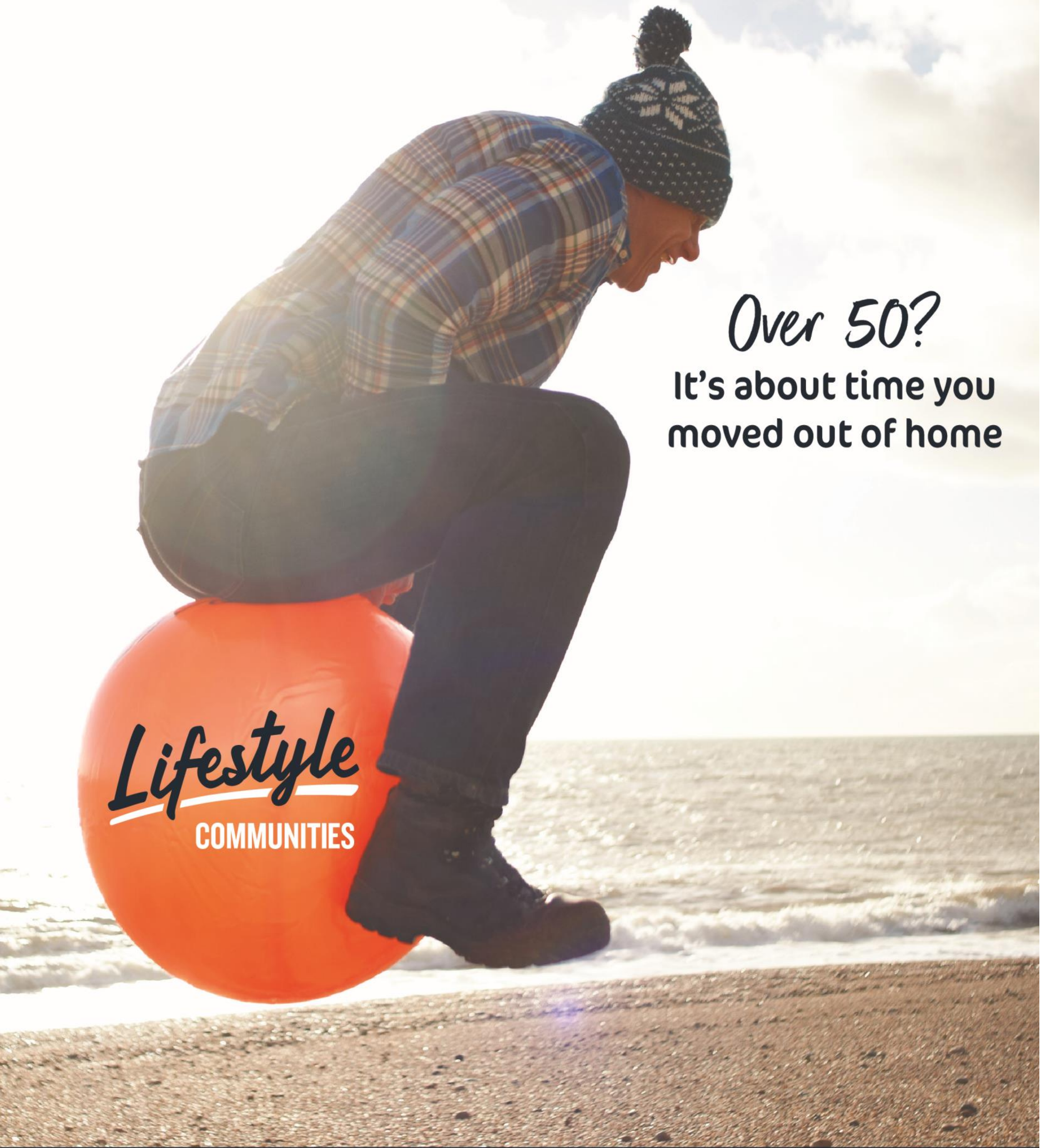

Lifestyle Communities Limited

ABN 11 078 675 153
Financial Report
For the half year ended 31 December 2019

This half-year financial report is to be read in conjunction with the financial report for the year ended 30 June 2019.

1H2020 Highlights

600+ Homeowners competing in sporting activities

19 Communities and growing

3,492 Homeowners and growing

9 Electric Town Cars

1 New site acquired

2,393 Homes occupied

2 awards won

814 Cats, dogs and other pets

Contents

For the half-year ended 31 December 2019

Corporate Information

Lifestyle Communities Limited	
Registered Office	Level 1, 9-17 Raglan Street South Melbourne VIC 3205 Australia
Directors	Philippa Kelly – Non-executive Chair James Kelly – Managing Director The Honourable Nicola Roxon – Non-executive Director Georgina Williams – Non-executive Director David Blight – Non-executive Director Mark Blackburn – Non-executive Director (appointed Dec 2019)
Company Secretaries	Darren Rowland Mark Licciardo Kate Goland
Principal Place of Business	Level 1, 9-17 Raglan Street South Melbourne VIC 3205 Australia
Share Registry	Computershare Investor Services Pty Limited Yarra Falls 452 Johnston Street, Abbotsford VIC 3067 Telephone 61 3 9415 5000 Fax 61 3 9473 2500 Investor queries (within Australia) 1300 850 505
Solicitors	Thomson Geer Level 39, 525 Collins Street Melbourne VIC 3000 Australia
Auditors	PricewaterhouseCoopers 2 Riverside Quay Southbank VIC 3006 Australia

Lifestyle COMMUNITIES

Directors' Report

For the half-year ended 31 December 2019

The Directors are pleased to present their report together with the condensed financial report of the consolidated entity consisting of Lifestyle Communities Limited and it's controlled entities (the Group), for the half -year ended 31 December 2019 and the independent review report thereon. This financial report has been prepared in accordance with *AASB 134 Interim Financial Reporting*.

1. Operating and Financial Review

The Company continued to develop and manage its portfolio of affordable lifestyle communities during the first half of the 2020 financial year and continues to work towards its goal of being the leading provider of good quality affordable accommodation for active retirees in Victoria.

Financial and Operating Highlights					
		1HFY20	**1HFY19**	**Change**	**Change %**
Key Financial Data		31/12/2019	31/12/2018		
Revenue	A$ millions	55.3	75.5	(20.2)	(26.8)
Earnings before interest and tax	A$ millions	21.9	32.7	(10.8)	(33.0)
Net profit before tax	A$ millions	21.3	32.1	(10.8)	(33.6)
Operating cash flow	A$ millions	(1.8)	(5.5)	3.7	67.3
Community cash flow [1]	A$ millions	8.1	6.6	1.5	22.7
Basic Earnings per share	A$ cents	14.5	21.0	(6.5)	(31.0)
Diluted earnings per share	A$ cents	14.5	21.0	(6.5)	(31.0)
Interim dividend per share	A$ cents	3.0	2.5	0.5	20.0
Key Operational Data		31/12/2019	30/06/2019		
Gearing[2]	%	32.2	27.1	(5.1)	(18.8)
Return on average capital employed [3]	%	15.8	19.1	(3.3)	(17.3)
Key operational data		31/12/2019	31/12/2018		
Homes settled (gross)	No. of homes	109	186	(77)	(41)
Homes sold (gross)	No. of homes	158	94	64	68
Average realised sales price new homes (GST incl)	A$'000	388	398	(10)	(3)
Number of resales settled[5]	No. of homes	37	30	7	23
Average realised sales price resales (GST incl)[6]	A$'000	401	393	8	2
		31/12/2019	30/06/2019		
Total number of homes (gross)	No. of homes	2,393	2,133	260	12
Total number of homes (after NCI)[4]	No. of homes	2,192	1,932	260	14
Total number of homeowners	No. of homes	3,492	3,118	374	12
Average age of homeowner	Years	73	72	1	1

1. Community cash flow comprises cash flows received from homeowner rentals and deferred management fees less community operating costs and the net surplus/deficit from providing utilities
2. Calculated as a ratio of net debt to net debt plus equity
3. Calculated as a ratio of EBIT (annualised using previous 12 months) divided by average total assets less average current liabilities
4. Gross number of homes adjusted for share of communities owned by non-controlling interests
5. Includes resales attracting a deferred management fee, there were a further 11 resales settled in 1HFY2019 (1HFY2018: 14 resales) that did not attract a deferred management fee as the outgoing homeowners sold their home within 12 months of initial settlement in accordance with the Company's Smart Buy Guarantee
6. Average realised sales price of resales attracting a deferred management fee

Included in the key data above are several non IFRS measures including earnings before interest and tax, community cash flow, gearing, return on average capital employed and key operational data. These figures have not been subject to audit review but have been provided to give a better understanding of the performance of the Company for the first half of the 2020 financial year.

The Company made good progress during the first half of the 2020 financial year with first homeowners moving in at Lifestyle Mount Duneed and construction commencing at Lifestyle Kaduna Park and Lifestyle Wollert. The Company was also pleased to settle the land at Lifestyle Plumpton and acquire a new site at St Leonards on the Bellarine Peninsula; which is scheduled for settlement in December 2020.

158 new home sales were achieved during the half (1HFY19: 94) underpinned by actively selling communities at Lifestyle Mount Duneed, Lifestyle Kaduna Park, Lifestyle Wollert and Lifestyle Plumpton. The first half of FY20 saw the closing stages of settlements at Lifestyle Shepparton, Lifestyle Geelong, Lifestyle Berwick Waters and Lifestyle Bittern. New home settlements were 109 for the first half compared with 186 for the same period in the prior year. The decrease in profit after tax attributable to shareholders from $21.9 million in the first half of

Directors' Report

For the half-year ended 31 December 2019

1. Operating and Financial Review (continued)

Financial and Operating Highlights (continued)

FY19 to $15.1 million in the first half of FY20 can be mainly attributed to the lower settlement numbers.

The Company enters the second half of FY20 with 283 new homes (1HFY19: 272) sold and awaiting settlement (54 of these relate to Lifestyle Wollert and Lifestyle Plumpton which commence settlements in FY21). New home settlements in the second half are expected to be higher than the first half with Lifestyle Mount Duneed and Lifestyle Ocean Grove delivering settlements for the entire period and Lifestyle Kaduna Park commencing settlements in May 2020.

Sales and Settlements at Lifestyle Ocean Grove and Lifestyle Mount Duneed were both impacted by a delay in the provision of key access roads by the respective vendors. The Grubb Road access to Lifestyle Ocean Grove has now been completed and sales and settlements accelerated as a result in the latter part of the half. The access road at Mount Duneed is partially completed and expected to be finished by April 2020.

45 resale settlements were achieved during the half (1HFY19: 41) of which 37 resales attracted a deferred management fee (1HFY19: 30). The company offers a smart buy guarantee whereby no deferred management fee is payable if a homeowner moves out within the first 12 months. Deferred management fee revenue received (inclusive of selling and administration fees) was $2.4 million compared to $2.0 million in the prior half year. The average deferred management fee (pre joint venture share and excluding selling and administration fees) decreased to $65k compared to $66k in the prior half year. At the end of the half year there were 36 resale homes available for sale and 32 resale homes sold and awaiting settlement across the communities.

The Company had 3,492 people living in its communities as at the end of the half year with an average age of 73 years. Total portfolio of home sites increased to 3,960 homes of which 2,393 homes are completed and occupied.

Update on communities

Community	New homes				Resales					Total	
	Settled 1HFY20	Settled 1HFY19	Net sales 1HFY20	Net sales 1HFY19	Settled 1HFY20	Settled 1HFY19	Net sales 1HFY20	Net sales 1HFY19	Sold not settled	Homes settled	Homes in portfolio
Brookfield					4	6	7	9		228	228
Tarneit						2	1	1		136	136
Warragul					4	3	4	2		182	182
Casey Fields					3	5	6	5		217	217
Shepparton	14	16	9	6	5	1	3	1	11	286	300
Chelsea Heights					9	5	9	6		186	186
Hastings					3	1	4	2		141	141
Lyndarum					2	3	3	1		154	154
Geelong	1	16		3	2	2	3	2		164	164
Officer					2	2	4			151	151
Berwick Waters	3	55	4	3	3		3	1	4	212	216
Bittern	23	72	6	8					9	200	209
Ocean Grove	62	27	42	16					66	130	220
Mount Duneed	6		33	22					69	6	191
Kaduna Park			28	36					70		169
Wollert North			19						37		246
Plumpton			17						17		265
Tyabb											240
St Leonards											170
Pakenham											175
Total	**109**	**186**	**158**	**94**	**37**	**30**	**47**	**30**	**283**	**2,393**	**3,960**

Directors' Report

For the half-year ended 31 December 2019

1. Operating and Financial Review (continued)

Update on communities (continued)

The Company records a new sale when it receives a holding deposit. The Company records a settlement when it transfers the significant risks and rewards of ownership to the homeowner and funds are received.

An update on each of the communities as at 31 December 2019 is as follows:

- Lifestyle Brookfield in Melton, Lifestyle Seasons in Tarneit, Lifestyle Warragul, Lifestyle Casey Fields in Cranbourne, Lifestyle Chelsea Heights, Lifestyle Hastings, Lifestyle Lyndarum in Wollert, Lifestyle Officer, and Lifestyle Geelong are fully sold and settled.
- Lifestyle Shepparton is 95% settled and 99% sold. Construction of the community is complete. There are 14 homes remaining to settle (of which 11 are sold) and 3 homes remaining to sell.
- Lifestyle Berwick Waters is fully sold with 4 homes remaining to settle (formerly display homes).
- Lifestyle Bittern is fully sold with 9 homes remaining to settle.
- Sales and settlements at Lifestyle Ocean Grove were impacted by ongoing delays in provision of the access road by the land vendor. This was resolved mid-way through the half with sales and settlements accelerating in the latter part of the half. Lifestyle Ocean Grove achieved 62 settlements in the half year and is 89% sold. There are 24 homes remaining to sell and these are expected to be sold in FY20.
- Sales and settlements at Lifestyle Mount Duneed have also been impacted by the delay in provision of the main access road by the land vendor. The access road at Mount Duneed is partially completed and expected to be finished by April 2020. Despite this, the community officially opened in December 2019 with first homeowners moving in prior to Christmas. Lifestyle Mount Duneed is 39% sold with sales and settlements expected to increase in the second half now that onsite display homes are open and construction activity continues.
- Sales and settlements at Lifestyle Kaduna Park were impacted by delays in receiving the planning permit from the Cardinia Shire Council. This has now been resolved and construction commenced in July 2019. Lifestyle Kaduna Park is 41% sold and first homeowners are expected in May 2020.
- Sales and settlements at Lifestyle Wollert were also impacted by delays in receiving the planning permit from the Whittlesea Council. This has now been resolved and construction commenced in August 2019. Lifestyle Wollert is 15% sold and first homeowners are expected in the first half of FY21.
- The land for Lifestyle Plumpton was contracted in December 2018 and settled in September 2019. The planning permit was received in January 2020 and construction is scheduled to commence in February 2020. Lifestyle Plumpton has sold 17 homes as at the end of December 2019.
- The contracts for the acquisition of land for the Lifestyle Community in Tyabb were executed in March 2019. The contracts are conditional on obtaining a planning permit. The planning permit application is currently with council for assessment. Construction is anticipated to commence in the 2nd half of FY20 with first settlements in FY22.
- The land for the Lifestyle Community in St Leonards was acquired in December 2019 and is due to settle in December 2020. Application for a planning permit has been lodged and is currently with council for their assessment. Construction is scheduled to commence in Q1 of 2021.
- The contract for the acquisition of land for the Lifestyle Community in Pakenham was executed in February 2020. The contract is conditional on obtaining a planning permit.

Directors' Report

For the half-year ended 31 December 2019

1. Operating and Financial Review (continued)

Outlook

The Company has a focused strategy to service the niche of providing good quality affordable housing to the over 50's market and is currently funded and resourced to acquire up to two new sites per year subject to identification of appropriate sites. The Company continues to focus on Melbourne's growth corridors as well as key Victorian regional centres and is currently considering a range of opportunities but will remain disciplined in its assessment of these opportunities.

Lifestyle Communities is pleased with the forward sales and the construction progress achieved during the first half of FY20. All current projects remain on track to meet their long-term settlement and completion targets. In FY20, 129 new home settlements have been achieved to 14 February 2020 and a further 213 homes are scheduled for completion by the end of June 2020 (165 of these homes are sold and awaiting settlement). The Company enters the second half with sufficient forward sales to meet its settlement guidance. Due to planning delays at Lifestyle Kaduna Park and Lifestyle Wollert, construction commenced later than planned. In response, construction programmes were condensed and has resulted in 96 homes scheduled for completion in the last six weeks of the financial year. The decision on when to settle a home and move in to the community rests with the prospective homeowners and as such is subject to individual circumstances and market conditions as homeowners sell their existing home to facilitate their purchase with Lifestyle. The Company will have better visibility of the number of these homes listed for sale and the likely timing of completion in the next six to eight weeks and will provide updated guidance at this time if required.

2. Dividends

The directors have resolved to pay an interim fully franked dividend of 3.0 cents per ordinary share (1H2019: 2.5 cents).

3. Significant changes in the state of affairs

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

4. Directors

The names of the directors in office at any time during, or since the end of, the half-year are:

Names	Appointed	Position
Philippa Kelly	September 2013	Non-Executive Chair
James Kelly	September 2007	Managing Director
The Honourable Nicola Roxon	September 2017	Non-Executive Director
Georgina Williams	September 2017	Non-Executive Director
David Blight	June 2018	Non-Executive Director
Mark Blackburn	December 2019	Non-Executive Director
Tim Poole	Resigned August 2019	Non-Executive Chairman

Company Secretaries	Appointed
Darren Rowland	July 2018
Mark Licciardo	March 2018
Kate Goland	March 2018

Auditor's independence declaration

The auditor's independence declaration in accordance with section 307C of the *Corporations Act 2001* is provided with this report for the half-year.

Signed in accordance with a resolution of the Board of Directors:

Philippa Kelly
Chair

James Kelly
Managing Director

Dated this 18 day of February 2020

We're electrifying!

Lifestyle Ocean Grove's electric town car

Auditor's Independence Declaration

As lead auditor for the review of Lifestyle Communities Ltd for the half-year ended 31 December 2019, I declare that 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 review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Lifestyle Communities Ltd and the entities it controlled during the period.

Andrew Cronin
Partner
PricewaterhouseCoopers

Melbourne
18 February 2020

PricewaterhouseCoopers, ABN 52 780 433 757
2 Riverside Quay, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
T: 61 3 8603 1000, F: 61 3 8603 1999, www.pwc.com.au

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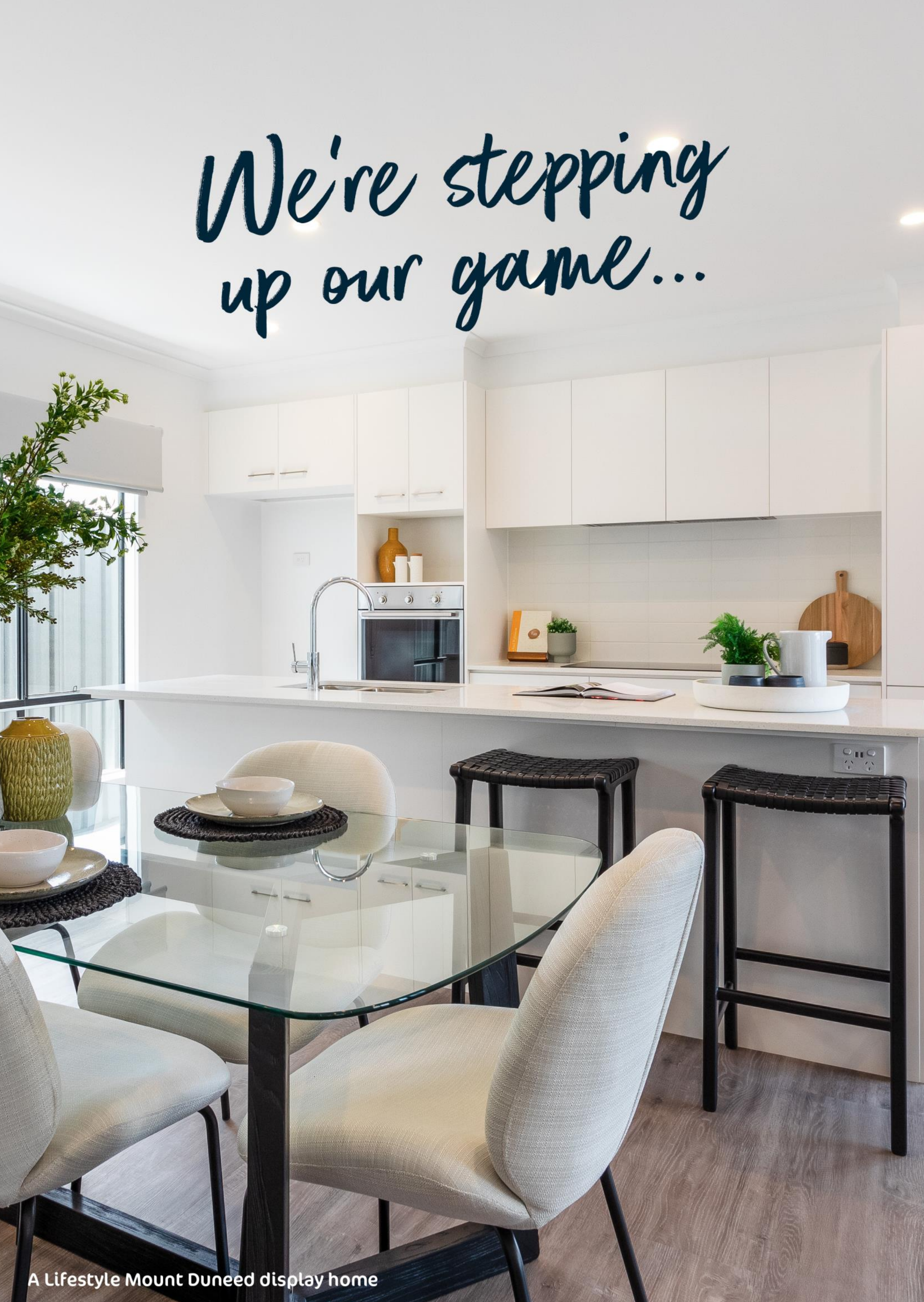

A Lifestyle Mount Duneed display home

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the half-year ended 31 December 2019

	Note	31 December 2019 000's $	31 December [(1)] 2018 000's $
Development revenue			
Home settlement revenue		**40,014**	62,962
Cost of sales		**(31,391)**	(48,325)
Gross profit from home settlements		**8,623**	14,637
Management and other revenue			
Rental revenue		**11,357**	9,039
Deferred management fees		**2,432**	2,013
Utilities revenue		**1,477**	1,460
Finance revenue		**52**	6
Total management and other revenue		**15,318**	12,518
Fair value adjustments	5	**13,978**	19,608
less expenses			
Development expenses (sales, marketing and project management)		**(3,753)**	(3,160)
Management rental expenses		**(4,521)**	(3,806)
Deferred management fee expenses		**(1,204)**	(923)
Utilities expenses		**(1,512)**	(1,442)
Corporate overheads		**(5,076)**	(4,692)
Finance costs	6	**(581)**	(622)
Profit before income tax		**21,272**	32,118
Income tax expense		**(6,157)**	(10,178)
Profit from continuing operations		**15,115**	21,940
Earnings per share for profit attributable to the ordinary equity holders of the parent entity:			
Basic earnings per share (cents)		**14.50**	21.00
Diluted earnings per share (cents)		**14.50**	21.00

[(1)] Prior year comparatives have been restated, please refer to note 2 for additional information.

Lifestyle COMMUNITIES

Condensed Consolidated Statement of Financial Position

As at 31 December 2019

	Note	31 December 2019 000's $	30 June [1] 2019 000's $
ASSETS			
Current Assets			
Cash and cash equivalents		**3,269**	4,982
Trade and other receivables		**1,009**	605
Inventories		**39,419**	37,098
Other current assets		**2,081**	1,825
Total current assets		**45,778**	44,510
Non-current assets			
Inventories		**18,921**	13,882
Property, plant and equipment		**8,860**	7,642
Investment properties	9	**425,333**	399,750
Right-of-use assets	3	**837**	-
Total non-current assets		**453,951**	421,274
TOTAL ASSETS		**499,729**	465,784
LIABILITIES			
Current liabilities			
Trade and other payables		**24,417**	36,919
Lease liabilities	3	**149**	-
Current tax liabilities		**236**	974
Provisions		**3,700**	3,697
Total current liabilities		**28,502**	41,590
Non-current liabilities			
Bank loan - secured		**130,000**	100,000
Lease liabilities	3	**716**	-
Provisions		**140**	132
Deferred tax liabilities		**73,205**	69,371
Total non-current liabilities		**204,061**	169,503
TOTAL LIABILITIES		**232,563**	211,093
NET ASSETS		**267,166**	254,691
EQUITY			
Contributed equity	8	**63,289**	63,641
Reserves		**3,042**	2,196
Retained earnings		**200,835**	188,854
TOTAL EQUITY		**267,166**	254,691

[1] Prior year comparatives have been restated, please refer to note 2 for additional information.

Condensed Consolidated Statement of Changes in Equity

For the half-year ended 31 December 2019

	Note	Contributed equity 000's $	Reserves 000's $	Retained earnings 000's $	Total equity 000's $
Balance at 1 July 2019		**63,641**	**2,196**	**188,854**	**254,691**
Profit for the half year		-	-	**15,115**	**15,115**
Total comprehensive income for the half year		**63,641**	**2,196**	**203,969**	**269,806**
Transactions with owners in their capacity as owners					
Share based payment expense		-	**615**	-	**615**
Share based payments distributed			**(121)**		**(121)**
Treasury shares reclassification		**(352)**	**352**	-	-
Dividends paid or provided for	7	-	-	**(3,134)**	**(3,134)**
		(352)	**846**	**(3,134)**	**(2,640)**
Balance at 31 December 2019		**63,289**	**3,042**	**200,835**	**267,166**

	Note	Contributed equity 000's $	Reserves 000's $	Retained earnings 000's $	Total equity 000's $
Balance at 1 July 2018		63,808	1,728	139,018	204,554
Profit for the half year		-	-	21,940	21,940
Total comprehensive income for the half year		63,808	1,728	160,958	226,494
Transactions with owners in their capacity as owners					
Issue of shares - exercise of options		666	(554)	-	112
Treasury shares purchased		(565)	-	-	(565)
Dividends paid or provided for	7	-	-	(2,614)	(2,614)
		101	(554)	(2,614)	(3,067)
Balance at 31 December 2018		63,909	1,174	158,344	223,427

Condensed Consolidated Statement of Cash Flows

For the half-year ended 31 December 2019

	Note	31 December 2019 000's $	31 December 2018 000's $
Cash flow from operating activities			
Receipts from customers		**56,534**	76,481
Payments to suppliers and employees		**(53,996)**	(77,017)
Income taxes paid		**(3,060)**	(3,614)
Interest received		**7**	6
Interest paid		**(1,239)**	(1,334)
Net cash outflow from operating activities		**(1,754)**	(5,478)
Cash flow from investing activities			
Purchase of property, plant and equipment		**(1,684)**	(1,185)
Purchase of investment properties		**(25,020)**	(20,837)
Net cash outflow from investing activities		**(26,704)**	(22,022)
Cash flow from financing activities			
Principal elements of lease payments		**(120)**	-
Proceeds from external borrowings		**30,000**	30,000
Dividends paid		**(3,134)**	(2,614)
Purchase of treasury shares		-	(800)
Net cash inflow from financing activities		**26,746**	26,586
Net increase/(decrease) in cash and cash equivalents held		**(1,712)**	(914)
Cash and cash equivalents at the beginning of the half year		**4,981**	8,585
Cash and cash equivalents at end of the half -year		**3,269**	7,671

The accompanying notes form part of these condensed consolidated financial statements.

1. Introduction

The condensed consolidated half-year financial report covers Lifestyle Communities Limited and its controlled entities ('the Group'). Lifestyle Communities Limited is a for-profit Company limited by shares, incorporated and domiciled in Australia. The financial report was authorised for issue by the Directors on 18 February 2020. Comparatives are consistent with prior years, unless otherwise stated.

2. Basis of Preparation

This condensed consolidated half-year financial report for the reporting period ending 31 December 2019 has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standard AASB 134: Interim Financial Reporting.

The half-year financial report is intended to provide users with an update on the latest annual financial statements of Lifestyle Communities Limited and controlled entities (the Group). As such it does not contain information that represents relatively insignificant changes occurring during the half -year within the Group. This condensed consolidated financial report does not include all the notes normally included in an annual financial report. Accordingly, this financial report is to be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2019, together with any public announcements made during the half-year.

The half-year financial report has been prepared on an accruals basis and is based on historical costs modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

Significant accounting policies adopted in the preparation of these financial statements are consistent with the previous financial year and the corresponding interim reporting period, except as noted below:

(a) Joint Operations Accounting

Joint operations arrangements with Chelsea Heights and Casey Fields are captured under AASB 11 and the revenue and expenses are reported based on the Group's share. Prior year comparatives have been restated to account the Company's share of revenue and expenses.

(b) Leases

The Group has adopted AASB 16 and has recognised lease liabilities in relation to leases which has previously been classified as 'operating leases' under the principles of AASB117 Leases, details are disclosed in note 3 below

(c) Employee Share Scheme

As noted in the Company's remuneration report, Lifestyle employees are eligible to participate in the equity incentive scheme (EIS). During the first half of FY20, the company made a change to the method in which employee awards are settled with eligible employees. Employees will now receive zero exercise priced options. Vesting will occur in accordance with the targets and timeframes outlined in the remuneration report and it remains the Company's intention to settle the options with shares acquired on market. All other conditions and performance hurdles of the scheme remain unchanged.

(d) Provisions

Provision for GST on land has been reclassified from trade and other payables to current provisions in the prior year.

(e) Inventories

Accrued future project expenses previously included in the inventory balance has been reclassified to trade and other payables in the prior year.

(f) Management rental expenses

Operations, regional management and wellness staff costs have been reclassified from corporate overheads to management rental expenses in the prior year.

3. Change in Accounting Policy

Leases - Adoption of AASB 16

The Group has adopted AASB 16 retrospectively from 1 July 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019.

Impact of adoption of AASB 16

The impact of adopting AASB 16 is described below:

The Group as a lessee

The group has one lease for the support office at 9-17 Raglan Street South Melbourne for an initial term of 5 years and an initial annual rent of $257,775. The lease commenced on the 1 February 2019.

Under AASB 117, the Group assessed whether leases were operating or finance leases based on its assessment of whether the significant risks and rewards of ownership had been transferred to the Group or remained with the lessor. Under AASB 16, there is no differentiation between finance and operating leases for the lessee and therefore all leases which meet the definition of a lease are recognised on the condensed consolidated statement of financial position (except for short-term leases and leases of low value assets).

Adjustments recognised on adoption of AASB 16
On adoption of AASB 16, the group recognised lease liabilities in relation to leases which has previously been classified as 'operating leases' under the principals of AASB117 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 2.84%.

Financial statement impact of adoption of AASB 16

The Group has recognised right-of-use assets of $942,165 and lease liabilities of $942,165 at 1 July 2019, for leases previously classified as operating leases.

	2019 000's $
Operating lease commitments at 30 June 2019 financial statements	1,012
Discounted using the incremental borrowing rate at 1 July 2019	942
Of which are:	
Current lease liabilities	226
Non-current lease liabilities	716
	942

The associated right-of-use assets for property leases were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The change in accounting policy affected the following items in the balance sheets on 1st July 2019:

- right-of-use assets - increase by $0.9 million
- lease liabilities - increase by $0.9 million
- Nil impact on retained earnings on 1 July
- Nil impact on deferred taxes on 1 July

Practical expedients applied
In applying AASB16 for the first time, the group has used the following practical expedients permitted by the standard:

- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases
- reliance on previous assessments on whether leases are onerous

The group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying AASB 117 and Interpretation for Determining whether an Arrangement contains a Lease.

The group's leasing activities and how these are accounted for
The group leases its office and the rental period is for 5 years with an extension option thereafter. The lease agreement does not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2019 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit and loss on a straight-line basis over the period of the lease.

From 1 July 2019, leases are recognised as a right-of-use asset and corresponding liability at the date at which the leased asset is available for use by the group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit and loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments less any lease incentives receivable
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising the

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain as asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs

4. Segment Information

Operating segments are reported based on internal reporting provided to the Managing Director who is the Group's chief operating decision maker. The consolidated entity operates within one operating segment, being the property development and management industry. As a result, disclosures in the Consolidated Financial Statements and notes are representative of this segment.

5. Fair Value Adjustments

	31 December 2019 000's $	31 December 2018 000's $
Fair value adjustments - Investment Properties	13,978	19,608

(a) Fair value adjustments - investment properties

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

6. Finance Costs

(a) Finance costs expensed

	31 December 2019 000's $	31 December 2018 000's $
Interest on secured loans	468	578
Amortisation of loan facility fees	113	44
	581	622

(b) Finance costs capitalised

Finance costs capitalised refers to interest capitalised as part of inventory:

	31 December 2019 000's $	31 December 2018 000's $
Interest on secured loans	1,560	756
Total	1,560	756

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

(c) Secured loans

On 28 March 2019, the Company executed contracts with The Commonwealth Bank of Australia, National Australia Bank and HSBC Bank Australia to secure $225,000,000 of senior debt facilities under a common terms deed. The new facilities comprise a $60,000,000 tranche with a maturity of three years and a $165,000,000 tranche with a maturity of five years and replaces the previous $120,000,000 facility with Westpac Banking Corporation.

As at reporting date the Company has drawn $130,000,000 of the $225,000,000 facility.

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

7. Dividends

	31 December 2019 000's $	31 December 2018 000's $
2019 Final dividend		
Dividends paid 3.0 cents per share (2018: 2.5 cents per share) fully franked at 30%	**3,134**	2,614
Interim dividend declared after balance date and not recognised		
Since balance date the directors have declared an Interim dividend of 3.0 cents per ordinary share (2019: 2.5 cents per share) fully franked based on tax paid at 30%	**3,134**	2,614

8. Contributed Equity

	31 December 2019 000's $	31 December 2018 000's $
104,545,131 Ordinary shares (31 December 2018: 104,545,131)	**64,523**	64,523
230,401 Treasury shares (31 December 2018: 275,156)	**(1,234)**	(614)
Total	63,289	63,909

9. Fair value measurements

(a) Fair value hierarchy

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

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

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

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

	Level 1 000's $	Level 2 000's $	Level 3 000's $	Total 000's $
31-Dec-19				
Recurring Fair Value Measurements				
Investment properties	-	-	425,333	425,333
Total assets measured at fair value	-	-	425,333	425,333
30-Jun-19				
Recurring Fair Value Measurements				
Investment properties	-	-	399,750	399,750
Total assets measured at fair value	-	-	399,750	399,750

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

(i) Investment properties

The valuation methodology for the half-year is determined by a using a combination of inputs utilising the valuers input from 30 June 2019 value for certain assumptions and updates made for rental rates and number of settled homes. The Group have then considered the appropriateness of other assumptions used in June 2019 to determine a Directors value and these have remained consistent given there are no indicators or triggers for any significant movements in the other key assumptions.

Fair value is determined by a combination of the discounted annuity streams associated with the settled home units and the fair value of the undeveloped land. Inputs, including discount rates, deferred management fee annuity value, and management expense rates are derived from independent valuations. Rental capitalisation rates are derived from a combination of independent and Directors' valuations. The fair value of undeveloped land is based on inputs from independent valuations or recent on market transactions. Inputs from independent valuations are provided by property valuers who are industry specialists in valuing these types of investment properties.

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

9 . Fair value measurements (continued)

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

(i) Investment properties

Rental capitalisation rates - rates were taken directly from the valuations for the six communities independently valued in FY19. In relation to the remaining communities independently valued in the prior year the Directors have adjusted the rental capitalisation rates to reflect those adopted by the independent valuers.

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

Rental annuity - for all communities the Directors have adjusted the weekly rental rates adopted in prior year valuations to reflect annual rent increases.

Undeveloped land - the valuation for this component is taken from inputs within the independent valuations or recent on market transactions.

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

	31 December 2019	30 June 2019
	Adopted	Per valuations
Weekly rentals ($)	199.88 - 206.53	196.44-202.92
Anticipated % expenses (as a percentage of rental income)	28.0%-42.2%	28.0%-42.2%
Rental capitalisation rate (%)	7.0%	7.0%
Rental values per unit ($)	84,730 -108,342	84,730-108,341
Deferred management fee discount rates (%)	13.00% - 13.25%	13.00% - 13.25%
Deferred management fee values per unit ($)	31,229 - 89,247	31,229-89,247
Valuation of undeveloped land (per hectare) ($'million)	0.19 - 2.20	0.19 - 2.20

(d) Reconciliation of recurring level 3 fair value movements

(i) Investment properties

	31 December 2019 000's $	30 June 2019 000's $
Opening balance	**399,750**	303,573
Additions (contracted land and capitalised costs)	**11,605**	40,445
Net unrealised gain from fair value adjustments	**13,978**	55,732
Closing balance	**425,333**	399,750

Gains and losses are recognised in the Condensed Consolidated Statement of Profit and Loss and Other Comprehensive Income within fair value adjustments.

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

(i) Investment properties

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

(ii) Rental income

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

	Post Tax Profit Higher/(Lower)		Equity Higher/(Lower)	
	31-Dec-19	31-Dec-18	31-Dec-19	31-Dec-18
	$	$	$	$
Rental expense as a % of rental revenue				
+2%	(4,780)	(3,794)	(4,780)	(3,794)
-2%	4,780	3,794	4,780	3,794
Rental capitalisation rate				
+0.50%	(10,649)	(7,864)	(10,649)	(7,864)
-0.50%	12,288	8,987	12,288	8,987
Deferred management fee per unit				
+5%	4,286	3,728	4,286	3,728
-5%	(4,286)	(3,728)	(4,286)	(3,728)
Land prices (undeveloped land)				
+10%	6,151	6,071	6,151	6,071
-10%	(6,151)	(6,071)	(6,151)	(6,071)

10. Events Occurring After the Reporting Date

The financial report was authorised for issue on 18 February 2020 by the board of directors.

On Friday 14th February the Company announced that it executed a conditional contract of sale to purchase a site located in Pakenham, Victoria. Land settlement is expected to occur during the first half of 2022 with construction anticipated to commence soon afterwards.

Apart from the above no matters or circumstances have arisen since the end of the financial half -year which significantly affected or could significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

11. Contingencies

The GST audit being conducted by the Australian Taxation Office (ATO), covering the period from June 2014 to May 2018, continued throughout the period. Whilst dialogue continued, the ATO has not issued any further updates to the draft position paper issued in June 2019, in which it expressed its view that:

1. The Company is not entitled to $1.1 million (excluding potential penalties and interest) of input tax credits on land acquisitions; and
2. The Company is not entitled to $6.6 million (excluding potential penalties and interest) of input tax credits on its community infrastructure expenditure

The Company's position remains that it is entitled to an input tax credit for a part of the GST incurred on its land acquisitions and an input tax credit for the full amount of GST incurred on its community infrastructure expenditure. The Company has come to this view after taking independent advice from relevant subject matter experts, including senior counsel.

During the period additional advice was obtained from senior counsel, briefed jointly by the Company and the ATO. Counsel's subsequent advice was received prior to 31 December 2019 and is currently being reviewed by the ATO. At the ATO's request, the Company has agreed to further extend the audit period to allow the ATO sufficient time to consider the additional advice. The Company holds a provision of $2.7 million (including potential penalties and interest) which has not increased since 30 June 2019.

12. Commitments

Commitments for acquisition of land and future development costs not recognised in the financial statements at balance date are $271m. These commitments include the conditional land acquisition at Tyabb and future construction costs committed at 31 December 2019.

Lifestyle Ocean Grove's pickleball court

Directors' Declaration

The directors declare that:

1. In the directors' opinion, the financial statements and notes thereto, as set out on pages 2 to 22 are in accordance with the *Corporations Act 2001*, including:

(a) complying with Australian Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001; and

(b) giving a true and fair view of the consolidated group's financial position as at 31 December 2019 and of its performance for the half-year ended on that date.

2. In the directors' opinion, there are reasonable grounds at the date of this declaration, to believe that Lifestyle Communities Ltd will be able to pay its debts as and when they become due and payable.

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

Philippa Kelly	James Kelly
Chair	Managing Director

Dated this 18 day of February 2020

Independent auditor's review report to the members of Lifestyle Communities Ltd

Report on the half-year financial report

We have reviewed the accompanying half-year financial report of Lifestyle Communities Ltd (the Company) and the entities it controlled during the half-year (together the Group), which comprises the condensed consolidated statement of financial position as at 31 December 2019, condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, selected other explanatory notes and the directors' declaration.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year 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 half-year financial report that gives a true and fair view and is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Lifestyle Communities Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Lifestyle Communities Ltd is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the half-year ended on that date;

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

Andrew Cronin
Partner

Melbourne
18 February 2020

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