	14	-	1,439	802
<b>Total current trade and other receivables</b>	<b>372</b>	<b>719</b>	<b>7,271</b>	<b>5,708</b>
<b>Non-current</b>				
Finance lease receivable from stapled entity	4,051	7,585	-	-
Other receivables	2,640	2,544	1,651	458
<b>Total non-current and other receivables</b>	<b>6,691</b>	<b>10,129</b>	<b>1,651</b>	<b>458</b>

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

ICF has leased a property to ICMT which has been classified as a finance lease. The remaining term of the agreement is 91 years. There are no purchase options. Minimum payments under the agreements and their present values are:

	ICF		ICMT	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
<b>Minimum lease payments receivable:</b>				
Not later than one year	358	719	-	-
Later than one year and not later than five years	1,500	3,019	-	-
Later than five years	32,401	71,843	-	-
	<b>34,259</b>	<b>75,581</b>	-	-
Unearned finance income	(29,850)	(67,277)	-	-
Net present value of minimum lease payments	<b>4,409</b>	<b>8,304</b>	-	-
<b>Net present value of minimum lease payments receivable:</b>				
Not later than one year	358	719	-	-
Later than one year and not later than five years	1,165	2,298	-	-
Later than five years	2,886	5,287	-	-
	<b>4,409</b>	<b>8,304</b>	-	-
<b>Finance income recognised and included in interest income in the statement of comprehensive income</b>	<b>358</b>	<b>719</b>	-	-

Information about the related finance lease payable by ICMT is given in Note 24.

## Notes to the Financial Statements (continued)

Ingenia Communities Fund and Ingenia Communities Management Trust  
For the year ended 30 June 2018

### 7. INVENTORIES

	ICF		ICMT	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Manufactured homes				
Completed	-	-	15,616	15,247
Display homes	-	-	4,869	547
Under construction	-	-	9,435	5,643
Service station fuel and supplies	-	-	308	160
<b>Total inventories</b>	<b>-</b>	<b>-</b>	<b>30,228</b>	<b>21,597</b>

The manufactured home balance includes:

- 93 new completed homes (30 Jun 2017: 86)
- 11 refurbished/renovated/annuals completed homes (30 Jun 2017: 9)
- 24 display homes (2017: 4)
- Manufactured homes under construction includes 88 partially completed homes at different stages of development (2017: 56). It also includes demolition, site preparation costs and buybacks on future development sites.

### 8. ASSETS AND LIABILITIES HELD FOR SALE

#### (a) Summary of carrying values

The following are the carrying values of assets held for sale:

	ICF		ICMT	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Investment properties held for sale:				
Cessnock, Cessnock, NSW <sup>(1)</sup>	-	-	6,350	-
Rouse Hill, Rouse Hill, NSW <sup>(2)</sup>	-	-	22,325	-
<b>Total assets held for sale</b>	<b>-</b>	<b>-</b>	<b>28,675</b>	<b>-</b>

(1) This relates to Settlers Cessnock which was sold in July 2018.

(2) A conditional contract for the sale of Rouse Hill was signed in June 2018. As such, the property has been reclassified from investment property to asset held with to sale in view of management's expectation that the property will be sold in the twelve months ended 30 June 2019.

#### (b) Summary of carrying amounts - loans

The following is a summary of the carrying amounts of the loans associated with investment properties held for sale:

	ICF		ICMT	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Net resident loans - Cessnock	-	-	3,875	-
<b>Total resident loans</b>	<b>-</b>	<b>-</b>	<b>3,875</b>	<b>-</b>

### 9. INVESTMENT PROPERTIES

#### (a) Summary of carrying amounts

	ICF		ICMT	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Completed properties	143,561	154,556	443,963	431,836
Properties under development	-	-	142,913	107,082
<b>Total carrying amount</b>	<b>143,561</b>	<b>154,556</b>	<b>586,876</b>	<b>538,918</b>

## Notes to the Financial Statements (continued)

Ingenia Communities Fund and Ingenia Communities Management Trust  
For the year ended 30 June 2018

### 9. INVESTMENT PROPERTIES (CONTINUED)

(b) Movements in carrying amounts	ICF		ICMT	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
<b>Carrying amount at beginning of period</b>	<b>154,556</b>	<b>162,795</b>	<b>538,918</b>	<b>547,951</b>
Acquisitions	-	-	50,386	174,883
Expenditure capitalised	4,971	13,317	61,665	15,245
Net change in fair value:				
Investment property	2,182	6,000	(3,833)	6,373
Resident loans	-	-	(993)	-
Transfer to assets held for sale	-	-	(28,675)	-
Disposals	(18,148)	(27,556)	(30,592)	(205,534)
<b>Carrying amount at the end of the period</b>	<b>143,561</b>	<b>154,556</b>	<b>586,876</b>	<b>538,918</b>

### (c) Description of valuation techniques used and key inputs to valuation of investment properties

#### Capitalisation method

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

#### Discounted cash flow method

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

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

### 10. PLANT AND EQUIPMENT

(a) Summary of carrying amounts	ICF		ICMT	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Plant and equipment	205	195	5,296	3,089
Less: accumulated depreciation	(148)	(122)	(1,597)	(1,098)
<b>Total plant and equipment</b>	<b>57</b>	<b>73</b>	<b>3,699</b>	<b>1,991</b>
<b>(b) Movements in carrying amount</b>				
<b>Carrying amount at beginning of year</b>	<b>73</b>	<b>103</b>	<b>1,991</b>	<b>1,018</b>
Additions	10	-	2,319	1,248
Disposals	-	(6)	(101)	-
Depreciation expense	(26)	(24)	(510)	(275)
<b>Carrying amount at end of year</b>	<b>57</b>	<b>73</b>	<b>3,699</b>	<b>1,991</b>

## Notes to the Financial Statements (continued)

Ingenia Communities Fund and Ingenia Communities Management Trust  
For the year ended 30 June 2018

### 11. INTANGIBLES

	ICF		ICMT	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
<b>(a) Summary of carrying amounts</b>				
Software and development	-	-	3,123	2,818
Less: accumulated amortisation	-	-	(1,204)	(797)
<b>Total intangibles</b>	<b>-</b>	<b>-</b>	<b>1,919</b>	<b>2,021</b>
<b>(b) Movements in carrying amount</b>				
<b>Carrying amount at beginning of year</b>	<b>-</b>	<b>2</b>	<b>2,021</b>	<b>1,962</b>
Additions	-	-	300	434
Disposals	-	(2)	-	-
Amortisation expense	-	-	(402)	(375)
<b>Carrying amount at end of year</b>	<b>-</b>	<b>-</b>	<b>1,919</b>	<b>2,021</b>

### 12. DEFERRED TAX ASSETS AND LIABILITIES

	ICF		ICMT	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
<b>Deferred tax assets</b>				
Tax losses	-	-	12,775	12,737
Other	-	-	-	-
<b>Deferred tax liabilities</b>				
DMF receivable	-	-	(1,047)	(1,011)
Investment properties	-	-	(11,273)	(6,493)
<b>Net deferred tax asset</b>	<b>-</b>	<b>-</b>	<b>455</b>	<b>5,233</b>
<b>Deductible temporary differences and carried forward losses tax effected for which no deferred tax asset has been recognised</b>	<b>-</b>	<b>-</b>	<b>7,500</b>	<b>7,500</b>

The availability of carried forward tax losses of \$7.5 million to the ICMT tax consolidated group is subject to recoupment rules at the time of recoupment. Further, the rate at which these losses can be utilised is determined by reference to market values at the time of tax consolidation and subsequent events.

Accordingly, a portion of these carried forward tax losses may not be available in the future.

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

### 13. TRADE AND OTHER PAYABLES

	ICF		ICMT	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
<b>Current</b>				
Trade payables and accruals	2,019	1,822	28,266	17,563
Deposits	-	-	5,266	4,561
Other unearned income	-	-	1,227	1,350
	<b>2,019</b>	<b>1,822</b>	<b>34,759</b>	<b>23,474</b>
<b>Non-current</b>				
Other	-	-	83	167

## Notes to the Financial Statements (continued)

Ingenia Communities Fund and Ingenia Communities Management Trust  
For the year ended 30 June 2018

### 14. BORROWINGS

	ICF		ICMT	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
<b>Current</b>				
Finance leases	-	-	859	1,212
<b>Non-current</b>				
Bank debt	228,999	166,464	-	-
Prepaid borrowing costs	(1,497)	(1,735)	-	-
Finance leases	-	-	9,369	13,194
	<b>227,502</b>	<b>164,729</b>	<b>9,369</b>	<b>13,194</b>

#### (a) Bank debt

Ingenia has \$350.0 million in available debt facilities at 30 June 2018 (2017: \$300.0 million). This increase of \$50.0 million was a result of completing a refinance and extension of a tranche of the facilities during the year. The term of this tranche was extended from 12 February 2020 to 13 July 2023.

The total \$350.0 million in debt facilities is provided by three Australian banks. The tranche maturity dates are:

- 12 February 2022 (\$175.4 million); and
- 13 July 2023 (\$174.6 million)

As at 30 June 2018, the facilities have been drawn to \$229.0 million (30 June 2017: \$166.5 million). The carrying value of investment property net of resident liabilities at reporting date for the Group's Australian properties pledged as security is \$701.8 million (30 June 2017: \$602.9 million).

#### (b) Bank guarantees

The Group has the ability to utilise its bank facilities to provide bank guarantees, which at 30 June 2018 were \$11.4 million (30 June 2017: \$10.8 million).

#### (c) Finance leases

The Group has entered into finance leases for the following Lifestyle and Holidays investment properties:

- Gosford City Council for the land and facilities of Ettalong Beach
- Crown leases for the land of One Mile Beach
- Crown lease for the land of Big 4 Broulee Beach
- Crown lease for the land of South West Rocks

The leases are long-term in nature and range between 8 years to perpetuity.

Subsidiaries of ICMT have entered into an agreement with subsidiaries of ICF. The subject of the agreement is to lease a retirement village. The remaining term of the agreement is 91 years. There are no purchase options.



## Notes to the Financial Statements (continued)

Ingenia Communities Fund and Ingenia Communities Management Trust

For the year ended 30 June 2018

### 14. BORROWINGS (CONTINUED)

#### (c) Finance leases (continued)

##### *Minimum lease payments - excluding perpetual lease*

	ICF		ICMT	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
<b>Minimum lease payments:</b>				
Within one year	-	-	901	1,273
Later than one year but not later than five years	-	-	3,685	5,171
Later than five years	-	-	35,856	75,858
<b>Total minimum lease payments</b>	-	-	<b>40,442</b>	<b>82,302</b>
Future finance charges	-	-	(31,347)	(69,032)
<b>Present value of minimum lease payments</b>	-	-	<b>9,095</b>	<b>13,270</b>
<b>Present value of minimum lease payments:</b>				
Within one year	-	-	859	1,212
Later than one year but not later than five years	-	-	3,030	4,135
Later than five years	-	-	5,206	7,923
	-	-	<b>9,095</b>	<b>13,270</b>

##### *Minimum lease payments - perpetual lease*

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

### 15. RETIREMENT VILLAGE RESIDENT LOANS

	ICF		ICMT	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
<b>(a) Summary of carrying amounts</b>				
Gross resident loans	-	-	9,880	30,155
Accrued deferred management fee	-	-	(1,674)	(2,954)
Net resident loans	-	-	<b>8,206</b>	<b>27,201</b>
<b>(b) Movements in carrying amounts</b>				
<b>Carrying amount at beginning of period</b>	-	-	<b>27,201</b>	<b>207,483</b>
Accrued deferred management fee income	-	-	(636)	(1,825)
Deferred management fee cash collected	-	-	334	465
Proceeds from resident loans	-	-	594	3,411
Repayment of resident loans	-	-	(767)	(2,191)
Transfer to liabilities held for sale	-	-	(3,875)	-
Disposal of villages	-	-	(14,127)	(180,283)
Other	-	-	(518)	141
	-	-	<b>8,206</b>	<b>27,201</b>

## Notes to the Financial Statements (continued)

Ingenia Communities Fund and Ingenia Communities Management Trust  
For the year ended 30 June 2018

### 16. ISSUED UNITS

	ICF		ICMT	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
<b>(a) Carrying values</b>				
<b>At beginning of period</b>	755,571	679,161	43,136	34,019
Issued during the year:				
Dividend Reinvestment Plan (DRP)	3,766	5,027	554	429
Performance Quantum Rights (PQR)	-	1,087	-	58
Institutional placement and rights issue	-	64,766	-	8,492
Security purchase plan	-	7,641	-	430
Short-term incentive plan	-	225	-	10
Institutional placement and rights issue costs	-	(2,336)	-	(302)
<b>At end of period</b>	<b>759,337</b>	<b>755,571</b>	<b>43,690</b>	<b>43,136</b>
<b>The closing balance is attributable to the unit holders of:</b>				
Ingenia Communities Fund	759,337	755,571	-	-
Ingenia Communities Management Trust	-	-	43,690	43,136
	<b>759,337</b>	<b>755,571</b>	<b>43,690</b>	<b>43,136</b>

	ICF		ICMT	
	2018 Thousands	2017 Thousands	2018 Thousands	2017 Thousands
<b>(b) Number of issued units</b>				
<b>At beginning of period</b>	206,382	172,155	206,382	172,155
Issued during the period:				
Performance quantum rights	-	599	-	599
Distribution reinvestment plan	1,710	2,049	1,710	2,049
Security purchase plan	-	3,023	-	3,023
Institutional placement and rights issue	-	28,479	-	28,479
Short-term incentive plan	-	77	-	77
<b>At end of period</b>	<b>208,092</b>	<b>206,382</b>	<b>208,092</b>	<b>206,382</b>

### (c) Term of units

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

### 17. ACCUMULATED LOSSES AND RETAINED EARNINGS

	ICF		ICMT	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
<b>Balance at beginning of year</b>	<b>(313,900)</b>	<b>(293,168)</b>	<b>20,431</b>	<b>(9,161)</b>
Net profit/(loss) for the year	25,458	(2,738)	9,126	29,592
Distributions	(21,096)	(17,994)	-	-
<b>Balance at end of year</b>	<b>(309,538)</b>	<b>(313,900)</b>	<b>29,557</b>	<b>20,431</b>
<b>The closing balance is attributable to the unit holders of:</b>				
Ingenia Communities Fund	(309,538)	(313,900)	-	-
Ingenia Communities Management Trust	-	-	29,557	20,431
	<b>(309,538)</b>	<b>(313,900)</b>	<b>29,557</b>	<b>20,431</b>

## Notes to the Financial Statements (continued)

Ingenia Communities Fund and Ingenia Communities Management Trust

For the year ended 30 June 2018

### 18. COMMITMENTS

#### (a) Capital commitments

ICF has commitments for capital expenditure on investment properties and inventories contracted but not provided for at reporting date of \$16,785,083 (30 June 2017: \$805,725).

#### (b) Operating lease commitments

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

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

	ICF		ICMT	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Within one year	-	-	607	502
Later than one year but not later than five years	-	-	1,795	990
	-	-	<b>2,402</b>	<b>1,492</b>

#### (c) Finance lease commitments

Refer to Note 14 for future minimum lease payments payable and the present value of minimum lease payments payable at reporting date for the finance leases relating to investment property. For commitments for inter-staple related party finance leases refer to Notes 6, 14 and 24.

### 19. CONTINGENCIES

There are no known contingent liabilities other than the bank guarantees totalling \$11.4 million provided for under the \$350.0 million bank facility. Bank guarantees primarily relate to the Responsible Entity's AFSL capital requirements (\$10.0 million).

### 20. CAPITAL MANAGEMENT

The capital management of ICF and ICMT is managed at a consolidated Group level (ICH and subsidiaries).

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

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

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

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

One measure of the Group's capital position is through Loan to Value Ratio (LVR) which is a key covenant under the Group's \$350.0 million common terms debt facilities. LVR is calculated as the sum of bank debt, bank guarantees, finance leases, and interest rate swaps, less cash at bank, as a percentage of the value of properties pledged as security. The Group's strategy is to maintain an LVR range of 30-40%. As at 30 June 2018, LVR is 32.6% compared to 27.7% at 30 June 2017.

In addition the Group also monitors Interest Cover Ratio as defined under the common terms of the debt facilities. At 30 June 2018, the Total Interest Cover Ratio was 5.53x (2017: 5.36x) and the Core Interest Cover Ratio was 3.19x (2017: 3.52x).

## Notes to the Financial Statements (continued)

Ingenia Communities Fund and Ingenia Communities Management Trust  
For the year ended 30 June 2018

### 21. FINANCIAL INSTRUMENTS

#### (a) Instruments

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

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

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

The main risks arising from ICMT's financial instruments are interest rate risk, foreign exchange risk, credit risk and liquidity risk. These risks are not separately managed. Management of these risks for the ICF may result in consequential changes for ICMT.

#### (b) Interest rate risk

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

The Trusts manage the risk of changes in market interest rates by maintaining an appropriate mix of fixed and floating rate borrowings. Fixed rate debt is achieved either through fixed rate debt funding or through derivative financial instruments permitted under the Investments, Derivatives, and Borrowing Policy.

At 30 June 2018 after taking into account the effect of interest rate swaps, approximately 21% of ICF's borrowings are at a fixed rate of interest (2017: 29%).

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

## Notes to the Financial Statements (continued)

Ingenia Communities Fund and Ingenia Communities Management Trust

For the year ended 30 June 2018

### 21. FINANCIAL INSTRUMENTS (CONTINUED)

#### (c) Interest rate risk exposure

2018 \$'000	ICF				Total
	Fixed interest maturing in:				
	Floating interest rate	Less than 1 year	1 to 5 Years	More than 5 years	
<b>Financial assets</b>					
Cash at bank	3,622	-	-	-	3,622
Finance leases (excluding perpetual lease)	-	358	1,165	2,886	4,409
<b>Financial liabilities</b>					
Bank debt	228,999	-	-	-	228,999
Interest rate swaps: Fund pays fixed rate	(48,000)	28,000	20,000	-	-
<b>2017 \$'000</b>					
<b>Financial assets</b>					
Cash at bank	991	-	-	-	991
Finance leases (excluding perpetual lease)	-	719	2,298	5,287	8,304
<b>Financial liabilities</b>					
Bank debt	166,464	-	-	-	166,464
Interest rate swaps: Fund pays fixed rate	(48,000)	-	48,000	-	-

ICMT's exposure to interest rate risk and the effective interest rates on financial instruments at reporting date were:

2018 \$'000	ICMT				Total
	Fixed interest maturing in:				
	Floating interest rate	Less than 1 year	1 to 5 Years	More than 5 years	
<b>Financial assets</b>					
Cash at bank	10,751	-	-	-	10,751
<b>Financial liabilities</b>					
Finance leases (excluding perpetual lease)	-	859	3,030	5,206	9,095
<b>2017 \$'000</b>					
<b>Financial assets</b>					
Cash at bank	8,547	-	-	-	8,547
<b>Financial liabilities</b>					
Finance leases (excluding perpetual lease)	-	1,212	4,135	7,923	13,270

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

# Notes to the Financial Statements (continued)

Ingenia Communities Fund and Ingenia Communities Management Trust

For the year ended 30 June 2018

## 21. FINANCIAL INSTRUMENTS (CONTINUED)

### (d) Interest rate sensitivity analysis

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

	Effect on profit after tax Higher/(lower)			
	ICF		ICMT	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
<b>Increase in average interest rates of 100 bps:</b>				
Variable interest rate bank debt (AUD denominated)	(2,290)	(1,665)	-	-
Interest rate swaps (AUD denominated)	857	1,084	-	-
<b>Decrease in average interest rates of 100 bps:</b>				
Variable interest rate bank debt (AUD denominated)	2,290	1,665	-	-
Interest rate swaps (AUD denominated)	(1,465)	(1,366)	-	-

### (e) Foreign exchange risk

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

### (f) Net foreign currency exposure

	Net foreign currency asset/(liability)			
	ICF		ICMT	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Net foreign currency exposure:				
United States dollars	2,054	2,054	-	-
New Zealand dollars	269	254	-	-
<b>Total net foreign currency assets</b>	<b>2,323</b>	<b>2,308</b>	-	-

### (g) Foreign exchange sensitivity analysis

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

	Effect on profit after tax Higher/(lower)			
	ICF		ICMT	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
<b>i. Effect of appreciation in Australian dollar of 10%:</b>				
Foreign exchange risk exposures denominated in:				
United States dollars	(187)	(187)	-	-
New Zealand dollars	(24)	(23)	-	-
<b>ii. Effect of depreciation in Australian dollar of 10%:</b>				
Foreign exchange risk exposures denominated in:				
United States dollars	228	228	-	-
New Zealand dollars	30	28	-	-

## Notes to the Financial Statements (continued)

Ingenia Communities Fund and Ingenia Communities Management Trust

For the year ended 30 June 2018

### 21. FINANCIAL INSTRUMENTS (CONTINUED)

#### (h) Credit risk

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

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

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

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

Rent receivable balances are monitored on an ongoing basis and arrears actively followed up in order to reduce, where possible, the extent of any losses should the tenant subsequently default.

The Responsible Entity believes that the Trusts' receivables that are neither past due nor impaired do not give rise to any significant credit risk.

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

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

#### (i) Liquidity risk

The main objective of liquidity risk management is to reduce the risk that the Trusts do not have the resources available to meet their financial obligations and working capital and committed capital expenditure requirements. The Trust's investment, derivatives, and borrowing policy sets a target for the level of cash and available undrawn debt facilities to cover future committed expenditure in the next year, loan maturities within the next year and an allowance for unforeseen events such as tenant default.

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

The Trusts monitor the debt expiry profile and aims to achieve debt maturities below a target level of total committed debt facilities, where possible, to reduce refinance risk in any one year.

The contractual maturities of the Trusts' non-derivative financial liabilities at reporting date are reflected in the following table. It shows the undiscounted contractual cash flows required to discharge the liabilities including interest at market rates. Foreign currencies have been converted at rates of exchange ruling at reporting date.

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

## Notes to the Financial Statements (continued)

Ingenia Communities Fund and Ingenia Communities Management Trust  
For the year ended 30 June 2018

### 21. FINANCIAL INSTRUMENTS (CONTINUED)

#### (i) Liquidity risk (continued)

	ICF			Total \$'000
	Less than 1 year \$'000	1 to 5 years \$'000	More than 5 years \$'000	
<b>2018</b>				
Trade and other payables	2,019	-	-	2,019
Borrowings <sup>(1)</sup>	10,177	258,783	-	268,960
	<b>12,196</b>	<b>258,783</b>	-	<b>270,979</b>
<b>2017</b>				
Trade and other payables	1,822	-	-	1,822
Borrowings <sup>(1)</sup>	7,435	187,635	-	195,070
	<b>9,257</b>	<b>187,635</b>	-	<b>196,892</b>

	ICMT			Total <sup>(2)</sup> \$'000
	Less than 1 year \$'000	1 to 5 years \$'000	More than 5 years \$'000	
<b>2018</b>				
Trade and other payables	34,759	83	-	34,842
Retirement village resident loans	8,206	-	-	8,206
Finance leases (excluding perpetual lease)	901	3,685	35,856	40,442
Finance lease (perpetual lease) <sup>(3)</sup>	121	483	-	604
Provisions	1,770	529	-	2,299
	<b>45,757</b>	<b>4,780</b>	<b>35,856</b>	<b>86,393</b>
<b>2017</b>				
Trade and other payables	23,474	167	-	23,641
Retirement village resident loans	27,201	-	-	27,201
Finance leases (excluding perpetual lease)	1,273	5,171	75,858	82,302
Finance lease (perpetual lease) <sup>(3)</sup>	121	483	-	604
Provisions	1,480	344	-	1,824
	<b>53,549</b>	<b>6,165</b>	<b>75,858</b>	<b>135,572</b>

(1) The balances above will not agree to the balance sheet as it includes the implied interest component.

(2) Excludes related party loans.

(3) For purpose of the table above, the lease payments are included for five years for the perpetual lease. Refer to Note 14(c).

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

	ICF			Total \$'000
	Less than 1 year \$'000	1 to 5 Years \$'000	More than 5 years \$'000	
<b>2018</b>				
<b>Liabilities</b>				
Derivative liabilities - net settled	73	65	-	138
<b>2017</b>				
<b>Liabilities</b>				
Derivative liabilities - net settled	221	61	-	282

ICMT did not have any derivative financial liabilities at either 30 June 2017 or 30 June 2018.



## Notes to the Financial Statements (continued)

Ingenia Communities Fund and Ingenia Communities Management Trust

For the year ended 30 June 2018

### 21. FINANCIAL INSTRUMENTS (CONTINUED)

#### (j) Other financial instrument risk

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

	Effect on profit after tax			
	ICF		ICMT	
	Higher/(lower)	Higher/(lower)	Higher/(lower)	Higher/(lower)
	2018	2017	2018	2017
	\$'000	\$'000	\$'000	\$'000
Increase in market prices of investment properties of 10%	-	-	(988)	(3,016)
Decrease in market prices of investment properties of 10%	-	-	988	3,016

These effects are largely offset by corresponding changes in the fair value of the Trusts' investment properties. The effect on unit holders' interest would have been the same as the effect on profit.

### 22. FAIR VALUE MEASUREMENT

#### (a) Ingenia Communities Fund

The following table provides the fair value measurement hierarchy of Ingenia Communities Fund assets and liabilities:

##### i. Assets measured at fair value

	Date of valuation	Total	Fair value measurement using:		
			Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>2018</b>					
Investment properties	30-Jun-18	143,561	-	-	143,561
	Refer Note 9(a)				
Other financial assets	30-Jun-18	773	-	-	773
<b>2017</b>					
Investment properties	30-Jun-17	154,556	-	-	154,556
	Refer Note 9(a)				
Other financial assets	30-Jun-17	773	-	-	773

##### ii. Liabilities measured at fair value

	Date of valuation	Total	Fair value measurement using:		
			Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>2018</b>					
Derivatives	30-Jun-18	138	-	138	-
<b>2017</b>					
Derivatives	30-Jun-17	282	-	282	-

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

## Notes to the Financial Statements (continued)

Ingenia Communities Fund and Ingenia Communities Management Trust  
For the year ended 30 June 2018

### 22. FAIR VALUE MEASUREMENT (CONTINUED)

#### (b) Ingenia Communities Management Trust

The following table provides the fair value measurement hierarchy of Ingenia Communities Management Trust assets and liabilities:

##### i. Assets measured at fair value

	Date of valuation	Total	Fair value measurement using:		
			Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>2018</b>					
Investment properties	30-Jun-18 Refer 9(a)	586,876	-	-	586,876
Assets held for sale - investment property	30-Jun-18 Refer 8(a)	28,675	-	-	28,675
Other financial assets	30-Jun-18	1,490	-	-	1,490
<b>2017</b>					
Investment properties	30-Jun-17 Refer 9(a)	538,918	-	-	538,918
Other financial assets	30-Jun-17	1,490	-	-	1,490

##### ii. Liabilities measured at fair value

	Date of valuation	Total	Fair value measurement using:		
			Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>2018</b>					
Retirement village resident loans	30-Jun-18 Refer 15(a)	8,206	-	-	8,206
Liabilities held for sale	30-Jun-18 Refer 8(b)	3,875	-	-	3,875
Other financial liabilities	30-Jun-18	6,500	-	-	6,500
<b>2017</b>					
Retirement village resident loans	30-Jun-17 Refer 15(a)	27,201	-	-	27,201
Other financial liabilities	30-Jun-17	6,136	-	-	6,136

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

### 23. AUDITOR'S REMUNERATION

	ICF		ICMT	
	2018	2017	2018	2017
	\$	\$	\$	\$
<b>Amounts received or receivable by EY for:</b>				
Audit or review of financial reports	211,540	257,755	211,540	257,755
Other audit related services	10,326	-	10,326	20,600
Non-audit related services	-	6,500	-	6,500
	<b>221,866</b>	<b>264,255</b>	<b>221,866</b>	<b>284,855</b>

### 24. RELATED PARTIES

#### (a) Responsible entity

The Responsible Entity for both Trusts from 4 June 2012 is Ingenia Communities RE Limited ("ICRE"). ICRE is an Australian domiciled company and is a wholly owned subsidiary of ICH.

## Notes to the Financial Statements (continued)

Ingenia Communities Fund and Ingenia Communities Management Trust  
For the year ended 30 June 2018

### 24. RELATED PARTIES (CONTINUED)

#### (b) Fees of the responsible entity and its related parties

	ICF		ICMT	
	2018	2017	2018	2017
	\$	\$	\$	\$
Ingenia Communities RE Limited: Asset management fees	3,343,146	2,676,519	3,146,351	2,768,738

The Responsible Entity is entitled to a fee of 0.5% of total assets. In addition, it is entitled to recover certain expenses.

The gross amount accrued and recognised but unpaid at reporting date was:

	ICF		ICMT	
	2018	2017	2018	2017
	\$	\$	\$	\$
Current trade payables	864,080	543,812	820,981	691,347

The above ICF balances are netted against the receivable from related party balance on the face of the balance sheet. The above ICMT balances are included in the payable to related party balance on the face of the balance sheet, which is shown net of related party receivables.

#### (c) Holdings of the responsible entity and its related parties

There were no holdings of the Responsible Entity and its related parties (including managed investment schemes for which a related party is the Responsible Entity) as at 30 June 2018 and 30 June 2017.

#### (d) Other related party transactions

ICF has leased a property to ICMT which has been classified as a finance lease. The remaining term of the agreement is 91 years. There are no purchase options. Rental villages have been classified as operating leases and the DMF village has been classified as finance lease.

Intercompany loans are subject to a loan deed, amended on and effective from 1 July 2015, encompassing ICH, ICF and ICMT and their respective subsidiaries. The revised deed stipulates that interest is calculated on the intercompany balances between ICH, ICF and ICMT for the preceding month. Interest is charged at a margin of 3.95% on the monthly Australian Bank Bill Swap Reference Rate. Intercompany loan balances are payable in the event of default or on termination date, being 30 June 2025 (or such other date as agreed by the parties in writing).

There are a number of other transactions and balances that occur between the Trusts, which are detailed below:

	ICF		ICMT	
	2018	2017	2018	2017
	\$	\$	\$	\$
Finance lease fees received or accrued/(paid or payable) for the year between ICF and ICMT	374,936	1,366,037	(374,936)	(1,366,037)
Finance lease balance receivable/(payable) between ICF and ICMT	4,409,100	8,303,254	(4,409,100)	(8,303,254)
Finance lease commitments	34,259,414	75,581,536	(34,259,414)	(75,581,536)
Operating lease fees received or accrued/(paid or payable) for the year between ICF and ICMT	10,612,349	9,101,040	(10,612,349)	(9,101,040)
Interest on intercompany loans received or accrued/(paid or payable) between stapled entities	29,212,090	20,619,500	(24,806,599)	(19,000,335)
Intercompany loan balances between stapled entities	524,363,233	441,244,097	(534,536,896)	(449,906,552)

## Notes to the Financial Statements (continued)

Ingenia Communities Fund and Ingenia Communities Management Trust  
For the year ended 30 June 2018

### 24. RELATED PARTIES (CONTINUED)

#### (e) Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director of the Responsible Entity.

The names of the directors of ICRE, and their dates of appointment or resignation if they were not directors for all of the financial year, are:

Jim Hazel (Chairman)  
Robert Morrison (Deputy Chairman)  
Amanda Heyworth  
Valerie Lyons  
Andrew McEvoy (appointed 1 December 2017)  
Philip Clark AM (resigned 4 December 2017)  
Simon Owen (Managing Director and CEO)

The names of other key management personnel, and their dates of appointment or resignation if they did not occupy their position for all of the financial year, are:

Nicole Fisher - Chief Operating Officer  
Scott Noble - Chief Financial Officer

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

	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Directors fees	599,750	554,750
Salaries and other short-term benefits	1,362,798	1,151,166
Short-term incentives (payable in cash)	397,294	373,819
Superannuation benefits	60,147	53,942
Share-based payments	664,769	593,773
	<b>3,084,758</b>	<b>2,727,450</b>

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

The aggregate Rights of the Group held directly, by KMP, are as follows:

Issue date	Right Type	Expiry date	Number outstanding	
			2018	2017
FY15	LTIP	FY18	-	163,829
FY16	LTIP	FY19	148,196	173,870
FY16	STIP	FY18	-	122,850
FY17	LTIP	FY20	148,681	173,161
FY17	STIP	FY19	129,623	-
FY18	LTIP	FY21	295,928	-
			<b>722,428</b>	<b>633,710</b>

## Notes to the Financial Statements (continued)

Ingenia Communities Fund and Ingenia Communities Management Trust  
For the year ended 30 June 2018

### 25. PARENTAL FINANCIAL INFORMATION

Summary financial information about the parent of each Trust is:

	ICF		ICMT	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Current assets	3,636	1,293	37	28
Total assets	646,033	577,736	6,532	16,067
Current liabilities	2,125	1,823	528	201
Total liabilities	229,626	166,552	43,997	22,244
<b>Net assets/(liabilities)</b>	<b>416,407</b>	<b>411,184</b>	<b>(37,465)</b>	<b>(6,177)</b>
Unit holders' equity:				
Issued units	759,337	755,573	43,690	43,130
Accumulated losses	(342,930)	(344,389)	(81,155)	(49,307)
<b>Total unit holders' equity</b>	<b>416,407</b>	<b>411,184</b>	<b>(37,465)</b>	<b>(6,177)</b>
Profit/(loss) from continuing operations	22,555	13,190	(32,272)	(14,632)
<b>Net profit/(loss) attributable to unit holders</b>	<b>22,555</b>	<b>13,190</b>	<b>(32,272)</b>	<b>(14,632)</b>
<b>Total comprehensive income/(loss)</b>	<b>22,555</b>	<b>13,190</b>	<b>(32,272)</b>	<b>(14,632)</b>

### 26. SUBSIDIARIES

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

	Country of residence	2018 %	2017 %
<b>Subsidiaries of ICF</b>			
Bridge Street Trust	Australia	100	100
Browns Plains Road Trust	Australia	100	100
Casuarina Road Trust	Australia	100	100
Edinburgh Drive Trust	Australia	100	100
INA Community Living Subsidiary Trust	Australia	100	100
INA Kiwi Communities Subsidiary Trust No. 1	Australia	100	100
INA Sunny Trust	Australia	100	100
Jefferis Street Trust	Australia	100	100
Lovett Street Trust	Australia	100	100
Settlers Subsidiary Trust	Australia	100	100
SunnyCove Gladstone Unit Trust	Australia	100	100
SunnyCove Rockhampton Unit Trust	Australia	100	100
Taylor Street (2) Trust	Australia	100	100
INA Subsidiary Trust No.1	Australia	100	100
INA Community Living LLC (formerly ING Community Living LLC)	USA	100	100

## Notes to the Financial Statements (continued)

Ingenia Communities Fund and Ingenia Communities Management Trust  
For the year ended 30 June 2018

### 26. SUBSIDIARIES (CONTINUED)

	Country of residence	2018 %	2017 %
<b>Subsidiaries of ICMT</b>			
Garden Villages Management Trust	Australia	100	100
INA Community Living Lynbrook Trust	Australia	100	100
Settlers Operations Trust	Australia	100	100
Settlers Management Pty Ltd	Australia	100	100
INA Operations Trust No.1	Australia	100	100
INA Operations Trust No.2	Australia	100	100
INA Operations Trust No.3	Australia	100	100
INA Operations Trust No.4	Australia	100	100
INA Operations Trust No.6	Australia	100	100
INA Operations Trust No.7	Australia	100	100
INA Operations Trust No.8	Australia	100	100
INA Operations Trust No.9	Australia	100	100
Ridge Estate Trust	Australia	100	100
INA Subsidiary Trust No.3	Australia	100	100
INA Latitude One Pty Ltd	Australia	100	100
INA Latitude One Development Pty Ltd	Australia	100	100
INA Soldiers Point Pty Ltd	Australia	100	100
INA NZ Subsidiary Unit Trust No. 1	New Zealand	100	100

The Trusts' voting interest in all other subsidiaries is the same as the ownership interest.

### 27. NOTES TO THE CASH FLOW STATEMENTS

Reconciliation of profit to net cash flows from operations:

	ICF		ICMT	
	2018	2017	2018	2017
	\$'000	\$'000	\$'000	\$'000
<b>Net/(loss) profit for the year</b>	<b>25,458</b>	<b>(2,738)</b>	<b>9,126</b>	<b>29,592</b>
Adjustments for:				
Net loss/(gain) on disposal of investment properties	2,702	27,556	(1,267)	19,117
Net (gain)/loss on change in fair value of:				
Investment properties - continuing	(2,182)	(6,000)	4,826	(6,373)
Other	(181)	216	(436)	(96)
Income tax (benefit)/ expense	-	-	4,766	1,890
Depreciation and amortisation expense	26	24	912	650
Share based payments expense	-	-	-	174
Amortisation of borrowing costs	647	993	-	-
<b>Operating profit for the year before changes in working capital</b>	<b>26,470</b>	<b>20,051</b>	<b>17,927</b>	<b>44,954</b>
Changes in working capital:				
Decrease/(increase) in receivables	3,438	315	(1,193)	818
Increase in inventory	-	-	(8,631)	(3,932)
Increase in retirement village resident loans	-	-	(993)	(872)
Increase in other payables and provisions	197	556	11,285	9,661
(Decrease)/increase in loans to related parties	(39,542)	(26,645)	35,015	(9,352)
<b>Net cash provided by operating activities</b>	<b>(9,437)</b>	<b>(5,723)</b>	<b>53,410</b>	<b>41,277</b>

## Notes to the Financial Statements (continued)

Ingenia Communities Fund and Ingenia Communities Management Trust  
For the year ended 30 June 2018

### **28. SUBSEQUENT EVENTS**

#### **Final FY18 distribution**

On 21 August 2018, the directors of the Group resolved to declare a final distribution of 5.65cps (2017: 5.1 cps) amounting to \$11.8 million to be paid at 14 September 2018. The distribution reinvestment plan will apply to the final distribution.

#### **Acquisition of adjacent land**

On 2 July 2018, the Group completed the acquisition of land adjacent to Ingenia Lifestyle Chambers Pines (Chambers Flat, QLD) for a purchase price of \$4.5 million.

#### **Sale of Settlers Cessnock**

On 6 July 2018, the Group completed the sale of Settlers Cessnock (Cessnock, NSW) for \$2.5 million (net of resident loans).

## Directors' Declaration

Ingenia Communities Fund and Ingenia Communities Management Trust  
For the year ended 30 June 2018

1. In the opinion of the directors:
  - (a) the financial statements and notes of Ingenia Communities Fund and of Ingenia Communities Management Trust are in accordance with the Corporations Act 2001, including:
    - (i) giving a true and fair view of each Trust's financial position as at 30 June 2018 and of their performance for the year ended on that date; and
    - (ii) complying with Accounting Standards and Corporations Regulations 2001; and
  - (b) there are reasonable grounds to believe that Ingenia Communities Fund and Ingenia Communities Management Trust will be able to pay their debts as and when they become due and payable.
2. The notes to the financial statements include an explicit and unreserved statement of compliance with international financial reporting standards at Note 1(b).
3. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2018.

On behalf of the Board



Jim Hazel  
Chairman  
Sydney, 21 August 2018



## Independent Auditor's Report to the unitholders of Ingenia Communities Fund

### Report on the Audit of the Financial Report

#### Opinion

We have audited the financial report of Ingenia Communities Fund (the "Trust") and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, 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 consolidated financial position of the Group as at 30 June 2018 and of its consolidated financial performance for the year ended on that date; 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying financial report.

## 1. Valuation of Investment Properties

### Why significant

Approximately 21% of the Group's total assets comprise investment properties. These assets are carried at fair value, which is assessed by the directors with reference to either external independent valuations or internal valuations, and is based on market conditions existing at reporting date.

This was considered a key audit matter as valuations contain a number of assumptions which are based on direct market comparisons, or estimates. Minor changes in certain assumptions can lead to significant changes in the valuation.

The investment properties, as disclosed in note 9 to the financial report, earn revenue predominantly from longer term rental agreements and the key judgments include capitalisation rates, discount rates, market and contractual rent and forecast occupancy levels.

### How our audit addressed the key audit matter

Our audit procedures included the following:

- ▶ We considered the competence, qualifications and objectivity of the external valuers and evaluated the suitability of their valuation scope and methodology for the financial report;
- ▶ We assessed the Group's internal valuation methodology and checked the mathematical accuracy of their valuation models. We also assessed competence and qualifications of the internal valuer;
- ▶ We compared the property related data used as input for both the external and internal valuations against actual property performance;
- ▶ We considered the key inputs and assumptions used in the valuations by comparing this information to external market data; and
- ▶ Our real estate valuation specialists reviewed a sample of internal and external valuations to determine whether the key judgements and methodology used were appropriate.

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

The directors are responsible for the other information. The other information comprises the information included in the Group's 2018 Annual Report other than the financial report and our auditor's report thereon. We obtained the Directors' Report that is to be included in the Annual Report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will 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 on the other information obtained prior to the date of this auditor's report, 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 Group's ability to continue as a going concern, disclosing, as applicable, matters relating 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 have 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.

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

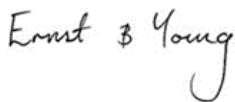
- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a 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.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year 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.



Ernst & Young



Megan Wilson  
Partner  
Sydney  
21 August 2018

## Independent Auditor's Report to the unitholders of Ingenia Communities Management Trust

### Report on the Audit of the Financial Report

#### Opinion

We have audited the financial report of Ingenia Communities Management Trust (the "Trust") and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, 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 consolidated financial position of the Group as at 30 June 2018 and of its consolidated financial performance for the year ended on that date; 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor’s Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

## 1. Valuation of Investment Property

### Why significant

Approximately 87% of the Group’s total assets comprise investment properties. These assets are carried at fair value, which is assessed by the directors with reference to either external independent valuations or internal valuations, and is based on market conditions existing at reporting date.

This was considered a key audit matter as valuations contain a number of assumptions which are based on direct market comparisons, or estimates. Minor changes in certain assumptions can lead to significant changes in the valuation.

The Group has two categories of investment properties as disclosed in Note 9 to the financial report. One of these categories is considered material and involve significant judgement.

- ▶ The Group holds a Lifestyle & Holidays portfolio consisting of investment properties earning revenue from a mix of longer term land rental agreements and short-term accommodation rental. In addition the group earns revenue from the sale of manufactured homes to residents of the properties.

The key judgements for the longer term and short-term rental include capitalisation rates, market and contractual rents, forecast short-term and residential occupancy levels, historical transactions and remaining development potential for vacant land. In assessing the development potential additional key judgements include future new homes sales prices, estimated capital expenditure and allocation between investment property and inventory, discount rates, projected property growth rates and operating profit margins.

### How our audit addressed the key audit matter

Our audit procedures included the following:

- ▶ We considered the competence, qualifications and objectivity of the external valuers and evaluated the suitability of their valuation scope and methodology for the financial statements;
- ▶ We assessed the Group’s internal valuation methodology and checked the mathematical accuracy of their valuation models. We also assessed competence and qualifications of the internal valuer;
- ▶ We compared the property related data used as input for both the external and internal valuations against actual and budgeted property performance;
- ▶ We considered the key inputs and assumptions used in the valuations by comparing this information to external market data;
- ▶ Our real estate valuation specialists reviewed a sample of internal and external valuations to determine whether the key judgements and methodology used were appropriate; and
- ▶ We assessed the appropriateness of the allocation of capital expenditure between investment property and inventory assets.

## 2. Deferred tax assets

### Why significant

The Group has recorded net deferred tax assets of \$12.8m resulting from temporary differences and tax losses carried forward as disclosed in note 12 of the financial statements. The Group recognises these deferred tax assets to the extent that it is probable that future taxable profits will allow the deferred tax assets to be recovered. The probability of recovery is impacted by uncertainties regarding the likely timing and level of future taxable profits and the forecasting of this included assumptions and judgements made by the Group.

### How our audit addressed the key audit matter

Our audit procedures included the following:

- ▶ We evaluated assumptions and judgements made by the Group to forecast future taxable profits to determine the likelihood that the losses will be recovered; and
- ▶ We considered whether information used was derived from the Group's business cash flow forecasts that have been subject to internal reviews and were approved by the Directors.

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

The directors are responsible for the other information. The other information comprises the information included in the Group's 2018 Annual Report other than the financial report and our auditor's report thereon. We obtained the Directors' Report that is to be included in the Annual Report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will 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 on the other information obtained prior to the date of this auditor's report, 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 Group's ability to continue as a going concern, disclosing, as applicable, matters relating 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 have 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.

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

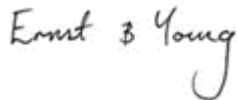
- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a 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.



From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year 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.



Ernst & Young



Megan Wilson  
Partner  
Sydney  
21 August 2018