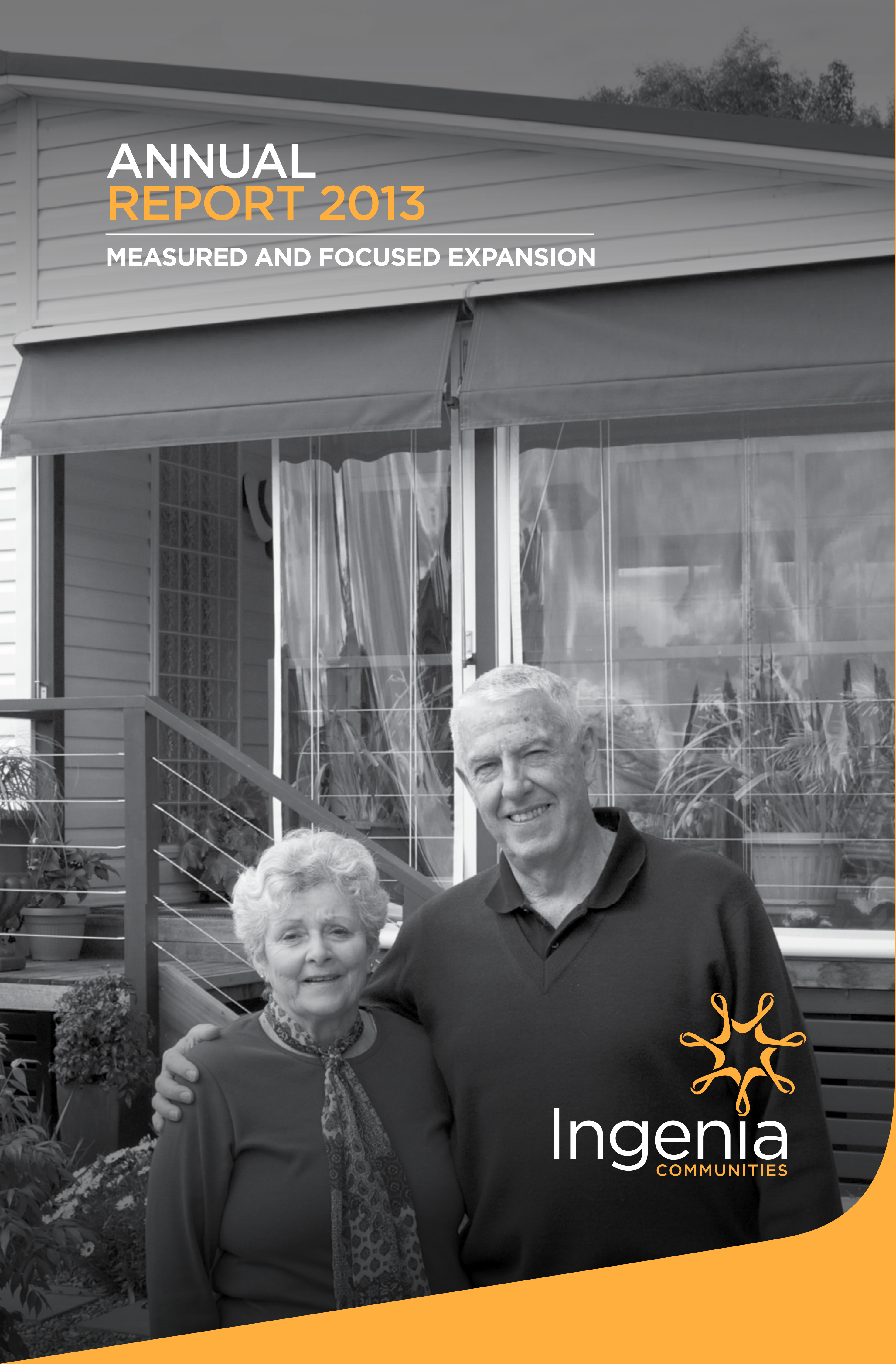
# ANNUAL REPORT 2013

## MEASURED AND FOCUSED EXPANSION



Ingenia COMMUNITIES

# 44 quality Australian seniors living communities and growing



**$2.8m**
Profits from continuing operations increased by 95% on FY12

**$3.3m**
Operating income from continuing operations increased by 63% on FY12

**32**
DMF Conversion sales in 2H13, a 52% increase from 1H13 results

www.ingeniacommunities.com.au

GARDEN VILLAGES

Active Lifestyle ESTATES


SETTLERS

Friends | Freedom | Fulfillment

# Business Strategy

**Ingenia Communities Group (ASX ticker: INA) is a leading stapled property group that owns, operates and develops a diversified portfolio of seniors living communities in Australia. The Group is also the largest owner operator of seniors rental communities in the country.**

# Ingenia Communities Holdings Limited Annual Reports

for the year ended 30 June 2013

## CONTENTS

# Directors' Report

for the year ended 30 June 2013

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 2013 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").

ICF was formerly the ING Real Estate Community Living Fund. ICMT was formerly the ING Real Estate Community Living Management Trust.

From 4 June 2012 Ingenia Communities RE Limited ("ICRE"), a wholly owned subsidiary of the Company became the responsible entity for the Trusts. On that date, management of the Trusts was internalised and the stapled entity known as Ingenia Communities Group (consisting of the Company and the Trusts) (the "Group") was formed ("Internalisation").

Previously, the Trusts operated as a stapled entity known as ING Real Estate Community Living Group. The responsible entity for the Trusts until 4 June 2012 was ING Management Limited ("IML"). IML is an Australian domiciled company and is a wholly owned company within the ING Groep NV group of companies.

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

## 1. DIRECTORS

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

### Non-executive directors

| | |
|---|---|
| Jim Hazel (Chairman) | Appointed 1 March 2012 |
| Philip Clark AM | Appointed 4 June 2012 |
| Amanda Heyworth | Appointed 16 April 2012 |
| Robert Morrison | Appointed 8 February 2013 |

### Executive directors

| | |
|---|---|
| Simon Owen (Managing Director) | Appointed 24 November 2011 |

### 1.1. Qualifications, experience and special responsibilities

**Jim Hazel – Chairman**

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 listed company directorships include Bendigo and Adelaide Bank Limited since 2010, Centrex Metals Limited since 2010 and Impedimed Limited since 2006. Jim also serves on the Boards of Motor Accident Commission, Coopers Brewery Limited and the Council for Ageing (SA) Inc.

Mr Hazel is a member of the Remuneration and Nomination Committee.

**Philip Clark AM**

Mr Clark is the Chair of SCA Property Group Limited, a Non-executive Director of Hunter Hall Global Value Limited and a member of the J.P. Morgan Advisory Council. He also chairs a number of government and private company boards. He was Managing Partner and Chief Executive Officer of Minter Ellison and worked with that firm from 1995 until June 2005.

Prior to joining Minter Ellison, Mr Clark was Director and Head of Corporate with ABN Amro Australia and prior to that he was Managing Partner with Mallesons Stephen Jaques for 16 years.

Mr Clark is Chair of the Remuneration and Nomination Committee and a member of the Audit and Risk Committee.

# Directors' Report

for the year ended 30 June 2013 | continued

**Amanda Heyworth**

Ms Heyworth is a professional company director. She previously served as Executive Director of Playford Capital Venture Capital Fund. She has a wealth of experience in the finance, technology and government sectors. Ms Heyworth brings a finance and growth focus to the Group, having worked on many product launches and geographic expansions and over 40 capital raisings and M&A transactions. She sits on a number of public sector and private boards.

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

**Robert Morrison**

Mr Morrison has extensive experience in property investment and funds management. During his 21 years at AMP, Mr Morrison's executive roles included Head of Property for Asia Pacific and Director of Asian Investments. Mr Morrison's investment experience includes senior portfolio management roles where he managed both listed and unlisted property funds on behalf of institutional investors.

Mr Morrison was previously an Executive Director of AMP Capital 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 and is a Non-executive Director to the Board of Mirvac Funds Management Limited.

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

**Simon Owen – Managing Director**

Mr Owen joined the Group in November 2009 as the Chief Executive Officer. He has the overall responsibility for the strategic direction of the Group including operational, financial and capital management. Mr Owen brings to the Group in-depth experience in the retirement sector and is the immediate 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. Mr Owen's experience spans across multiple disciplines including finance, funds management, mergers and acquisitions, business development and sales and marketing. Prior to Ingenia Communities, Mr Owen was the CEO of Aevum, a formerly listed retirement company. Mr Owen is a qualified accountant (CPA) with postgraduate diplomas in finance and investment, and advanced accounting.

## 1.2 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 | |
|---|---|---|---|---|---|---|
| | A | B | A | B | A | B |
| Jim Hazel | 17 | 17 | 3 | 2 | 3 | 3 |
| Philip Clark AM | 17 | 15 | 7 | 6 | 3 | 3 |
| Amanda Heyworth | 17 | 17 | 7 | 7 | 3 | 3 |
| Robert Morrison | 8 | 8 | 4 | 4 | – | – |
| Simon Owen | 17 | 17 | – | – | – | – |

A: Meetings eligible to attend B: Meetings attended

### 1.3 Interests of directors

Securities in the Group held by directors as at 30 June 2013 were:

| | ISSUED STAPLED SECURITIES | PERFORMANCE QUANTUM RIGHTS | RETENTION QUANTUM RIGHTS |
|---|---|---|---|
| Jim Hazel | 1,000,000 | – | – |
| Philip Clark AM | 100,000 | – | – |
| Amanda Heyworth | 421,000 | – | – |
| Robert Morrison | 110,000 | – | – |
| Simon Owen | 1,517,750 | 2,260,000 | 1,070,000 |

## 2. COMPANY SECRETARIES

**Leanne Ralph**

Ms Ralph was appointed to the position of Company Secretary in April 2012. Ms Ralph has over 21 years experience in chief financial officer and company secretarial roles for various publicly listed and unlisted entities. Ms Ralph is a member of Chartered Secretaries Australia, and Australian Institute of Company Directors. Ms Ralph is the principal of Boardworx Australia Pty Ltd, which supplies bespoke outsourced company secretarial services to a number of listed and unlisted companies.

**Tania Betts**

Ms Betts was appointed as Chief Financial Officer ("CFO") in May 2012, after a 6 year career at Stockland Group where she held various positions including National Finance Manager within their Retirement Living Division. Ms Betts' previous experience includes several years within the chartered accounting profession as well as working for a leading health care provider. She holds a Bachelor of Business in Accounting and Finance, is a member of both the Institute of Chartered Accountants and Chartered Secretaries Australia and was the winner of the 2011 Urban Development Institute of Australia NSW Young Developer Leadership Award.

## 3. CORPORATE GOVERNANCE STATEMENT

This statement outlines the main corporate governance practices currently in place for Ingenia Communities Group and also addresses the ASX Corporate Governance Council Corporate Governance Principles and Recommendations (ASX Recommendations). The Board believes the Group accords with the majority of the principles and recommendations of the ASX Corporate Governance Council with the exception of one recommendation, which is outlined in the report.

The corporate governance policies and practices described below are those that have been in place for the 2012-13 financial year, or as at the date of this report where indicated. The Board continues to review the governance framework and practices of the Group to ensure they meet the interests of securityholders.

### 3.1 Corporate governance structure

**a. Ingenia Communities Group and its Constitutions**

Ingenia Communities Group is a triple stapled structure comprising the parent company, Ingenia Communities Holdings Limited, Ingenia Communities Fund and Ingenia Communities Management Trust, (together known as the Group). ICF and ICMT each have their own Constitution (the Constitutions) both of which have been lodged with the Australian Securities and Investments Commission ("ASIC"). The rights and obligations of unitholders are governed by these Constitutions and the *Corporations Act 2001*. The terms contained in each Constitution are substantially the same.

The responsible entity of ICF and ICMT, Ingenia Communities RE Limited is the holder of an Australian Financial Services Licence ("AFSL").

As a result of the Internalisation and stapling, ICH and ICRE operate as a coordinated Group with the Boards of both companies having the same composition and the meetings held concurrently where appropriate. References to the 'Board' in this statement are references to the Board of ICH and ICRE (as responsible entity of ICF and ICMT).

**b. Compliance plans**

In accordance with the Corporations Act requirements, the Responsible Entity has registered compliance plans for ICF and ICMT, with ASIC. The compliance plans describe the procedures that the Responsible Entity will apply in operating ICF and ICMT to ensure compliance with the Corporations Act and the Constitutions of ICF and ICMT.

The Board of the Responsible Entity is responsible for monitoring the Group's compliance with the compliance plans. Further details are provided under the section on risk management.

### 3.2 Role of the Board

The Board of Ingenia Communities Group is responsible for overseeing the effective management and operation of the Group. The Board operates under a formal charter, which can be found on the Group's website (www.ingeniacommunities.com.au). In addition to the functions prescribed by law, the Board has the following responsibilities:

**Corporate strategy**

- Evaluate, approve and monitor the strategic and financial plans for the Group.
- Evaluate, approve and monitor the annual financial budgets of the Group.
- Evaluate, approve and monitor major capital expenditure, capital management and all major corporate transactions.

**Board composition and structure**

- Review the composition of the Board and consider Board succession.
- Ensure an annual review of the performance of the Board, its committees and directors is carried out.

**Other corporate**

- Approve changes to the Group's capital structure.
- Approve the establishment and issue of any rights, options or securities in the Group.
- Establish and approve a distribution policy to securityholders and any changes to that policy.
- Oversee the effective management and operation of the Group.
- Approve the issue of Public Disclosure Statements.

#### Executive management

- Appointment and removal of the Chief Executive Officer ("CEO").
- Approve the employment terms and conditions of the CEO.
- Review and provide feedback on the performance of the CEO.
- Approve the appointment of the CEO's direct reports and oversee their performance and remuneration.
- Review and ratify the employment terms of the CEO's direct reports (as recommended by the CEO).
- Review management succession planning.
- Approve the level of delegated authority to the CEO, via the Delegations and Authorities Policy.
- Appointment and removal of the Company Secretary.

#### Governance and risk management

- Monitor the overall framework of Governance and Risk Management for the business in relation to the principles of best practice corporate governance.
- Approve and monitor compliance with the Group's key corporate policies, and conduct a review of these policies on an annual basis.
- Monitor the Group's operations in relation to, and compliance with, relevant regulatory requirements, and any other contractual, statutory or legal obligation.
- Monitor compliance with the Group Delegations and Authorities Policy.
- Recommending to securityholders the appointment of the external auditor.

#### Financial reporting

- Review and approve all financial reports of the Group.
- Establish an Audit and Risk Committee to review the Group's financial reporting and oversee the independence of the external auditors, and to review reports provided by the Audit and Risk Committee.
- Review and approve the disclosure in the annual report and any departures from the Australian Securities Exchange ("ASX") best practice corporate governance principles and recommendations.

#### Investor communications

- Approve all material reporting and other external communications by the Group in accordance with the Group's Continuous Disclosure Policy.
- Review management's strategy for investor communications annually.
- Review management's written policy and procedures to ensure compliance with the ASX continuous disclosure requirements.

Generally, the CEO is responsible for all matters not specifically identified as the responsibility of the Board.

### 3.3 Role of the Board of the responsible entity

As the responsible entity, the Board of Ingenia Communities RE Limited has additional responsibilities for the operation of ICF and ICMT. The responsible entity must exercise its powers and perform the obligations conferred on it under the Constitutions and the *Corporations Act 2001* and ensure that the activities of the Group are conducted in a proper and efficient manner in the best interests of unitholders. The responsible entity must also ensure compliance with the conditions of the AFSL and approve and monitor compliance with compliance plans.

### 3.4 Board size and composition

The Constitution of the Group provides that there will be a minimum of three directors and not more than ten directors.

Directors are appointed with the aim of ensuring the Board has:

- an appropriate range of skills, experience and expertise;
- a proper understanding of, and competence to deal with, current and emerging issues in the industry in which it engages;
- the ability to effectively review and challenge the performance of management and exercise independent judgement; and
- a majority of independent directors.

The Board engaged an executive search firm during the year to identify an additional non-executive director with specific skill sets that were deemed appropriate for the Board to collectively possess. This process resulted in the appointment of Mr Robert Morrison as a director of the Group on 8 February 2013.

**a. Terms of appointment**

Non-executive directors are appointed pursuant to formal letters of appointment which, among other things, set out the key terms and conditions of the appointment; the Board's expectations in relation to the performance of the director, procedures for dealing with a director's potential conflict of interest and the disclosure obligations of the director, together with the details of the director's remuneration.

**b. Directors' interests**

Directors are required to keep the Board advised of any interest that may be in conflict with those of the Group, and restrictions are applied to directors' rights to participate in discussion and to vote, as circumstances dictate when a conflict has been identified. In particular, where a potential conflict of interest may exist, directors concerned may be required to leave the Board meeting while the matter is considered in their absence.

The Group has also entered into a deed of disclosure with each director, which is designed to facilitate the Group's compliance with its obligations under the ASX Listing Rules relating to disclosure of changes in directors' security holdings. Directors and their nominated related party securityholdings, are also monitored to identify changes that may require urgent disclosure.

**c. Independent advice**

The Board has a policy of enabling directors to seek independent professional advice for Group related matters at the Group's expense, subject to the prior notification of the Chairman and where the estimated costs are considered to be reasonable.

**d. Directors' independence**

The Board has considered specific principles in relation to directors' independence. The Board considers an independent director to be a non-executive director who is not a member of the Group's management and who is free of any business or other relationship that could materially interfere with, or could reasonably be perceived to interfere with, the independent exercise of their judgement. The Board will consider the materiality of any given relationship on a case-by-case basis, having regard to both quantitative and qualitative principles.

At the date of this report, the Board comprises four non-executive directors, and one executive director. The Boards of ICH and ICRE have the same directors.

The current members of the Board are:

- Mr Jim Hazel (Chairman);
- Ms Amanda Heyworth (Non-executive Director);
- Mr Philip Clark (Non-executive Director);
- Mr Robert Morrison (Non-executive Director); and
- Mr Simon Owen (Executive Director and CEO).

Mr Jim Hazel, Ms Amanda Heyworth, Mr Philip Clark and Mr Robert Morrison are considered by the Board to be independent. The Group recognises that having a majority of independent non-executive directors provides assurance that the Board is structured properly to fulfil its role in holding management accountable for the Group's performance.

The Board considers that the existing Board structure is appropriate for the Group's current operations and stage of development.

Directors' details are listed on page 2, including details of their other listed company directorships and experience.

**e. Chairman**

The role of Chairman and CEO is not occupied by the same individual. The Board has agreed that it should continue to have a majority of independent non-executive directors, that the positions of Chairman and CEO must be separate, and that the Chairman should be an independent non-executive director.

Mr Jim Hazel was appointed Chairman of the Group on 1 March 2012 and is considered an independent director in accordance with recommendation 2.1 of the ASX recommendations.

**f. Board diversity**

In appointing members to the Board, consideration is given to the skills, business experience and educational backgrounds of candidates. The advantage of having a mix of relevant business, executive and professional experience on the Board; the importance of cultural and ethical values; and the benefits of diversity, including gender diversity is also recognised. These factors will also be considered in any future appointments to the Board including any identified skills 'gaps'.

The Remuneration and Nomination Committee oversees the director nomination process. Ultimately, the full Board determines who is invited to fill a casual vacancy after extensive one-on-one and collective interviews with candidates and thorough due diligence and reference checking.

The Group Board has one female non-executive director out of four directors. Ms Amanda Heyworth was appointed to the Board for her specific skills and experience including financial, investment and marketing experience.

A formal diversity policy has been adopted by the Board that outlines the Group's commitment to improving diversity across the organisation. Ingenia promotes an inclusive workplace where employee differences in areas like gender, age, culture, disability and lifestyle choice are valued. The unique skills, perspectives and experience that the Group's employees bring to the table encourage creativity and innovation in thought that better represents Ingenia's diverse customer base, ultimately driving improved business performance.

The policy does not include measurable objectives for achieving gender diversity as the Group has always had a policy of actively encouraging gender diversity at all levels in the organisation, and a culture that supports workplace diversity. This is evidenced by:

- The proportion of female employees on the executive committee: 67%
- The proportion of female employees in the whole organisation: 64%
- The proportion of female employees in senior positions: 38%

In accordance with the requirements of the Workplace Gender Equality Act 2012, the Group has lodged its 2013 annual public report with the Workplace Gender Equality Agency which is available on the Group's website.

#### g. Board meetings

The Board typically schedules meetings on a monthly basis, with additional meetings convened as required. Agendas for each meeting are prepared by the Company Secretary together with the CEO and input from the Chairman, and are distributed prior to the meeting together with supporting papers.

Standing items include the CEO's report and the financial report, as well as reports addressing matters of strategy, governance and compliance. Senior executives are directly involved in Board discussions, and directors have a number of further opportunities to contact a wider group of employees, including visits to business operations.

Board papers include minutes of Board committees and subsidiaries as well as papers on material issues requiring consideration. Significant matters are presented to the Board by senior executives, and the Board may seek further information on any issue, from any executive.

#### h. Board and director performance

The Board is committed to enhancing its effectiveness through performance management and review. The Board review process is designed to help enhance performance by providing a mechanism to raise and resolve issues and to provide recommendations to enhance its effectiveness.

The Board's inaugural performance review was recently undertaken in accordance with the principles in this statement.

### 3.5 Board committees

The ultimate responsibility for the oversight of the operations of the Group rests with the Board. However, the Board may discharge any of its responsibilities through committees of the Board in accordance with the Constitutions and the *Corporations Act 2001*.

The Board has established the following committees, and reviews the composition and effectiveness of the committees on an annual basis:

- Audit and Risk Committee
- Remuneration and Nomination Committee

These committees operate in accordance with their committee charters approved by the Board. Copies of these charters can be viewed on the Group website (www.ingeniacommunities.com.au).

#### a. Audit and Risk Committee

The Board has established an Audit and Risk Committee ("ARC"), which assists the Board in fulfilling its governance and disclosure responsibilities. The ARC has a written charter outlining its role and responsibilities.

The purpose of the ARC is to review the integrity of the Group's financial reporting practices; oversee the independence of the external auditors; maintain open lines of communication among the Board and external auditors, serve as an independent and objective party to review the financial information submitted by management to the Board for issue to security holders, regulatory authorities and the general public; review the adequacy of the reporting and accounting controls of the Group; and to oversee the Group's legislative compliance and risk management policies and procedures.

The ARC has the following responsibilities:

- Review of the Group's financial reports
  - Review the Group's financial reports and commentary prepared by management.
  - Review any matters raised on the financial reports by the Group's external auditor.
  - Assess the appropriateness of the accounting policies adopted in preparing the Group's financial reports.
  - Assess whether the financial reports are adequate for securityholder needs.
  - Review the compliance with disclosure requirements.
  - Assess the adequacy of representations by management as to presentation of the financial reports.
  - Recommend approval of the financial reports by the Board.
- External auditors
  - Establish and maintain procedures for the appointment and rotation of the Group's external auditor.
  - Assess the performance of the external auditor.
  - Assess the independence of the external auditor, having regard to the provision of non-audit services.
  - Review the reasonableness of the external audit fees.
- Internal control framework
  - Review the written policies and procedures designed to ensure accurate external financial reporting and make recommendations to the Board thereon.
  - Receive reports from the internal audit function including on all incidents of actual or suspected fraud or theft (if applicable).
  - Review of operational risk management framework.
  - Review of the internal compliance and control systems in relation to functions other than financial reporting.
- Compliance
  - Review the adequacy of the Group's system for compliance with relevant laws, regulations, standards and codes.
- Risk management
  - The ARC shall be responsible for implementing and overseeing the Group's risk management policies.
  - In addition, the ARC shall:
    - identify and assess the Group's material business risks;
    - regularly review and update the Group's risk profile;
    - approve treasury and hedge policies; and
    - oversee the risk management policies and systems.

The ARC consists of three non-executive directors, all of whom are independent directors, and is chaired by an independent director, who is not chair of the Board. The chair satisfies the test of independence.

The current members of the ARC are:

- Ms Amanda Heyworth (Chair);
- Mr Philip Clark; and
- Mr Robert Morrison.

Mr Jim Hazel was also a member of the ARC until 8 February 2012.

At least one member of the ARC has relevant accounting qualifications and experience and all members have a good understanding of financial reporting. Details of these directors' qualifications and attendance at ARC meetings are set out in the Directors' report.

The external auditor attends the annual general meeting and is available to answer securityholder questions about the conduct of the audit and the preparation and content of the audit report, accounting policies adopted by the Group, and the independence of the auditor in relation to the conduct of the audit.

**b. Remuneration and Nomination Committee**

The Board has an established Remuneration and Nomination Committee ("RNC"). The RNC has a written charter defining its role and responsibilities.

The RNC has been established by the Board to assist in the review of the overall strategies of the remuneration of the Group's non-executive directors and executives and for the review of the composition of the Board.

The purpose of the RNC is to support and advise the Board in the following areas:

- reviewing and recommending the executive remuneration policy to enable the Group to attract and retain executives and directors who will create value for securityholders;
- ensuring that the executive remuneration policy demonstrates a clear relationship between key executive performance and remuneration;
- recommending to the Board the remuneration of executive and non-executive directors;
- reviewing and commenting on superannuation arrangements;
- fairly and responsibly rewarding executives having regard to the performance of the Group, the performance of the executive and the prevailing remuneration expectations in the market;
- reviewing the Group's recruitment, retention and termination policies and procedures for senior management;
- reviewing and recommending to the Board the remuneration of direct reports to the CEO, and as appropriate other senior executives;
- reviewing and recommending to the Board any equity based plans and other incentive schemes;
- developing a process for evaluation of the performance of the Board, its committees and directors;
- overseeing the annual performance evaluations of senior executives of the Group;
- making recommendations to the Board on the appointment and re-election of directors;
- reviewing and reporting to the Board on the mix of skills and experience of the Board with the aim of ensuring it remains an effective decision-making body.

The RNC consists of three non-executive directors all of whom are independent directors and is chaired by an independent director, who is not chair of the Board. The Chair satisfies the test of independence.

The current members of the RNC are:

- Mr Philip Clark (Chair);
- Ms Amanda Heyworth; and
- Mr Jim Hazel.

Each member of the senior executive team, including the executive director, signed formal employment contracts at the time of their appointment, covering a range of matters including their duties, rights, responsibilities and any entitlements on termination. Each contract refers to a specific formal job description. Each contract sets out the remuneration of the executive, including their entitlements to any rights under incentive plans.

The Group aims to have a clear process for evaluating the performance of senior executives. The Board has delegated to the RNC the responsibility to oversee the annual performance evaluation of the Group's senior executives, but retains the performance evaluation of the CEO.

The evaluation for all executives will be based on specific criteria, including the business performance of the Group, whether strategic objectives are being achieved, and the development of management and personnel.

Non-executive directors receive director's fees outlined in their letters of appointment. No non-executive director has any entitlement to participate in any executive incentive plan.

Further information on directors' and executives' remuneration, including principles used to determine remuneration, is set out in the Directors' report under the heading ''Remuneration report''.

**c. Investment Committee**

The Investment Committee ("IC") has been established to assist the Board oversee the investment activities of the Group by reviewing and making recommendations to the Board on:

- major capital expenditure;
- capital management;
- all major corporate transactions including acquisitions and divestment, and
- developments & refurbishments.

The IC reviews investment activities greater than $250,000 and provides endorsement to the CEO for execution. Investment activities greater than $500,000 are submitted to the Board for approval.

The IC monitors the performance of the Group's investments by conducting quarterly reviews on development activities and bi-annual reviews on acquisitions.

The IC consists of the Executive Committee comprising;

- Chief Executive Officer;
- Chief Financial Officer;
- Chief Operating Officer; and
- General Manager Commercial.

Is chaired by the Group Finance Manager.

## 3.6 Risk management

The Board is responsible for ensuring that sound risk management strategy and polices are in place. The Board uses the ARC that has the delegated responsibility for identifying and overseeing major risks and ensuring that systems are in place to manage them.

In addition, the ARC:

- identifies and assesses the Group's material business risks;
- regularly reviews and updates the Group's risk profile; and
- oversees the risk management policies and systems.

The Group's risk management framework is integrated with its day-to-day business processes and functional responsibilities, and is supported by a dedicated compliance officer.

A compliance officer has been appointed under the rules of the compliance plans of ICF and ICMT. The compliance officer is responsible for ensuring adequate internal systems and controls have been implemented to ensure compliance with the *Corporations Act 2001*, ICF and ICMT's Constitutions, the responsible entity's AFSL, and internal and industry standards. These duties include promoting a strong compliance culture within the organisation and to external service providers.

The compliance officer is primarily responsible for reviewing compliance on an ongoing basis; reporting on compliance matters, including breaches, to the ARC; and acting on recommendations of the ARC. Matters will be escalated to the ICRE Board or ASIC when necessary.

The compliance officer has direct access to the Chair of the ARC to ensure the compliance officer is well placed to adequately deal with compliance issues. Management, via the compliance officer, is required to assess risk management and associated internal compliance and control procedures, and is required to report back quarterly to the ARC as to whether those risks are being managed effectively. A quarterly risk and compliance report is prepared by the compliance officer for review and consideration by the Board.

**Compliance plans**

ICF and ICMT both have formal compliance plans that have been adopted by the Board and lodged with ASIC. The purpose of each compliance plan is to set out key processes, systems and measures the responsible entity will apply to ensure compliance with:

- the *Corporations Act 2001*;
- the Constitutions of ICF and ICMT;
- industry practice standards relevant to the particular scheme; and
- internal policies and procedures.

Each compliance plan is a 'how to' document and has been prepared following a structured and systematic process to consider the responsible entity's key obligations under the Act, and the Constitutions; the risk of non-compliance; and measures required to meet the risks of non-compliance.

Each compliance plan describes the key obligations that must be met by the responsible entity, and how compliance with these measures will be monitored. In addition, the compliance plans detail the risk of not complying with these obligations, and how breaches are to be reported and addressed.

## 3.7 External auditors

**a. Compliance plan audit**

The external auditors conduct annual audits on the compliance plans and report on:

- whether the responsible entity has complied with the compliance plans of the Trusts' for the financial year end; and
- whether the compliance plans continue to meet the requirements of Part 5C.4 of the *Corporations Act 2011* as at year end.

**b. Australian Financial Services Licence audit**

The AFSL audit is conducted annually by the external auditor. The auditor reports on the following:

- whether the responsible entity has complied with the specified provisions of Part 7.8 of the *Corporations Act 2011*;
- whether the responsible entity has complied with sections 981B and 982B of the Act (relating to the control and operation of trust accounts);
- whether the responsible entity has complied with specific AFSL conditions relating to financial requirements, including internal procedures used by the Licensee to comply with the financial requirements under the licence; and
- whether the cash projections meet the cash need requirement conditions of the AFSL.

## 3.8 Other external review

**a. ASIC**

ASIC may undertake a review of the responsible entity's risk and compliance processes and systems at any time.

**b. Executive confirmations**

In accordance with the Group's legal obligations, the CEO and CFO have made the following certifications to the Board:

- the Group's financial records have been properly maintained in accordance with Section 286 of the *Corporations Act 2001*;
- the Group's financial statements, and notes thereto; present a true and fair view, in all material respects, of the consolidated group's financial condition and operational results and are prepared in accordance with relevant Australian Accounting Standards, *Corporations Regulations 2001* and other mandatory professional reporting requirements;
- the statements made with respect to the integrity of the Group financial reports are founded on a sound system of risk management and internal compliance and control systems which, in all material respects, implement the policies adopted by the Board; and
- the risk management and internal compliance and control systems, to the extent they relate to the financial reporting, were operating efficiently and effectively in all material respects throughout the period.

Since 30 June 2013, the CEO and the CFO confirm there has been no material change to any of the statements made above.

## 3.9 Code of conduct and ethical behaviour

The Board acknowledges the need for high standards of corporate governance practice and ethical conduct by all directors and employees of the Group.

The Board has endorsed a code of conduct which outlines 'acceptable behaviour' and attitudes expected from all staff to promote and maintain the confidence and trust of all those dealing with the Group.

Various measures have been established to ensure that a high standard of ethical business behaviour is observed by all staff members, including policies and procedures for:

- managing conflicts of interests;
- personal security trading;
- whistleblower procedures;
- acceptance of gifts and entertainment as part of the Gifts, Entertainment and Anti-bribery Policy; and
- handling confidential information.

In addition to their obligations under the *Corporations Act 2001* in relation to inside information, all directors, employees and consultants have a duty of confidentiality to the Group in relation to confidential information they possess.

## 3.10 Employee and director trading in Ingenia Communities Group securities

The Group has a Securities Trading Policy that governs the ability of directors, executives and employees to trade in the Group's securities. Subject to necessary prior written consents being obtained, the Group's directors, executives and employees may trade in the Group's securities at any time outside closed periods which cover a four week period preceding any of the following:

- release of half yearly results;
- release of annual results;
- the annual general meeting or any extraordinary general meeting; or
- for any other time period determined by the Board.

Directors and senior executives may, in exceptional circumstances as defined in the policy, trade during a closed period but, only with the prior written consent of the Chair for directors, the CEO for key executives, and the CFO for other employees. Notwithstanding the closed periods and approval requirements, a person is prohibited from trading at any time if they possess material, price-sensitive information about the Group that is not generally available to the public.

The Group's Securities Trading Policy may be viewed on the Group's website, (www.ingeniacommunities.com.au).

### 3.11 Securityholder confirmation

The Board aims to ensure that its securityholders are kept well-informed of all major developments and business events that are likely to materially affect the Group's operations and financial standing, and the market price of its securities. Information is communicated to securityholders through:

- annual and half year financial reports lodged with the ASX and made available to all securityholders;
- announcement of market-sensitive and other information, including annual and half year results announcements and analyst presentations released to the ASX;
- the Chair's and CEO's addresses to, and the results of, the annual general meeting; and
- copies of announcements, presentations, past and current reports to securityholders made available on the Group website (www.ingeniacommunities.com.au).

The Group has a Continuous Disclosure Policy that includes a formal procedure for dealing with potentially price-sensitive information. The policy sets out how the Group meets its disclosure obligations under ASX Listing Rule 3.1. The Group's policy is to lodge with the ASX and place on its website all market-sensitive information, including annual and half year result announcements and analyst presentations, as soon as practically possible.

The Group produces two sets of financial information each financial year: the half year financial report for the six months ended 31 December and the annual financial report for the year ended 30 June. Both are made available to securityholders and other interested parties.

Securityholders have the right to attend the Group annual general meeting, usually held towards the end of November each year, and are provided with an explanatory memorandum on the resolutions proposed through the notice of meeting. A copy of the notice of meeting is also posted on the Group website and lodged with the ASX.

Securityholders are encouraged to vote on all resolutions. Unless specifically stated otherwise in the notice of meeting, all securityholders are eligible to vote on all resolutions. Securityholders who cannot attend the annual general meeting may lodge a proxy in accordance with the *Corporations Act 2001*. Proxy forms may be lodged by facsimile or electronically.

Transcripts of the Chair and CEO's reports to securityholders are also released to the ASX upon the commencement of the annual general meeting. These transcripts, together with the results of the annual general meeting are also posted on the Group website (www.ingeniacommunities.com.au).

### 3.12 Continuous disclosure

Ingenia Communities Group is committed to continuous disclosure of material information as a means of promoting transparency and investor confidence.

The Group's Continuous Disclosure Policy incorporates the continuous disclosure framework as set out in the ASX Listing Rules Chapter 3, as well as the revised ASX Listing Rules Guidance Note 8.

The company secretaries have been nominated as the persons responsible for communications with the ASX. This role includes the responsibility for monitoring compliance with the continuous disclosure requirements in the ASX listing rules and overseeing and co-ordinating information disclosure to the ASX.

The Group has written policies and procedures that focus on continuous disclosure of any information concerning the Group that a reasonable person would expect to have a material effect on the price of the Group's securities.

## 4. PRINCIPAL ACTIVITIES

The principal activities of the Group are ownership, development and management of seniors living communities in Australia.

## 5. OPERATING AND FINANCIAL REVIEW

### a. Ingenia Communities overview

The Group owns, manages and develops a diversified portfolio of seniors living communities across Australia. Its real estate assets are valued at $224 million and include rental villages, deferred management fee villages, manufactured home estates and three New Zealand student accommodation buildings.

The Group is structured as a triple stapled security; a combination of a unit in Ingenia Communities Management Trust, a unit in Ingenia Communities Management Fund and a share in Ingenia Communities Holdings, which are traded together on the ASX. This structure allows the Group to undertake property investment, property management and development.

The Group's vision is to be a leading Australian provider of affordable seniors living accommodation whilst delivering value to all its stakeholders, which includes strong earnings growth for security holders and value to residents.

### b. Strategy

The Group's strategy is to grow its Australian seniors living portfolio with a focus on affordability. Manufactured home estates have been identified as a key target area for achieving growth, and the Group remains focused on completing divestment of its non-core New Zealand Students portfolio following finalisation of refurbishment works. The growth of the Australian portfolio will be largely achieved through building out the existing development pipeline and further targeted acquisitions.

At all times, the Group applies a disciplined approach to investment with strict minimum return criteria. A key element to achieving growth is efficient operational and capital management. The Group is committed to maintaining gearing within a target range of 25–35% and considering diversified sources of funding including capital partnering opportunities where appropriate.

### c. FY13 Financial results

FY13 was a key transitional year for the Group following Internalisation on 4 June 2012. The Group made several important strategic decisions in order to establish the appropriate foundation for executing its strategy.

These decisions included recommencement of distributions, refinancing Australian debt facilities, completion of the divestment of its US Seniors portfolio with repatriation of funds for reinvestment, entry into the manufactured home estate market and a $21.2 million equity placement to fund further manufactured home estate acquisitions in early FY14.

### d. Key metrics

- Full year distribution of 1.0 cent per security.
- Operating income from continuing operations was $3.3m, up 63% from FY12.
- Operating income was $5.9m, down 21% from FY12.
- Net asset value grew by 0.1 cent per security to 34.4 cents.
- Total Securityholder Return (TSR) of 83% for the twelve months.[1]
- Statutory profit from continuing operations was $2.8m, up 95% from FY12.
- Statutory loss was $10.3m, down $43.9m from FY12.

(1) TRS is the percentage gain from investment in the Group's securities over the twelve months to 30 June 2013 assuming distributions are reinvested into the Group's securities.

These results are reflective of execution of the strategy to divest overseas operations, which is now largely complete, and redeploy that capital into the Australia market to generate strong returns for securityholders.

The statutory loss includes a $17.5m non-cash expense, being the reclassification of the foreign currency translation reserve to accumulated losses following completion of the divestment of the US Seniors portfolio. This item is excluded from Operating Income. The divestment of the US Seniors portfolio, excluding the reclassification of the foreign currency translation reserve generated a gain on sale of $6.5m.

# Directors' Report

for the year ended 30 June 2013 | continued

## e. Group results summary

Operating income for the financial year has been calculated as follows:

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Net profit attributable to security holders | **(10,290)** | 33,627 |
| Adjusted for: | | |
| – Net foreign exchange (gain)/loss | **(37)** | 249 |
| – Net (gain)/loss on disposal of investment property | **107** | 35 |
| – Net (gain)/loss on change in fair value of: | | |
| Investment properties | **(3,457)** | (2,399) |
| Derivatives | **(752)** | (111) |
| Retirement village resident loans | **(327)** | 284 |
| Gain on revaluation of newly constructed retirement villages | **4,619** | 5,124 |
| (Gain)/loss on internalisation | **35** | (2,758) |
| Amortisation of intangibles | **585** | 215 |
| Income tax (benefit)/expense | **(410)** | (34) |
| Disposal costs associated with overseas investments | **150** | – |
| Profit from discontinued operations | **13,118** | (32,179) |
| Operating income from continuing operations | **3,341** | 2,053 |
| Operating income from discontinued operations | **2,526** | 5,381 |
| Operating income | **5,867** | 7,434 |

## f. Segment performance and priorities

### Garden Villages

Garden Villages is comprised of 29 rental villages located across the eastern seaboard and Western Australia. These villages accommodate more than 1500 residents, and generate $17.8 million in gross rental income per annum. The carrying value of these assets is $99.7m.

i. Performance metrics

| GARDEN VILLAGES | FY13 | FY12 | VARIANCE |
|---|---|---|---|
| Occupancy % | 85% | 83% | 2% |
| Like for like occupancy % | 87% | 85% | 2% |
| EBIT $m | 7.7 | 7.0 | 0.7 |

The Garden Villages segment delivered a solid and reliable stream of recurring cash income for the Group. During the year, five new rental villages were acquired meeting benchmark investment returns due to the ability to reposition those villages and drive occupancy growth. Some of these villages are still in the process of being repositioned and management anticipate them to contribute strongly to FY14 performance.

ii. Strategic priorities

The key strategic priorities of this business over the coming year are growing village occupancy, improving cash operating margins, ensuring residents are actively engaged and maintaining affordability whilst leveraging scale efficiencies across the portfolio. Recently, the Group announced the Ingenia Care Assist program whereby the Group acts as a facilitator between residents and accredited Commonwealth Government care providers to provide in-home care. This program will enable residents to live independently for longer in the villages and is expected to be a key contributor to occupancy growth in the coming years.

Settlers Lifestyle

Settlers Lifestyle is comprised of 5 deferred management fee villages and 4 villages in the process of being converted from the rental to deferred management fee model. These villages are located in Queensland, New South Wales and Western Australia and accommodate more than 950 residents generating income from accrued deferred management fees, rental income where villages are not yet fully converted and development income from unit conversions and village expansion. The carrying value of these assets is $75.8m.

i. Performance

| SETTLERS LIFESTYLE | FY13 | FY12 | VARIANCE |
|---|---|---|---|
| Occupancy % | 90% | 90% | – |
| New settlements | 65 | 65 | – |
| Development income $m | 4.4 | 5.1 | (0.7) |
| Accrued DMF income $m | 4.8 | 4.5 | 0.3 |
| EBIT $m | 5.6 | 5.5 | 0.1 |

The Settlers Lifestyle business delivered a stable result in FY13 due partly to softness in underlying residential markets, in particular south east Queensland, which affected new settlement volumes and prices. There was also a shift in sale mix between projects with less settlements coming from some of the higher margin developments nearing completion.

ii. Strategic priorities

The key strategic priorities of this business over the coming year are accelerating the launch and construction of village expansions at Ridge Estate, Gladstone and Rockhampton, selldown of remaining stock at conversion villages and creating a strong community offering which drives high customer referrals and a cost effective sales process.

**Active Lifestyle Estates**

Active Lifestyle Estates was launched in FY13 following the Group's entry into the manufactured home estate market in March 2013. The portfolio of two communities at 30 June 2013, has since been expanded to six following announcement of further acquisitions in New South Wales. This business is a core part of the overall growth strategy for the Group as it provides affordable housing alternative for seniors. The carrying value of these assets at 30 June 2013 before post balance date acquisitions is $13.5m.

i. Performance

| ACTIVE LIFESTYLE ESTATES | FY13 | FY12 | VARIANCE |
|---|---|---|---|
| Occupancy % | 99% | n/a | – |
| New settlements | 2 | n/a | – |
| Development income $m | 0.1 | n/a | – |
| EBIT $m | 0.4 | n/a | – |

Active Lifestyle Estates delivered a contribution of $0.4m in FY13 following the Group's entry into this market in March 2013. Management are pleased with the performance so far and expect this business to be a strong performer in FY14.

ii. Strategic priorities

The key strategic priorities of this business over the coming year are acquiring existing communities with development and repositioning upside, growing sustainable cash yields as well as leveraging scale efficiencies across a larger portfolio.

Discontinued operations

i. New Zealand Students

New 15 year leases have been entered into with Wellington based tertiary education providers which underpin the value of the New Zealand Students accommodation portfolio.

ii. New York Seniors

Settlement of the New York based Bristal portfolio occurred in February 2013 which sees the Group exit the last of its North American student and seniors assets.

## g. Capital management

The Group has maintained a strong focus on prudent balance sheet management with gearing at 20.6% following divestment of the US Seniors portfolio in February 2013 and an equity placement in June 2013.

The Group delivered operating cash inflows during the year of $11.2m which reflects stable settlement volumes from conversion sales in the Settlers Lifestyle business and reduced finance cost from lower debt levels. Investing cash inflows of $17.3m which includes $66.9m of proceeds from sale of investments and $31.0m payments for investment properties. Financing cash outflows of $23.8m includes $21.1m proceeds from equity placement and $40.0m repayment of borrowings.

On 27 June 2013, the Group undertook an institutional equity placement of $21.2m (excluding transaction costs) to fund the acquisition of five manufactured home estates. A total of 66,150,000 securities were issued at 32.0 cents each, which represented a 3.2% discount to the 5 day VWAP.

On the 23 August 2013, the Group refinanced its Bank of New Zealand debt facility, which funds the New Zealand Students portfolio to a 5 year, NZ$20.8m core facility plus an additional development facility of NZ$11.9m for required seismic works.

The Group recommenced distributions in FY13 and will pay a total of 1.0 cent for the year. The Group remains confident of growing earnings over the coming year and will seek to increase distributions over the medium term.

## h. Outlook

The Group will look to drive growth through acquisitions and development during the coming year. An improving residential property market is expected to lead to higher sales in the Group's Settlers and Active Lifestyle Estates portfolios and management believe the affordability focus of its villages will likely find strong market support.

A strong focus will remain on finalising divestment of the New Zealand Students portfolio and reinvesting those funds into Australia. At the same time, the Group will continue to regularly assess the performance of its existing assets and where appropriate may look to recycle that capital into other opportunities delivering superior returns.

## 6. 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 Annual Report. Refer to Note 8 of the accompanying financial statements for discontinued operations, Note 13 for Australian investment properties acquired or disposed of during the year, Note 18 for details of Australian debt refinanced and Note 20 for issued securities.

## 7. EVENTS SUBSEQUENT TO REPORTING DATE

On 16 August 2013, the Group acquired Nepean River Holiday Village, a manufactured home estate in Penrith, New South Wales. The purchase price was $10.0m and was funded by the institutional placement in late June 2013.

On 22 August 2013, the Group acquired Albury City Gate Tourist Park, a manufactured home estate in Albury, New South Wales. The purchase price was $2.2m and was funded by the institutional placement in late June 2013.

On 23 August 2013, the Group refinanced its Bank of New Zealand debt facility, which funds the New Zealand Students portfolio. The refinance is for an existing NZ$20.8m core facility and a new NZ$11.9m development facility for required seismic works. Both facilities have a term of 5 years.

On 27 August 2013, the Group announced the acquisition of the Mudgee Valley Tourist Park for $4.0m and Mudgee Tourist and Van Resort for $7m. The Group has long identified Mudgee as an attractive and significantly untapped market for active retirees.

## 8. LIKELY DEVELOPMENTS

Ingenia will continue to pursue strategies aimed at improving its cash earnings, profitability and market share within the seniors living industry during the next financial year, with a strong focus on the development and acquisition of manufactured home estates.

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

## 9. ENVIRONMENTAL REGULATION

The Group's operations are not subject to any particular and significant environmental regulation under a law of the Commonwealth or of a State or Territory.

## 10. 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.

## 11. 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 35.

## 12. ROUNDING OF AMOUNTS

Ingenia Communities Group is an entity of the kind referred to in ASIC Class Order 98/100, 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.

# Directors' Report

for the year ended 30 June 2013 | continued

## 13. MESSAGE FROM THE REMUNERATION AND NOMINATION COMMITTEE

Dear Securityholders

The Remuneration and Nomination Committee ("RNC") are focused on ensuring that remuneration aligns executive reward with the delivery of key business goals and objectives, and with returns to securityholders. The RNC are confident that the current approach achieves this aim.

### 13.1 Performance and resulting remuneration outcomes for the 2013 year

The Group performed very well in 2012-13. Total Shareholder Returns ("TSR") were 83%. Ingenia was ranked number 1 in the BDO A-REIT Survey 2012. Those outstanding results were due, in no small measure, to the commitment and effort of our management team and my fellow directors.

As one would expect in these circumstances, the RNC recommended that executive key management personnel ("KMP") should be awarded high short term incentive ("STI") bonuses. The Board supported those recommendations and awarded 2012-13 STI payments as follows, each expressed as a percentage of maximum STI opportunity: Simon Owen 90%, Tania Betts 75%, Nikki Fisher 70%.

Long term incentives ("LTI") in the form of performance rights were granted in 2012 with the aim of ensuring both retention of key talent and aligning the 'at risk' compensation payable to executives with securityholder returns.

The performance hurdle for the 'at risk' performance rights is TSR. The measurement period for the 'at risk' rights is 3 years from 1 July 2012 to 30 June 2015. The high TSR in 2012-13 means that KMP are well on their way to securing the vesting of their first tranche of performance rights in 2015.

### 13.2 Remuneration reviews

The RNC conducted a review of executive remuneration during 2013. That review was completed after 30 June 2013 and before the date of this report, so I particularly direct your attention to the subsequent events section (14.11) of the Remuneration report.

In my role as Chair of the RNC, I engaged with external remuneration consultants appointed by the Board to provide independent recommendations in relation to executive and non-executive director (NED) remuneration. These recommendations provided market benchmarking of remuneration and recommendations on base salary packages for all KMP, together with short term and long term incentive plans for executive KMP.

Godfrey Remuneration Group Pty Ltd ("GRG") were re-appointed as the Group's external remuneration consultants in 2013. They provided valuable advice and assistance to the RNC and the Board, for which we are grateful.

They also provided a Declaration for the purposes of Section 206M of the Corporations Act 2001 that their recommendations were made free from any undue influence by any KMP to whom their recommendations relate.

The Board values securityholder feedback and I look forward to answering any questions you may have at our AGM.

Yours faithfully

Philip Marcus Clark AM
Chairman – Remuneration and Nomination Committee

## 14. REMUNERATION REPORT (AUDITED)

### 14.1 Introduction

The Board presents the Remuneration report for the Group for the year ended 30 June 2013, which forms part of the Directors' report and has been prepared in accordance with section 300A of the *Corporations Act 2001*. The data provided in the Remuneration report was audited as required under section 308(3C) of the Corporations Act.

### 14.2 Remuneration governance

**a. Remuneration and Nomination Committee**

The Board has an established the RNC, which is directly responsible for reviewing and recommending remuneration arrangements for directors, the Chief Executive Officer ("CEO") and senior executives who directly report to the CEO.

The RNC comprises the following NEDs:

- Philip Marcus Clark AM (Chairman);
- Jim Hazel; and
- Amanda Heyworth.

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, and in any event at least twice per year, and considers recommendations from internal management and external consultants.

The Board is ultimately responsible for decisions made on recommendations from the RNC.

**b. External remuneration advisers**

The Board engaged GRG to provide independent recommendations in relation to remuneration of the executive roles within the Group for the 2012-13 financial year.

GRG provided a report on market benchmarking of executive remuneration outlined the following:

- new legislation requirements and regulatory developments;
- overall remuneration framework and strategy;
- considerations relating to termination of contracts; and
- market data and trends in remuneration structures.

GRG also provided recommendations on base salary packages and the design of short-term and long-term incentive plans for the key executives of the Group, including the CEO.

The Board re-engaged GRG during 2013 to provide independent remuneration advice for KMP including senior executives and NEDs for the 2013-14 financial year.

GRG provided a further report on market benchmarking of senior executive remuneration for the CEO, Chief Financial Officer ("CFO") and Chief Operating Officer ("COO") roles and made recommendations on their base remuneration and incentive schemes. They also provided a benchmarking report and recommendations on NED remuneration.

For the provision of the advice and recommendations for the 2012-13 financial year GRG were commissioned by, engaged with, and addressed reports directly to the Chairman of the Board. For the provision of the advice and recommendations for the 2013-14 financial year, GRG were appointed by a resolution of the Board. They were then commissioned by, engaged with, and addressed reports directly to the Chairman of the RNC.

The Board is satisfied that the remuneration recommendations were made free from undue influence by members of the KMP to whom the recommendations related, due to there being no engagement with the remuneration consultants outside of the Chairman of the Board in 2012 or the Chairman of the RNC in 2013. A declaration of independence from GRG was received by the Board prior to their acceptance of both engagements.

GRG were paid $49,000 for their assignment in 2012 and $24,000 for their assignment in 2013.

### 14.3 Details of Key Management Personnel

KMP for the year ended 30 June 2013 are those persons who are identified as having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any executive or NED of the Group.

# Directors' Report



The KMP of the Group for the year ended 30 June 2013 are:

| | POSITION | |
|---|---|---|
| **Non-executive directors** | | |
| Jim Hazel | Chairman and NED | |
| Amanda Heyworth | NED<br>Chair of the Audit and Risk Committee | |
| Philip Clark AM | NED<br>Chairman of the Remuneration and Nomination Committee | |
| Robert Morrison | NED | Appointed 8 February 2013 |
| **Executive directors** | | |
| Simon Owen | Managing Director and CEO | |
| **Other executives** | | |
| Tania Betts | CFO | |
| Nicole Fisher | COO | |

## 14.4 Remuneration of KMP (Excluding Non-Executive Directors)

**a. Remuneration policy**

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

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

- capability, skills and experience;
- ability to impact achievement of the strategic objectives of the Group;
- performance of the KMP in their roles;
- the Group's overall performance;
- remuneration levels being paid by competitors for similar positions; and
- the need to ensure continuity of executive talent.

Refer below for detail around the mechanisms in place, which link the remuneration outcomes to individual and the Group's performance.

**b. Link between remuneration and reward**

The Board understands the importance of the relationship between the Group's Remuneration Policy for KMP and the Group's performance. The remuneration packages for KMP are aimed at achieving this balance and aligning KMP remuneration with the interests of securityholders.

| REMUNERATION COMPONENT | LINK TO GROUP PERFORMANCE |
|---|---|
| Fixed remuneration | Fixed remuneration is not linked to Group performance. It is set with reference to the individual's role, responsibilities and performance and remuneration levels for similar positions in the market. |
| Short-term incentive (STI) | STIs are awarded to individuals whose achievements, behaviour and focus meets the Group's business plan and key result expectations during one or more specified measurement periods.<br><br>The Board maintains sole discretion over the granting of the STI to eligible employees. |
| Long-term incentive (LTI) | The Group provides LTIs in the form of a retention scheme and a performance scheme.<br><br>Retention quantum rights (RQRs) – were solely aimed at incentivising key executives to remain with the business during the important transitional phase following Internalisation. RQR's were granted in 2012-13 but it is not anticipated that they will be granted in future years.<br><br>Performance quantum rights (PQRs) – are aimed at aligning executive and securityholder interests. |

The table below sets out summary information about the Group's earnings and movement in securityholder wealth for the five years to 30 June 2013:

| | 30 JUNE 2013 | 30 JUNE 2012 | 30 JUNE 2011 | 30 JUNE 2010 | 30 JUNE 2009 |
|---|---|---|---|---|---|
| Operating income ($000) | 5,867 | 7,434 | 6,889 | 18,260 | 26,210 |
| Profit/(loss) from continuing operations ($000) | 2,828 | 1,448 | (5,603) | (50,508) | (166,971) |
| EPS from continuing operations (cents) | 0.6(1) | 0.3 | (1.3) | (11.5) | (37.9) |
| NAV per security (cents) | 34.4(1) | 34.3 | 25.9 | 24.9 | 40.0 |
| Security price 30 June (cents) | 34.5 | 19.5 | 11.5 | 5.0 | 5.0 |
| Distributions (cents) | 1.0 | – | – | – | 1.5 |

(1) During the year ended 30 June 2013, the Group issued 66,150,000 shares under an institutional placement.

**c. Target mix of remuneration components**

Executive remuneration packages include a mix of fixed remuneration, STI's and LTI's. 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 set the total employment cost of KMP around the 50th percentile range of comparable industry peers and other Australian listed companies of similar size and complexity, whilst also taking into account the individual's competence and the potential impact of incentives.

The target remuneration mix for executives for the year ended 30 June 2013, expressed as a percentage of total remuneration, is detailed in the table below.

| TARGET MIX | TOTAL FIXED REMUNERATION (TFR) (%) | STI (%) | LTI | | TOTAL REMUNERATION (%) |
|---|---|---|---|---|---|
| | | | Retention quantum rights (%) | Performance quantum rights (%) | |
| CEO | 43.5% | 13.1% | 21.7% | 21.7% | 100.0% |
| CFO | 57.1% | 14.3% | 14.3% | 14.3% | 100.0% |
| COO | 57.1% | 14.3% | 14.3% | 14.3% | 100.0% |

## 14.5 Total fixed remuneration (Excluding Non-Executive Directors)

Total fixed remuneration (TFR) is a guaranteed annual salary, which is calculated on a total cost basis, which may include salary-packaged benefits grossed up for FBT payable, as well as employer contributions to superannuation funds and other non-cash benefits that may be agreed to from time to time.

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

The table below details the TFR for each of the executives for the year ended 30 June 2013:

| EXECUTIVE | POSITION | TOTAL FIXED REMUNERATION (P.A.) |
|---|---|---|
| Simon Owen | CEO | $400,000 |
| Tania Betts | CFO | $280,000 |
| Nicole Fisher | COO | $280,000(1) |

(1) Full year TFR. The actual TFR for the year was $154,064, due to maternity leave taken during the year.

In 2012 GRG advised the Board that the fixed remuneration of Simon Owen for the year ended 30 June 2013 was approximately 30% less than the commercial benchmark for comparable roles and this factor was taken into account in setting the potential indicative STI and LTI benefits to which he could become entitled.

## 14.6 Short-term incentive scheme

The STI scheme aims to reward eligible employees whose achievements, behaviour and focus meets the Group's business plan and key result expectations during one or more specified measurement periods.

The initial year of the short-term incentive scheme commenced on 1 July 2012 and ended on 30 June 2013 (Scheme Year). Where not expressly withdrawn the scheme will apply each financial year.

Initial participation in the scheme is completely at the discretion of the Board.

The quantum of the STI opportunity for the year ended 30 June 2013 was determined based upon recommendations from GRG.

For those employees who participate in the scheme, the opportunity for reward is assessed against specific key performance indicators ("KPI's") for each employee, which are documented in a written statement (Plan Statement) identifying:

- The percentage weighting and measurement period for each KPI;
- The KPI outcomes measures are set with a threshold, on target and stretch performance measures;
- The maximum STI award amount payable for achieving each of the performance levels, calculated on the employee's base remuneration at the time the Plan Statement is issued.

The Board has structured the KPIs around both financial metrics, such as operating income, earnings per security and operating cashflows, and non-financial metrics around strategy development and execution, business performance, people and stakeholder relationships.

For the year ended 30 June 2013 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 STI awards.

It was the view of the RNC and the Board that the Group has had a strong performance for the 2012-13 year.

The Board approved STI awards for the year ended 30 June 2013 for each executive KMP are as follows:

| KMP | POSITION | ACTUAL STI AWARDED $ | ACTUAL STI AWARDED AS A % OF MAXIMUM STI |
|---|---|---|---|
| Simon Owen | CEO | $108,000 | 90% |
| Tania Betts | CFO | $52,500 | 75% |
| Nicole Fisher | COO | $21,882 | 70%(1) |

(1) 70% of the total available opportunity on a full year basis. The actual amount awarded was calculated on a pro-rata basis allowing for maternity leave taken during the year.

**a. STI–termination of employment**

The following table outlines the treatment of the short-term incentive scheme at the time of a termination of employment:

| TERMINATION CIRCUMSTANCE | STI AWARDS |
|---|---|
| Dismissal (termination for cause) | All are forfeited. |
| Resignation | All are forfeited, unless otherwise determined by the Board at its complete discretion. |
| Other Circumstances | A pro rata reduction in the STI opportunity for each KPI with the assessor taking into account a variety of factors. |

No STI award for the year ended 30 June 2013 was affected by termination of employment.

## 14.7 Long-term incentive scheme

The objective of the Group's LTI scheme is to align long-term securityholder returns with the 'at risk' compensation payable to executive level employees whilst also acting as a mechanism to retain key talent.

The scheme comprises two types of security rights, RQRs and PQRs.

The Board has used RQRs as an initial grant to ensure stability during the Internalisation transition and PQRs for regular annual grants, subject to review on an annual basis.

The initial Scheme Year commenced on 1 July 2012 and ended 30 June 2013, and thereafter the Scheme Years are from 1 July to 30 June, unless the scheme is expressly withdrawn.

Upon vesting of a number of quantum rights, the holder will be issued with securities equivalent to the value of vested quantum rights on the vesting date, provided and to the extent that the value of the quantum rights on the vesting date exceeds $1,000. The value of each quantum right on the vesting date shall be equivalent to the security price on the vesting date.

The 2012-13 LTI components of Simon Owen's remuneration were approved by securityholders at the Extraordinary General Meeting held on 31 May 2012. Any LTI components of Simon Owen's remuneration for the 2013-14 year will be subject to shareholder approval at the 2013 Annual General Meeting to be held at 1.00pm 19 November 2013.

**i. Retention Quantum Rights**

These are rights granted to encourage the retention of key executives and are subject to the holder remaining an employee of the Group until the end of the retention period. This period is 2 years after the commencement of the Scheme Year. An employee is not required to pay for a RQR.

RQRs were granted to the following employees during the year ended 30 June 2012 as a one off retention bonus of up to 50% of the Executive's total fixed annual remuneration in Year 1 only. These rights are aimed at incentivising them to remain with the business during the important transitional phase of Internalisation and the initial transition of the business as an ASX listed entity.

| | GRANT DATE | RETENTION PERIOD | VESTING DATE | VESTING CONDITIONS | VALUE OF RQRS | NUMBER OF RQRS |
|---|---|---|---|---|---|---|
| Simon Owen | 31 May 2012 | 2 years | 30 June 2014 | Remaining employed at vesting date | 50% of TFR in year 1, $200,000 | 1,070,000 |
| Tania Betts | 14 May 2012 | 2 years | 30 June 2014 | Remaining employed at vesting date | 25% of TFR in year 1, $70,000 | 374,000 |
| Nicole Fisher | 4 June 2012 | 2 years | 30 June 2014 | Remaining employed at vesting date | 25% of TFR in year 1, $70,000 | 374,000 |

There are no circumstances where RQRs will be vested to these executives prior to the end of the retention period. No RQRs lapsed during the year ended 30 June 2013 or to the date of this report.

There have been no additional RQRs issued during the year ended 30 June 2013 or to the date of this report.

**ii. Performance Quantum Rights**

The Board has adopted an LTI plan with the aim of rewarding executives for delivering returns to securityholders that are consistent with, or exceed, expectations.

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

GRG was specifically asked to advise on this practice in 2012. GRG advised that they considered TSR to be the appropriate measure for the Group to use. They confirmed that advice in 2013. The RNC and the Board have accepted that advice.

In respect of the 2012-13 year, the percentage of PQRs held by an eligible employee on the vesting date in respect of a Scheme Year that may vest shall be determined in accordance with the table below:

| WHERE GROUP'S ACTUAL TSR OVER THE 3 YEAR VESTING PERIOD IS: | PERCENTAGE OF EMPLOYEE'S PQRS THAT MAY VEST IN RESPECT OF THE SCHEME YEAR: |
|---|---|
| Below 26% – below threshold performance. | 0% |
| 26% (approximately 8%pa compound) on threshold performance. | 25% |
| At or above 26% but below 40% performance between threshold and target performance. | 25%–50%, in the same proportion as the Group's actual TSR bears to the threshold and target performance. |
| 40% (approximately 12%pa compound) on target performance. | 50% |
| Above 40% but below 56% performance between target and stretch performance. | 50%–100%, in the same proportion as the Group's actual TSR bears to the target TSR and stretch performance. |
| 56% or above (approximately 16%pa compound) stretch performance. | 100% |

The vesting period is: 3 years from the commencement of the Scheme Year.

The vesting conditions are: based on Group performance over the vesting period as measured by the actual TSR.

The Board has absolute discretion to vary the vesting conditions outlined in the table above.

The table below sets out the participation level of KMP in the LTI Scheme – PQRs, in terms of grant size, fair value and the maximum recognised value in the future. These PQRs were granted during the year ended 30 June 2012 for the 2013 year.

| KMP | POSITION | LTI SCHEME – PQRS | NUMBER OF PERFORMANCE RIGHTS GRANTED | GRANT DATE | FAIR VALUE OF PERFORMANCE RIGHTS ($) | VESTING DATE | MAXIMUM VALUE RECOGNISED IN FUTURE YEARS ($) |
|---|---|---|---|---|---|---|---|
| Simon Owen | CEO | 2013 | 2,260,000 | 31 May 2012 | 230,520 | 30 June 2015 | 153,680 |
| Tania Betts | CFO | 2013 | 791,000 | 14 May 2012 | 71,032 | 30 June 2015 | 47,355 |
| Nicole Fisher | COO | 2013 | 791,000 | 4 June 2012 | 80,287 | 30 June 2015 | 53,525 |

No PQRs vested or lapsed during the year ended 30 June 2013.

No other PQRs were granted during the year ended 30 June 2013.

**iii. LTI – termination of employment**

The following table outlines the treatment of unvested Rights at the time of a termination of employment:

| TERMINATION CIRCUMSTANCE | UNVESTED QUANTUM RIGHTS |
|---|---|
| Dismissal (termination for cause) | All are forfeited. |
| Resignation | All are forfeited unless and to the extent otherwise determined by the Board. |
| Other circumstance | Rights granted in the financial year of termination of employment are forfeited in the same proportion as the remainder of the financial year bears to the full financial year.<br>Rights that do not lapse at the termination of employment will continue to be held by participants with a view to testing for vesting at the end of the measurement period.<br>If the security price at the end of the measurement period is less than the security price at the date of termination of employment then:<br>RQR – the rights will lapse and an amount up to their value will be paid in cash.<br>PQR – the rights will lapse and an amount up to the value of the Rights that would otherwise have vested will be paid in cash.<br>If the security price at the end of the measurement period is not less than the security price at the date of termination of employment then:<br>RQR – the rights will vest.<br>PQR – the rights will be tested for vesting in accordance with the terms of rights. |

## 14.8 KMP employment contracts

**Managing Director – Simon Owen**

| | |
|---|---|
| Contract duration | Commenced 4 June 2012, open-ended. |
| Fixed remuneration | Total remuneration package includes fixed remuneration and superannuation. |
| Variable remuneration eligibility | Eligible for STI of up to 30% for any one year of the executive's total cost fixed annual remuneration.<br>Eligible for LTI of up to 50% for any one year of the executive's total cost of fixed annual remuneration.<br>Eligible for a one off retention LTI granted in May 2012 of up to 50% of the executive's total cost fixed annual remuneration at that time.<br>The Board may withdraw or vary the STI and LTI schemes at any time by written notice to the executive, provided that 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.<br>Treatment of Incentives: As outlined above. |

**Chief Financial Officer – Tania Betts**

| | |
|---|---|
| Contract duration | Commenced 14 May 2012, open-ended. |
| Fixed remuneration | Total remuneration package includes fixed remuneration and superannuation. |
| Variable remuneration eligibility | Eligible for STI of up to 25% for any one year of the executive's total cost fixed annual remuneration.<br>Eligible for LTI of up to 25% for any one year of the executive's total cost of fixed annual remuneration.<br>Eligible for a one off retention LTI granted in May 2012 of up to 25% of the executive's total cost fixed annual remuneration at that time.<br>The Board may withdraw or vary the STI and LTI schemes at any time by written notice to the executive, provided that 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.<br>Treatment of Incentives: As outlined above. |

**Chief Operating Officer – Nicole Fisher**

| | |
|---|---|
| Contract duration | Commenced 4 June 2012, open-ended. |
| Fixed remuneration | Total remuneration package includes fixed remuneration and superannuation. |
| Variable remuneration eligibility | Eligible for STI of up to 25% for any one year of the executive's total cost fixed annual remuneration.<br>Eligible for LTI of up to 25% for any one year of the executive's total cost of fixed annual remuneration.<br>Eligible for a one off retention LTI granted in May 2012 of up to 25% of the executive's total cost fixed annual remuneration at that time.<br>The Board may withdraw or vary the STI and LTI schemes at any time by written notice to the executive, provided that 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.<br>Treatment of Incentives: As outlined above. |

## 14.9 Remuneration Tables

The following tables outline the remuneration provided to KMP excluding NEDs for the years ended 30 June 2013 and 30 June 2012.

No executive KMP appointed during the period received a payment as part of their consideration for agreeing to hold the position.

**Key Management Personnel – Executive Remuneration**

| | | SHORT-TERM | | | | | |
|---|---|---|---|---|---|---|---|
| 2013 | | SALARY | NON-MONETARY BENEFITS | OTHER PAYMENTS | SUPER-ANNUATION BENEFITS | STI[2] | TOTAL SHORT-TERM |
| | | $ | $ | $ | $ | $ | $ |
| **Executive director** | | | | | | | |
| Simon Owen | CEO | 340,155 | – | – | 19,017 | 108,000 | 467,172 |
| **Senior executives** | | | | | | | |
| Tania Betts | CFO | 262,516 | – | – | 17,585 | 52,500 | 332,601 |
| Nicole Fisher[1] | COO | 154,064 | – | – | 12,355 | 21,882 | 188,301 |
| **Total executive KMP** | | **756,735** | **–** | **–** | **48,957** | **182,382** | **988,074** |

(1) Nicole Fisher was on maternity leave from 19 November to 30 June 2013.

(2) STIs were accrued or paid in the year ended 30 June 2013.

(3) No rights vested or lapsed during the year and no rights have vested since the end of the financial year. An expense of $293,113 was expensed in the year ended 30 June 2013 (2012: 14,736).

**Key Management Personnel – Executive Remuneration**

| | | SHORT-TERM | | | | | |
|---|---|---|---|---|---|---|---|
| 2012 | | SALARY | NON-MONETARY BENEFITS | OTHER PAYMENTS | SUPER-ANNUATION BENEFITS | STI[3] | TOTAL SHORT-TERM |
| | | $ | $ | $ | $ | $ | $ |
| **Executive director** | | | | | | | |
| Simon Owen[1] | CEO | 22,562 | – | – | 2,031 | – | 24,593 |
| **Senior executives** | | | | | | | |
| Tania Betts[2] | CFO | 31,786 | – | – | 2,861 | – | 34,647 |
| Nicole Fisher[1] | COO | 15,722 | – | – | 1,415 | – | 17,137 |
| **Total executive KMP** | | **70,070** | **–** | **–** | **6,307** | **–** | **76,377** |

(1) Simon Owen and Nicole Fisher commenced employment with the Group effective on the Internalisation date of 4 June 2012.

(2) Tania Betts commenced employment with the Group on 14 May 2012.

(3) No STIs were accrued or paid in the year ended 30 June 2012.

(4) No rights vested or lapsed during the year ended 30 June 2012 and no rights have vested since the end of the year ended 30 June 2012.

| OTHER LONG-TERM | LTI[3] | | | | PERFORMANCE RELATED | |
|---|---|---|---|---|---|---|
| LONG SERVICE LEAVE | PERFORMANCE QUANTUM RIGHTS | RETENTION QUANTUM RIGHTS | TERMINATION BENEFITS | TOTAL | STI+LTI PERCENT OF TOTAL | LTI PERCENT OF TOTAL |
| $ | $ | | $ | $ | % | % |
| – | 76,840 | 99,243 | – | 643,255 | 44 | 27 |
| – | 23,677 | 31,902 | – | 388,180 | 28 | 14 |
| – | 26,762 | 34,689 | – | 249,752 | 33 | 25 |
| **–** | **127,279** | **165,834** | **–** | **1,281,187** | **37** | **23** |

| OTHER LONG-TERM | LTI[4] | | | | PERFORMANCE RELATED | |
|---|---|---|---|---|---|---|
| LONG SERVICE LEAVE | PERFORMANCE QUANTUM RIGHTS | RETENTION QUANTUM RIGHTS | TERMINATION BENEFITS | TOTAL | STI+LTI PERCENT OF TOTAL | LTI PERCENT OF TOTAL |
| $ | $ | | $ | $ | % | % |
| – | – | 8,157 | – | 32,750 | 25 | 25 |
| – | – | 4,108 | – | 38,755 | 11 | 11 |
| – | – | 2,471 | – | 19,608 | 13 | 13 |
| **–** | **–** | **14,736** | **–** | **91,113** | **16** | **16** |

# Directors' Report

for the year ended 30 June 2013 | continued

## 14.10 Non-Executive Directors Remuneration

**a. Directors' fees**

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

**b. Performance-based remuneration**

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

**c. Equity-based remuneration**

There is currently no equity-based remuneration plan in place for NEDs, however all NEDs have self funded the purchase of securities on market thereby aligning their interests with securityholders.

**d. NED remuneration table**

The following table outlines the remuneration provided to NEDs for the year ended 30 June 2013 and 30 June 2012.

| NON-EXECUTIVE DIRECTORS | | DIRECTORS FEES ($) | OTHER ($) | TOTAL ($) |
|---|---|---|---|---|
| Jim Hazel | **2013** | **150,000** | **–** | **150,000** |
| | 2012(1) | 12,500 | 37,500 | 50,000 |
| Amanda Heyworth | **2013** | **70,000** | **–** | **70,000** |
| | 2012(2) | 5,833 | 8,750 | 14,583 |
| Philip Clark | **2013** | **70,000** | **–** | **70,000** |
| | 2012(3) | 5,833 | – | 5,833 |
| Robert Morrison(4) | **2013** | **29,167** | **–** | **29,167** |
| | 2012 | – | – | – |
| Total non-executive KMP | **2013** | **319,167** | **–** | **319,167** |
| | 2012 | 24,166 | 46,250 | 70,416 |

(1) Jim Hazel was appointed as Director on 1 March 2012. During the year ended 30 June 2012, Jim Hazel provided consultation services amounting to $37,500 to the Group in relation to its Internalisation. These are one off consultation services that are not related to amounts paid for acting in the capacity of NED.

(2) Amanda Heyworth was appointed as Director on 16 April 2012. During the year ended 30 June 2012, Amanda Heyworth provided consultation services amounting to $8,750 to the Group in relation to its Internalisation. These are one off consultation services that are not related to amounts paid for acting in the capacity of NED.

(3) Philip Clark was appointed as Director on 4 June 2012.

(4) Robert Morrison was appointed as Director on 8 February 2013.

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

NEDs do not receive additional remuneration for chairing or being a member of Board committees.

## 14.11 Events subsequent

This section of the Remuneration report deals with the period from 30 June 2013 to the date of this report.

**a. External remuneration consultants**

GRG were re-appointed by Resolution of the Board to provide independent remuneration advice for KMP remuneration in respect of the 2013-14 year.

**b. Details of KMP**

There have been no changes to the KMP after 30 June 2013 and before the date of this report.

**c. Target mix of remuneration components**

Based on advice from GRG and recommendations from the RNC, the Board has set the target remuneration mix for executives for 2013-14, expressed as a percentage of total remuneration, as detailed in the table below.

| TARGET MIX | TFR | STI | LTI | TOTAL REMUNERATION |
|---|---|---|---|---|
| CEO | 50% | 20% | 30% | 100% |
| CFO | 62.5% | 18.75% | 18.75% | 100% |
| COO | 62.5% | 18.75% | 18.75% | 100% |

**d. Total fixed remuneration 2013-14**

Based on advice from GRG and recommendations from the RNC, the Board has set TFR for each of the executives for 2013-14 as detailed in the table below.

| EXECUTIVE | POSITION | TFR (P.A.) |
|---|---|---|
| Simon Owen | CEO | $600,000 |
| Tania Betts | CFO | $312,500 |
| Nikki Fisher | COO | $300,000(1) |

(1) Currently pro-rated for 4 days per week after returning to work from maternity leave.

As noted in section 14.5 above, the fixed remuneration of Simon Owen for the year ended 30 June was approximately 30% less than the commercial benchmark for comparable roles. For the 2013-14 year GRG recommended a mid point TFR of $600,000 per annum. That recommendation was supported by the RNC and approved by the Board.

TFR for the CFO and COO for 2013-14 were proposed by the CEO within ranges recommended by GRG. The RNC recommended the TFR amounts set out above and those recommendations were approved by the Board.

**e. STI 2013-14**

The Board has revised KPIs for STI for 2013-14, based on a recommendation from the RNC in the case of the CEO and based on a recommendation of the CEO, supported by the RNC, in the case of the CFO and COO.

**f. LTI 2013-14**

i. RQR

There have been no RQR issued during the year ended 30 June 2013 or since then and before the date of this report.

ii. PQR

Since 30 June 2013 and before the date of this report, the value and number of PQRs that have been offered to executives are:

| | VALUE OF PQRS | NUMBER OF PQRS | VESTING DATE |
|---|---|---|---|
| Simon Owen | 60% of TFR for 2013-14 $360,000(1) | 2,460,000 | 30 June 2016 |
| Tania Betts | 30% of TFR for 2013-14 $93,750 | 641,000 | 30 June 2016 |
| Nicole Fisher | 30% of TFR for 2013-14, $90,000 | 615,000 | 30 June 2016 |

(1) Subject to securityholder approval at the Annual General Meeting to be held on 19 November 2013.

# Directors' Report

for the year ended 30 June 2013 | continued

iii. Review of LTI "target" and "stretch" performance

The Group's TSR for the year ended 30 June 2013 was an impressive 83%. While the Board is pleased with that outstanding result, the Board has recognised that TSR will adjust to more normalised levels moving forward.

Based on a recommendation from the RNC, the Board has agreed, in respect of the 2013-14 year, the percentage of PQRs held by an eligible employee on the vesting date of a Scheme Year that may vest shall be determined in accordance with the table below. The changes from the 2012-13 year relate to "target performance" and "stretch performance". There has been no change in "threshold performance".

| WHERE GROUP'S ACTUAL TSR OVER THE 3 YEAR VESTING PERIOD IS: | PERCENTAGE OF EMPLOYEE'S PQRS THAT MAY VEST IN RESPECT OF THE SCHEME YEAR: |
|---|---|
| Below 26% - below threshold performance. | 0% |
| 26% (approximately 8%pa compound), on threshold performance. | 25% |
| At or above 26% but below 33%, performance between threshold and target performance. | 25%–50%, in the same proportion as the Group's actual TSR bears to the threshold and target performance. |
| 33% (approximately 10%pa compound), on target performance. | 50% |
| Above 33% but below 40% performance, between target and stretch performance. | 50%–100%, in the same proportion as the Group's actual TSR bears to the target TSR and stretch performance. |
| 40% or above (approximately 12%pa compound), stretch performance. | 100% |

**g. Non-executive directors' remuneration**

A review of NED remuneration was finalised after 30 June 2013 and before the date of this report.

The RNC received a benchmarking report on NED remuneration from GRG with recommendations on the levels of NED remuneration for 2013-14.

Based on the GRG report, the RNC recommended that the Chair's remuneration for 2013-14 be set at $170,000 per annum which was towards the upper end of the comparator range. That recommendation was carefully considered and took account of a range of factors including the Chair's unique qualifications and experience and his workload and significant contribution to the Group's strong performance in 2012-13. The Board approved the RNC's recommendation. The Chair did not participate in that decision.

The RNC also endorsed the GRG recommendation that remuneration for 2013-14 be set at $90,000 per annum for each NED other than the Chair. The Board approved the RNC's recommendation.

Signed in accordance with a resolution of the directors.

Jim Hazel
Chairman
Sydney, 27 August 2013

# Auditors' Independence Declaration

for the year ended 30 June 2013

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

In relation to our audit of the financial report of Ingenia Communities Holdings Limited and its controlled entities for the financial year ended 30 June 2013, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Chris Lawton
Partner
27 August 2013

# Consolidated Statement of Comprehensive Income

for the year ended 30 June 2013

| | NOTE | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| **Continuing Operations** | | | |
| **Revenue** | | | |
| Rental income | 4 | **19,686** | 17,901 |
| Accrued deferred management fee income | 17(b) | **4,850** | 4,453 |
| Manufactured home sales | | **405** | - |
| Catering income | | **2,616** | 2,400 |
| Other property income | | **770** | 591 |
| Interest income | | **563** | 861 |
| | | **28,890** | 26,206 |
| Net foreign exchange gain/(loss) | | **37** | (225) |
| Net gain/(loss) on disposal of investment properties | | **(107)** | (35) |
| Net gain/(loss) on change in fair value of: | | | |
| Investment properties | | **3,457** | 2,399 |
| Derivatives | | **752** | 111 |
| Retirement village resident loans | 17(b) | **327** | (284) |
| Gain/(loss) on internalisation | 5 | **(35)** | 2,758 |
| Property expenses | | **(7,947)** | (8,127) |
| Employee expenses | | **(10,239)** | (6,836) |
| Administration expenses | | **(3,172)** | (1,923) |
| Operational, marketing and selling expenses | | **(2,358)** | (1,875) |
| Cost of manufactured homes sold | | **(297)** | - |
| Finance expense | 6 | **(6,112)** | (8,538) |
| Responsible entity fees | 28 | **-** | (2,006) |
| Amortisation of intangible assets | 15 | **(585)** | (215) |
| Disposal costs associated with overseas investments | | **(150)** | - |
| **Profit from continuing operations before income tax** | | **2,461** | 1,410 |
| Income tax benefit | 7 | **367** | 38 |
| **Profit from continuing operations** | | **2,828** | 1,448 |
| Profit/(loss) from discontinued operations | 8 | **(13,118)** | 32,179 |
| **Net profit/(loss) for the year** | | **(10,290)** | 33,627 |
| **Other comprehensive income/(expense), net of income tax** | | | |
| **Items that may be reclassified subsequently to profit or loss** | | | |
| Foreign currency translation differences arising during the period | 21 | **327** | 3,216 |
| Release of foreign currency translation reserve on disposal of foreign operations | 21 | **17,463** | - |
| **Total comprehensive income for the year, net of tax** | | **7,500** | 36,843 |

# Consolidated Statement of Comprehensive Income

for the year ended 30 June 2013

| | NOTE | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| Profit/(loss) attributable to securityholders of: | | | |
| Ingenia Communities Holdings Limited | | **(1,245)** | 1,322 |
| Ingenia Communities Fund | | **(644)** | 23,570 |
| Ingenia Communities Management Trust | | **(8,401)** | 8,735 |
| | | **(10,290)** | 33,627 |
| Total comprehensive income attributable to security holders of: | | | |
| Ingenia Communities Holdings Limited | | **(1,731)** | 1,808 |
| Ingenia Communities Fund | | **16,898** | 26,353 |
| Ingenia Communities Management Trust | | **(7,667)** | 8,682 |
| | | **7,500** | 36,843 |
| Distributions per security | | **1.0** | – |
| Basic earnings from continuing operations | 3 | | |
| Per security | | **0.6** | 0.3 |
| Per security attributable to parent | | **(0.3)** | 0.3 |
| Basic earnings | 3 | | |
| Per security | | **(2.3)** | 7.6 |
| Per security attributable to parent | | **(0.3)** | 0.3 |
| Diluted earnings from continuing operations | 3 | | |
| Per security | | **0.6** | 0.3 |
| Per security attributable to parent | | **(0.3)** | 0.3 |
| Diluted earnings | 3 | | |
| Per security | | **(2.3)** | 7.6 |
| Per security attributable to parent | | **(0.3)** | 0.3 |

# Consolidated Balance Sheet

as at 30 June 2013

| | NOTE | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | 9 | **38,531** | 29,561 |
| Trade and other receivables | 10 | **8,789** | 2,577 |
| Inventories | 11 | **285** | – |
| Derivatives | 12 | **–** | 1,659 |
| Income tax receivable | | **757** | – |
| Assets of discontinued operations | 8 | **36,576** | 95,324 |
| | | **84,938** | 129,121 |
| **Non-current assets** | | | |
| Trade and other receivables | 10 | **2,671** | 354 |
| Investment properties | 13 | **370,931** | 327,632 |
| Plant and equipment | 14 | **1,034** | 769 |
| Intangible assets | 15 | **–** | 585 |
| | | **374,636** | 329,340 |
| **Total assets** | | **459,574** | 458,461 |
| **Current liabilities** | | | |
| Trade and other payables | 16 | **9,066** | 8,241 |
| Retirement village resident loans | 17 | **175,703** | 162,603 |
| Borrowings | 18 | **267** | 81,739 |
| Derivatives | 12 | **–** | 970 |
| Provision for income tax | | **–** | – |
| Liabilities of discontinued operations | 8 | **21,528** | 45,698 |
| | | **206,564** | 299,251 |
| **Non-current liabilities** | | | |
| Trade and other payables | 16 | **140** | 117 |
| Borrowings | 18 | **70,539** | – |
| Derivatives | 12 | **209** | – |
| Deferred tax liabilities | 19 | **7,470** | 7,921 |
| | | **78,358** | 8,038 |
| **Total liabilities** | | **284,922** | 307,289 |
| **Net assets** | | **174,652** | 151,172 |
| **Equity** | | | |
| Issued securities | 20 | **510,141** | 490,044 |
| Reserves | 21 | **1,074** | (17,009) |
| Accumulated losses | 22 | **(336,563)** | (321,863) |
| **Total equity** | | **174,652** | 151,172 |
| Attributable to security holders of : | | | |
| Ingenia Communities Holdings Limited | | | |
| Issued securities | 20 | **6,078** | 6,000 |
| Reserves | 21 | **308** | 15 |
| Accumulated losses | 22 | **77** | 1,808 |
| | | **6,463** | 7,823 |
| Ingenia Communities Fund | | **164,953** | 135,202 |
| Ingenia Communities Management Trust | | **3,236** | 8,147 |
| | | **174,652** | 151,172 |
| **Net asset value per security** | | **$0.34** | $0.34 |

# Consolidated Cash Flow Statement

for the year ended 30 June 2013

| | NOTE | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | 32 | | |
| Rental and other property income | | **29,514** | 26,619 |
| Payment of management fees (including arrears) | | **(166)** | (10,019) |
| Property and other expenses | | **(26,270)** | (20,060) |
| Proceeds from retirement village resident loans | 17(b) | **19,338** | 20,885 |
| Repayment of retirement village resident loans | 17(b) | **(7,118)** | (5,977) |
| Proceeds from manufactured home sales | | **450** | - |
| Purchase of manufactured homes | | **(275)** | - |
| Distributions from formerly equity accounted investments | | **2,350** | 3,118 |
| Interest received | | **578** | 862 |
| Borrowing costs paid | | **(7,085)** | (10,223) |
| Income tax paid | | **(76)** | (60) |
| Goods and services taxes recovered from investing and financing activities | | **-** | 7 |
| | | **11,240** | 5,152 |
| **Cash flows from investing activities** | | | |
| Purchase and additions of plant and equipment | | **(626)** | (299) |
| Payments for investment properties | | **(31,023)** | - |
| Additions to investment properties | | **(16,890)** | (2,106) |
| Proceeds/(costs) from sale of investment properties | | **29,322** | (35) |
| Acquisition of subsidiary net of cash acquired | 30b | **-** | 2,268 |
| Proceeds from sale of equity accounted investments | | **37,560** | 29,940 |
| Purchase of equity accounted investments | | **-** | (702) |
| Amounts advanced to villages | | **(330)** | - |
| Payments for lease arrangements | | **(699)** | |
| | | **17,314** | 29,066 |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of stapled securities | | **21,168** | - |
| Payments for issue costs | | **(1,056)** | - |
| Receipts from derivatives | | **1,650** | - |
| Payments for derivatives | | **(150)** | (1,060) |
| Finance lease payments | | **(13)** | - |
| Payments for Internalisation | | **(600)** | (1,228) |
| Distributions to security holders | | **(4,235)** | - |
| Payments for debts issue costs | | **(587)** | - |
| Proceeds from borrowings | | **16,261** | 3,246 |
| Repayment of borrowings | | **(56,242)** | (17,951) |
| | | **(23,804)** | (16,993) |
| **Net increase/(decrease) in cash and cash equivalents** | | **4,750** | 17,225 |
| Cash and cash equivalents at the beginning of the year | | **32,812** | 15,041 |
| Effects of exchange rate fluctuation on cash held | | **(12)** | 546 |
| **Cash and cash equivalents at the end of the year** | 9 | **37,550** | 32,812 |

# Statement of Changes in Equity

for the year ended 30 June 2013

| | NOTE | ATTRIBUTABLE TO SECURITY HOLDERS<br>INGENIA COMMUNITIES HOLDINGS LIMITED<br>ISSUED CAPITAL $'000 | RESERVES $'000 | RETAINED EARNINGS $'000 | TOTAL $'000 | ICF & ICMT $'000 | TOTAL EQUITY $'000 |
|---|---|---|---|---|---|---|---|
| **Carrying amount at 1 July 2011** | | **–** | **–** | **–** | **–** | **114,314** | **114,314** |
| Net profit/(loss) for the year | | – | – | 1,322 | 1,322 | 32,305 | 33,627 |
| Other comprehensive income | | – | – | 486 | 486 | 2,730 | 3,216 |
| **Total comprehensive income for the year** | | – | – | 1,808 | 1,808 | 35,035 | 36,843 |
| Transactions with security holders in their capacity as security holders: | | | | | | | |
| Issue of securities | 20 | 6,000 | – | – | 6,000 | – | 6,000 |
| Capital distribution | 20 | – | – | – | – | (6,000) | (6,000) |
| Share based payment transactions | 21 | – | 15 | – | 15 | – | 15 |
| | | **6,000** | **15** | **–** | **6,015** | **(6,000)** | **15** |
| **Carrying amount at 30 June 2012** | | **6,000** | **15** | **1,808** | **7,823** | **143,349** | **151,172** |
| Net profit for the period | | **–** | **–** | **(1,245)** | **(1,245)** | **(9,045)** | **(10,290)** |
| Other comprehensive income | | **–** | **–** | **(486)** | **(486)** | **18,276** | **17,790** |
| **Total comprehensive income for the year** | | **–** | **–** | **(1,731)** | **(1,731)** | **9,231** | **7,500** |
| Transactions with security holders in their capacity as security holders: | | | | | | | |
| Issue of securities | 20 | **78** | **–** | **–** | **78** | **20,019** | **20,097** |
| Payment of distributions | 22 | **–** | **–** | **–** | **–** | **(4,410)** | **(4,410)** |
| Share based payment transactions | 21 | **–** | **293** | **–** | **293** | **–** | **293** |
| **Carry amount at 30 June 2013** | | **6,078** | **308** | **77** | **6,463** | **168,189** | **174,652** |

# Notes to the Financial Statements

for the year ended 30 June 2013

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### a. The Group

The financial report of Ingenia Communities Holdings Limited ("ICH" or 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"). Both the Company and the Trusts are domiciled in Australia.

ICF was formerly the ING Real Estate Community Living Fund. ICMT was formerly the ING Real Estate Community Living Management Trust.

The responsible entity for the Trusts from 4 June 2012 is Ingenia Communities RE Limited ("ICRE"), a wholly owned subsidiary of the Company. On that date, management of the Trusts was internalised and the stapled entity known as Ingenia Communities Group (consisting of the Company and the Trusts) (the "Group") was formed ("Internalisation").

Previously, the Trusts operated as a stapled entity known as ING Real Estate Community Living Group. The responsible entity for the Trusts until 4 June 2012 was ING Management Limited. ING Management Limited is an Australian domiciled company and is a wholly owned company within the ING Groep NV group of companies.

The Constitutions of the Company and the Trusts require that, for as long as they remain jointly quoted on the Australian Securities Exchange, the number of shares in the Company and units in each trust shall remain equal and that shareholders in the Company and unitholders in each trust shall be identical.

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

i. the Company or either of the Trusts resolving by special resolution in accordance with its Constitution to terminate the stapling provisions; or
ii. 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 2013 was authorised for issue by the directors on 27 August 2013.

### b. Basis of preparation

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

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

As permitted by Class Order 05/642, 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.

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

At 30 June 2013, the Group recorded a net current asset deficiency of $121,612,000. This deficiency includes retirement village resident loans of $175,703,000 and liabilities from discontinued operations of $21,528,000. Resident loans obligations of the Group are classified as current liabilities due to the demand feature of these obligations despite the unlikely possibility that the majority of the loans will be settled within the next 12 months. Furthermore, if required, the proceeds from new resident loans could be used by the Group to settle its existing loan obligations should those incumbent residents vacate their units. The liabilities of the discontinued operations consist mainly of borrowings of $17,522,000 related to a facility with the Bank of New Zealand which has been refinanced for a further 5 years subsequent to year end and will be repaid upon disposal of the corresponding assets. Accordingly, there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable; and the financial report of the Group has been prepared on a going concern basis.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### c. Adoption of new and revised accounting standards

In the current year, the Group has adopted all the new and revised standards and interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for the current annual reporting period. There was no material effect on the financial statements.

### d. Principles of consolidation

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

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

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

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

The Company was incorporated on 24 November 2011. In accordance with Accounting Standard AASB 3 *Business Combinations*, the stapling of the Company and the Trusts at Internalisation is regarded as a business combination. Under AASB 3, the stapling is 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

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

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

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

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

### f. Discontinued operations and assets held for sale

The Group has classified certain components as discontinued operations. A discontinued operation is a component of the entity that has been disposed of, or is classified as held for sale, and that represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of such a line of business or area of operations. The results of discontinued operations are presented separately on the face of the income statement.

Components of the entity are classified as held for sale if their carrying amount 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.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets classified as held for sale, and the assets of a disposal group classified as held for sale, are presented separately from the other assets on the face of the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities on the face of the balance sheet.

Details of discontinued operations and disposal groups are given at Note 8.

## 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

### i. Functional and presentation currencies

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

### ii. Translation of foreign currency transactions

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

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

### iii. Translation of financial statements of foreign subsidiaries

The functional currency of certain subsidiaries is not the Australian dollar. At reporting date, the assets and liabilities of these entities are translated into the presentation currency of the Group at the rate of exchange prevailing at balance date. Financial performance is translated at the average exchange rate prevailing during the reporting period. The exchange differences arising on translation are taken directly to the foreign currency translation reserve in equity.

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

## i. Leases

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

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

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### j. Financial assets and liabilities

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

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

### k. Impairment of non-financial assets

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

### l. Cash and cash equivalents

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

### m. Trade and other receivables

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

### n. Inventories

The Group holds inventory in relation to the acquisition and development of manufactured homes within its Active Lifestyle Estates segment.

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

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

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

### o. Derivative financial instruments

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

### p. Investment property

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

Investment property includes property under construction.

It is the Group's policy to have all investment properties externally valued at intervals of not more than two years (previously three years) and that such valuation be reflected in the financial reports of the Group. It is the policy of the responsible entity to review the fair value of each investment property every six months and to cause investment properties to be revalued to fair values whenever their carrying value materially differs to their fair values.

Fair value represents the amount at which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation. It is based on current prices in an active market for similar property in the same location and condition and subject to similar lease and other contracts, adjusted for any differences in the nature, location or condition of the property, or in the contractual terms of the leases and other contracts relating to the property.

In the absence of current prices in an active market, the Group considers information from a variety of sources, including current prices in an active market for properties of different nature, condition or location, adjusted to reflect those differences, recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices, and discounted cash flow projections based on reliable estimates of future cash flows, using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

In determining fair values, expected net cash flows are discounted to their present value using a market determined risk adjusted discount rate. The assessment of fair value of investment properties does not take into account potential capital gains tax assessable. Changes in the fair value of an investment property are recorded in the income statement.

## q. Equity accounted investments

A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. A contractual arrangement between the venturers establishes joint control over the economic activity of the entity. Associates are those entities over which the Group has significant influence, but not control. Jointly controlled entities and associates, and investments in those entities, are referred to as "equity accounted investments".

Equity accounted investments are accounted for in the parent's financial statements using the cost method and in the consolidated financial statements using the equity method. The Group's share of net profit is recognised in the consolidated income statement and its share of any movement in reserves is recognised in reserves in the consolidated balance sheet. The accumulation of post-acquisition movements in the Group's share of net assets is adjusted against the carrying value of the investment. Distributions received or receivable reduce the carrying value of the investment in the consolidated financial statements.

## r. Intangible assets

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

Internally generated intangible assets are not capitalised and expenditure is reflected in the income statement in the year in which the expenditure is incurred.

The useful lives of intangible assets have been assessed as finite. Consequently, intangible assets are amortised on a straight-line basis over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation expense is recognised in the income statement in the expense category consistent with the function of the intangible assets.

The useful life of transitional services was the period from Internalisation to 25 August 2012. The useful life of rental support was the period from Internalisation to 31 December 2012.

## s. Payables

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### t. Retirement village resident loans

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

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

### u. Borrowings

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

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

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

### v. Issued equity

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

### w. Revenue

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

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

Reflecting this accounting policy, 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 Active Lifestyle Estate segment is recognised when the significant risks, rewards of ownership and effective control has been transferred to the buyer.

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

### x. Share-based payment transactions

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

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

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

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

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

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

## y. Income tax

### i. Current income tax

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

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

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

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

### ii. Deferred income tax

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

### iii. Tax consolidation

On 24 November 2011, the Company and a number of its subsidiaries formed a tax consolidation group with the Company being the head entity. The head entity and the controlled entities in the tax consolidation group continue to account for their own current and deferred tax amounts. The Group has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidation group.

In addition to its own current and deferred tax amounts, the Company also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the 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.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### 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. Pending accounting standards

AASB 13 *Fair Value Measurement* is applicable to annual reporting periods beginning 1 July 2013. The Group has not early adopted this standard. The standard establishes a single source of guidance for determining the fair value of assets and liabilities. AASB 13 also expands the disclosure requirements in relation to assumptions made and the impact of those assumptions on the fair value determined. The standard categorises input assumptions under three levels; level 1 - quoted prices, level 2 - observable market data, level 3 – not based on observable market data. The Group has assessed that the introduction of this standard is unlikely to have a financial impact on amounts disclosed however will potentially require additional disclosure on input assumptions and valuation techniques.

AASB 119 *Employee benefits* is applicable to reporting periods beginning 1 July 2013. The Group has not early adopted this standard. The revised standard changes the definition of short-term employee benefits. The distinction is now based on whether the benefits are expected to be settled wholly within 12 months after reporting date (short-term benefit), rather than when due to be settled. Long term employee benefits are required to be measured using the actuarial valuation method. This method involves projecting future cashflows and discounting back to present value. This will apply to annual leave balances if they are allowed to be carried forward beyond 12 months. The classification affects the measurement of the outstanding leave balance, it does not impact the classification in the balance sheet as to whether it is current of non-current because there is no unconditional right to defer settlement. The Group is currently evaluating the impact of this standard.

AASB 2011-4 *Amendments to Australian Accounting Standards – Remove individual Key Management Personnel Disclosure Requirements (AASB 124 Related Party Disclosures)* is applicable to reporting periods beginning 1 July 2013. The Group has not early adopted this standard. This amendment removes the individual key management personnel disclosure requirements in relation to equity holdings, loans and other related party transactions.

AASB 2012-2 *Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities and AASB 2012-3 Amendments to Australia Accounting Standards – Offsetting Financial Assets and Financial Liabilities* are applicable to reporting periods beginning 1 July 2013 and 1 July 2014 respectively. The Group has not early adopted these standards. These standards provide application and presentation guidance to AASB 132 Financial Instruments: Presentation for applying some of the offsetting criteria, including the meaning of “currently has legally enforceable right of set off”. The Group does not expect any changes in underlying valuations of financial instruments however it may include some variation to the presentation in the note disclosure with respect to retirement village resident loans.

AASB 9 *Financial Instruments* is applicable to reporting periods beginning 1 July 2015. The Group has not early adopted this standard. This standard provides requirements for the classification and measurement of financial assets and accounting for financial liabilities. These requirements seek to improve and simplify the requirements listed in AASB 139 Financial Instruments: Recognition and Measurement. The Group is currently evaluating the impact of this standard.

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 Group’s financial report in future reporting periods.

## 2. ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires the Group to exercise its judgement in the process of applying the Group’s accounting policies.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed below.

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

## a. Critical accounting estimates and assumptions

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

### i. Valuation of investment property

The Group has investment properties with a carrying amount of $370,931,000 (2012:$327,632,000) (refer Note 13), and retirement village residents' loans with a carrying amount of $175,703,000 (2012: $162,603,000) (refer Note 17), which together represent the estimated fair value of the Group's interest in seniors living properties. In addition, the Group holds investment properties with carrying amounts of $35,343,000 (2012: $48,017,000) which are included in assets of discontinued operations.

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

In forming these assumptions, the responsible entity considered information about current and recent sales activity, current market rents, and discount and capitalisation rates, for properties similar to those owned by the 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, which it carries at the lower of cost or net realisable value. Estimates of net realisable value are based on the most reliable evidence available at the time the estimates are made, of the amount the inventories are expected to realise and the estimate of costs to complete. Key assumptions require the use of management judgement which are continually reviewed.

### iii. Fair value of derivatives

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

### iv. Valuation of share-based payments

Valuation of share-based payment transactions is performed using judgements around the fair value of equity instruments on the date at which they are granted. The fair value is determined using a Monte Carlo Simulation. Refer to Note 24 for assumptions used in determining the fair value.

### v. Valuation of intangibles

The valuation of transitional services and rental support provided as part of the Internalisation is based on the estimated market value of these services if they were to be obtained by a third party at arms length.

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

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

### vii. Valuation of retirement village resident loans

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

# Notes to the Financial Statements

for the year ended 30 June 2013 | continued

## 2. ACCOUNTING ESTIMATES AND JUDGEMENTS CONTINUED

### b. Critical judgements in applying the Group's accounting policies

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

## 3. EARNINGS PER SECURITY

| | NOTE | 2013 | 2012 |
|---|---|---|---|
| **a. Per security** | | | |
| Profit/(loss) attributable to securityholders ($'000) | | **(10,290)** | 33,627 |
| Profit/(loss) from continuing operations ($'000) | | **2,828** | 1,448 |
| Profit/(loss) from discontinued operations ($'000) | | **(13,118)** | 32,179 |
| Weighted average number of securities outstanding (thousands): | | | |
| Issued securities | | **441,754** | 441,029 |
| Dilutive securities | | | |
| Performance quantum rights | 24 | **3,842** | 354 |
| Retention quantum rights | 24 | **1,818** | 167 |
| Weighted average number of issued and dilutive potential securities outstanding (thousands) | | **447,414** | 441,550 |
| Basic earnings per security from continuing operations (cents) | | **0.6** | 0.3 |
| Basic earnings per security from discontinued operations (cents) | | **(3.0)** | 7.3 |
| Basic earnings per security (cents) | | **(2.3)** | 7.6 |
| Dilutive earnings per security from continuing operations (cents) | | **0.6** | 0.3 |
| Dilutive earnings per security from discontinued operations (cents) | | **(2.9)** | 7.3 |
| Dilutive earnings per security (cents) | | **(2.3)** | 7.6 |
| **b. Per security attributable to parent** | | | |
| Profit/(loss) attributable to securityholders ($'000) | | **(1,245)** | 1,322 |
| Weighted average number of securities outstanding (thousands): | | | |
| Issued securities | | **441,754** | 441,029 |
| Dilutive securities | | | |
| Performance quantum rights | 24 | **3,842** | 354 |
| Retention quantum rights | 24 | **1,818** | 167 |
| Weighted average number of issued and dilutive potential securities outstanding (thousands) | | **447,414** | 441,550 |
| Basic earnings per security (cents) | | **(0.3)** | 0.3 |
| Dilutive earnings per security (cents) | | **(0.3)** | 0.3 |

## 4. RENTAL INCOME

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Village rental income | **19,269** | 17,901 |
| Ground rental income – Active Lifestyle Estates | **361** | – |
| Tourism rental income | **56** | – |
| | **19,686** | 17,901 |

## 5. GAIN/(LOSS) ON INTERNALISATION

On 4 June 2012, management of the Trusts was internalised and the stapled entity known as Ingenia Communities Group (consisting of the Company and the Trusts) was formed ("Internalisation"), following approval by securityholders at meetings held on 31 May 2012. The Internalisation involved:

- a capital distribution by ICF which was applied towards the issue of shares in the Company to unitholders of the Trusts (other than foreign resident unitholders);
- the change of the responsible entity of the Trusts from ING Management Limited to ICRE; and
- the stapling of each share in the Company to each unit in each Trust to form the new stapled securities of Ingenia Communities Group.

Financial support for Internalisation was provided by the previous responsible entity and its related parties, ING Groep NV at no cost to the Group. The gain resulting from this financial support, after deducting transaction costs, was:

| | NOTE | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| Waiver of accrued management fees | (a) | **-** | 2,500 |
| Gain on acquisition of 10% interest in New Zealand Students | (b) | **-** | 1,298 |
| Transitional services | (c) | **-** | 600 |
| Rental support | (d) | **-** | 200 |
| Transaction costs | (e) | **(35)** | (1,840) |
| | | **(35)** | 2,758 |

(a) ING Groep NV waived accrued management fees of $2,500,000 in 2012.

(b) ING Groep NV transferred its 10% equity (and 100% voting power) in the New Zealand Students portfolio to ICMT for no consideration in 2012. Refer Note 30(b).

(c) ING Groep NV provided transitional services to the Group for the period from Internalisation to 25 August 2012. Refer Note 15.

(d) ING Groep NV provided office facilities to the Group for the period from Internalisation to 30 June 2013. The Group moved into new office premises in December 2012 at which time ING Groep NV cash settled its rental support. Refer Note 15.

(e) The Group incurred transaction costs in relation to Internalisation.

## 6. FINANCE EXPENSE

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Interest paid or payable | **(6,076)** | (8,538) |
| Finance lease interest paid or payable(1) | **(36)** | – |
| | **(6,112)** | (8,538) |

(1) Finance lease interest relates to a long term lease with Gosford City Council for the land and facilities of Ettalong Beach Holiday Village. Refer Note 18(b).

# Notes to the Financial Statements



## 7. INCOME TAX BENEFIT

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **a. Income tax benefit** | | |
| Current tax | **(906)** | 4 |
| Decrease in deferred tax liabilities | **1,273** | 34 |
| | **367** | 38 |
| **b. Reconciliation between tax expense and pre-tax profit** | | |
| Profit/(loss) before income tax | **2,461** | 1,410 |
| Income tax at the Australian tax rate of 30% (2012: 30%) | **(738)** | (423) |
| Tax effect of amounts which are not (deductible)/taxable in calculating taxable income: | | |
| Australian income | **1,105** | 461 |
| Income tax benefit | **367** | 38 |

### c. Tax consolidation

On 23 November 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.

## 8. DISCONTINUED OPERATIONS

### a. Details of discontinued operations

The Group's investment in its New Zealand Students business (U-Stay) was classified as a discontinued operation at 30 June 2011, consistent with the Group's previously announced strategy to focus on transitioning to an actively managed Australian seniors living business. Following Internalisation the Group holds a 100% interest in three facilities in Wellington, New Zealand that are primarily leased to Victoria University of Wellington and Wellington Institute of Technology. Prior to Internalisation ICF held a 90% interest in this investment.

### b. Details of disposals

On 23 November 2009, the Trusts announced that they would cease to provide financial support to their United States Students business, which had previously enabled that business to meet its interest and principal payments on debt. The cessation of this support resulted in a breach of borrowing agreements. Since then management has worked with debt holders to dispose of all of the United States Students properties. The final property was the subject of a foreclosure sale on 9 February 2012. During the year ended 30 June 2012, investment properties carried at US$6,672,000 with interest bearing liabilities of US$6,672,000 were disposed of for nil consideration.

During the year end 30 June 2012 the Group disposed of its 50% interest in 15 of their 21 US Seniors communities to its joint venture partner Chartwell Seniors Housing Real Estate Investment Trust. This transaction settled on 4 November 2011. This transaction was completed at a $4,447,000 loss and resulted in cash proceeds of $29,898,000 which were commercially hedged by foreign currency forward contracts.

During the year ended 30 June 2013 the Group disposed of its remaining United States Seniors Living portfolio (Bristals) made up of 50% interest in 5 seniors living communities and a 100% interest in 1 community (Lynbrook), all located on Long Island, New York. This transaction was completed at a $6,653,000 gain before the release of an accumulated deficit foreign currency translation reserve of $17,463,000. Cash proceeds of $29,600,000, which were commercially hedged by foreign currency forward contracts were received on 13 February 2013. A remaining amount of $5,608,000 held in escrow for warranties made under the sale agreement is included in continuing operations while profit and loss and cashflow up to sale completion have been disclosed in discontinued operations.

## c. Financial performance

The financial performance of components of the Group disposed of or classified as discontinued operations at each reporting date were:

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Revenue | **5,295** | 3,748 |
| Net gain/loss on change in fair value of: | | |
| - Borrowings | **–** | 6,427 |
| - Investment properties | **(2,783)** | 725 |
| Unrealised net foreign exchange loss | **(718)** | – |
| Other income | **31** | 1,236 |
| Expenses | **(4,746)** | (3,608) |
| Distributions from formerly equity accounted investments | **2,350** | – |
| Share of net profit of equity accounted investments | **–** | 28,300 |
| Disposal costs associated with overseas investments | **(672)** | – |
| **Profit/(loss) from operating activities before income tax** | **(1,243)** | 36,828 |
| Income tax expense | **(1,002)** | (202) |
| **Profit/(loss) from operating activities** | **(2,245)** | 36,626 |
| Gain/(loss) on sale of discontinued operations | **6,590** | (4,447) |
| Release of foreign currency translation reserve on disposal of foreign operations | **(17,463)** | – |
| **Profit/(loss) from discontinued operations for the year** | **(13,118)** | 32,179 |

Profit/(loss) from discontinued operations attributable to the Company for periods ending 30 June 2013 and 30 June 2012 is $nil.

## d. Cash flows

The cash flows of components of the Group disposed of or classified as discontinued operations at each reporting date were:

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Net cash flow from operating activities | **1,156** | 3,444 |
| Net cash flows from investing activities: | | |
| Proceeds on sale of discontinued operations | **64,349** | (20) |
| Acquisition of subsidiary net of cash acquired | **–** | 2,268 |
| Additions to investment properties | **(13,665)** | – |
| Other | **–** | (702) |
| Net cash flow from financing activities | **(26,285)** | (150) |
| Transfer to continuing operations | **(29,786)** | – |
| **Net cash flows from discontinued operations** | **(4,231)** | 4,840 |

# Notes to the Financial Statements

for the year ended 30 June 2013 | continued

## 8. DISCONTINUED OPERATIONS CONTINUED

### e. Assets and liabilities

The assets and liabilities of components of the Group classified as disposal groups at each reporting date were:

| | NOTE | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 9 | **974** | 3,251 |
| Trade and other receivables | | **259** | 7,073 |
| Investment properties | | **35,343** | 48,017 |
| Equity accounted investments | | **–** | 36,983 |
| **Total assets** | | **36,576** | 95,324 |
| **Liabilities** | | | |
| Bank overdraft | | **1,955** | – |
| Payables | | **2,051** | 2,509 |
| Borrowings | | **17,522** | 42,962 |
| Deferred tax liabilities | | **–** | 227 |
| **Total liabilities** | | **21,528** | 45,698 |
| **Net assets of disposal groups** | | **15,048** | 49,626 |

### f. Capital commitments

Capital commitments under construction contracts for the New Zealand students business for the year ended 30 June 2013 A$9,208,234 (2012: Nil).

### g. Capitalisation rate

The weighted average capitalisation rate of the New Zealand students properties within discontinued operations is 7.75%.

## 9. CASH AND CASH EQUIVALENTS

| | NOTE | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| Cash at bank and in hand | 26 | **7,060** | 5,210 |
| Short term deposits | 26 | **31,471** | 24,351 |
| | | **38,531** | 29,561 |
| **Reconciliation to statement of cash flow** | | | |
| Cash and cash equivalents attributable to: | | | |
| Continuing operations - cash at bank | | **38,531** | 29,561 |
| Discontinued operations - cash at bank | | **974** | 3,251 |
| Discontinued operations - bank overdraft | | **(1,955)** | – |
| Cash at the end of the year as per cash flow statement | | **37,550** | 32,812 |

## 10. TRADE AND OTHER RECEIVABLES

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Current** | | |
| Rental and other amounts due | **278** | 106 |
| Accrued income, prepayments and deposits | **8,511** | 2,471 |
| | **8,789** | 2,577 |
| **Non-current** | | |
| Accrued income, prepayments and deposits | **2,671** | 354 |

Rental and other amounts due are receivable within 30 days.

## 11. INVENTORIES

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Current assets** | | |
| Manufactured homes | **285** | – |

## 12. DERIVATIVES

| | NOTE | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| **Current assets** | | | |
| Foreign exchange options | 26 | **–** | 1,659 |
| **Current liabilities** | | | |
| Interest rate swap contracts | 26 | **–** | 970 |
| **Non-current liabilities** | | | |
| Interest rate swap contracts | 26 | **209** | – |

## 13. INVESTMENT PROPERTIES

### a. Summary of carrying amounts

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Completed properties | **367,726** | 325,962 |
| Properties under construction | **3,205** | 1,670 |
| | **370,931** | 327,632 |

# Notes to the Financial Statements

for the year ended 30 June 2013 | continued

## 13. INVESTMENT PROPERTIES CONTINUED

### b. Individual valuations and carrying amounts

| PROPERTY | DATE OF PURCHASE | COST TO DATE $'000 | LATEST EXTERNAL VALUATION DATE | LATEST EXTERNAL VALUATION VALUATION $'000 | CARRYING AMOUNT 2013 $'000 | CARRYING AMOUNT 2012 $'000 | CAPITALISATION RATE 2013 % | CAPITALISATION RATE 2012 % |
|---|---|---|---|---|---|---|---|---|
| **Completed properties** | | | | | | | | |
| **Garden Villages** | | | | | | | | |
| Yakamia Gardens | Jun 04 | 5,413 | Dec 12 | 2,900 | 2,500 | 3,100 | 7.5% | 10.0% |
| Mardross Gardens | Jun 04 | 5,572 | Jun 12 | 2,200 | 2,320 | 2,200 | 5.5%(4) | 8.5% |
| Seville Grove Gardens | Jun 04 | 4,513 | Dec 12 | 3,400 | 3,240 | 3,560 | 9.8% | 10.0% |
| Hertford Gardens | Jun 04 | 4,080 | Jun 12 | 2,650 | 3,780 | 2,650 | 10.5% | 10.0% |
| Carey Park Gardens | Jun 04 | 4,896 | Dec 12 | 2,600 | 2,840 | 3,510 | 10.0% | 10.0% |
| Jefferis Gardens | Jun 04 | 4,963 | Dec 11 | 2,450 | 2,720 | 2,420 | 10.0% | 10.0% |
| Claremont Gardens | Jun 04 | 4,269 | Dec 11 | 3,690 | 2,900 | 3,520 | 9.5% | 10.0% |
| Taloumbi Gardens | Jun 04 | 5,027 | Dec 12 | 4,200 | 4,020 | 4,220 | 10.3% | 10.8% |
| Devonport Gardens | Jun 04 | 4,007 | Dec 12 | 2,500 | 2,120 | 2,940 | 5.3%(4) | 10.0% |
| Wheelers Gardens | Jun 04 | 4,344 | Dec 11 | 3,520 | 3,950 | 3,740 | 10.5% | 10.0% |
| Elphinwood Gardens | Jun 04 | 4,374 | Dec 12 | 2,750 | 2,740 | 3,110 | 10.0% | 10.0% |
| Glenorchy Gardens | Jun 05 | 4,147 | Dec 11 | 3,130 | 3,010 | 3,239 | 10.0% | 10.0% |
| Chatsbury Gardens | Jun 04 | 4,773 | Dec 11 | 2,970 | 3,340 | 2,890 | 10.0% | 10.0% |
| Grovedale Gardens | Jun 05 | 4,915 | Dec 12 | 3,600 | 4,090 | 3,290 | 10.5% | 10.3% |
| Horsham Gardens | Jun 04 | 4,445 | Jun 12 | 3,100 | 3,170 | 3,100 | 10.0% | 9.8% |
| Lovely Banks Gardens (1) | Jun 05 | – | – | – | – | 2,830 | – | 9.8% |
| Sea Scape Gardens | Jun 04 | 4,530 | Dec 12 | 4,200 | 4,180 | 4,180 | 10.3% | 10.8% |
| Marsden Gardens | Jun 05 | 10,321 | Dec 12 | 8,150 | 7,900 | 8,000 | 10.5% | 10.5% |
| Coburns Gardens | Jun 04 | 4,301 | Dec 12 | 3,000 | 3,260 | 2,560 | 9.5% | 10.0% |
| Brooklyn Gardens | Jun 04 | 4,164 | Dec 12 | 2,400 | 2,790 | 2,150 | 9.5% | 8.5% |
| Oxley Gardens | Jun 04 | 4,391 | Dec 12 | 2,600 | 2,320 | 2,630 | 10.0% | 10.0% |
| Townsend Gardens | Jun 04 | 4,766 | Jun 12 | 3,250 | 3,390 | 3,250 | 9.8% | 9.8% |
| St Albans Park Gardens | Jun 04 | 5,069 | Jun 12 | 3,400 | 4,030 | 3,400 | 10.5% | 9.8% |
| Swan View Gardens | Jan 06 | 7,841 | Dec 12 | 5,650 | 5,780 | 5,480 | 10.3% | 10.6% |
| Taree Gardens | Dec 04 | 4,616 | Dec 12 | 2,400 | 2,950 | 2,230 | 10.0% | 10.0% |
| Dubbo Gardens | Dec 12 | 2,652 | – | – | 2,652 | – | 5.3%(4) | – |
| Ocean Grove Gardens | Feb 13 | 3,015 | – | – | 3,015 | – | 11.0% | – |
| Peel River Gardens | Mar 13 | 3,464 | – | – | 3,464 | – | 7.3%(4) | – |
| Sovereign Gardens | Jun 13 | 3,265 | – | – | 3,265 | – | 5.3%(4) | – |
| Wagga Gardens | Jun 13 | 3,953 | – | – | 3,953 | – | 11.8% | – |
| | | **136,086** | | | **99,689** | **84,199** | | |

| PROPERTY | DATE OF PURCHASE | COST TO DATE $'000 | LATEST EXTERNAL VALUATION DATE | LATEST EXTERNAL VALUATION VALUATION $'000 | CARRYING AMOUNT 2013 $'000 | CARRYING AMOUNT 2012 $'000 | CAPITALISATION RATE 2013 % | CAPITALISATION RATE 2012 % |
|---|---|---|---|---|---|---|---|---|
| **Settlers Lifestyle** | | | | | | | **Discount rate** | |
| Forest Lake | Nov 05 | 14,119 | Jun 13 | 12,662 | 12,663 | 11,346 | 15.0% | 16.8% |
| South Gladstone | Nov 05 | 8,037 | Jun 13 | 12,093 | 12,093 | 11,407 | 15.0% | 11.8% |
| Rockhampton | Nov-05 | 10,501 | Dec 11 | 10,929 | 13,768 | 11,826 | 14.7% | 14.9% |
| Cessnock[2] | Jun-04 | 6,661 | Dec 12 | 3,190 | 4,871 | 2,930 | 16.1% | 10.0% |
| Lakeside | Apr 07 | 70,320 | Dec 12 | 77,584 | 78,673 | 79,255 | 13.5% | 13.0% |
| Noyea Park | Apr 07 | 2,527 | Dec 12 | 549 | 324 | 991 | 14.5% | 14.0% |
| Meadow Springs | Apr 07 | 20,933 | Jun 13 | 17,066 | 17,066 | 17,899 | 14.5% | 14.0% |
| Ridgewood | Apr 07 | 85,400 | Jun 13 | 105,104 | 105,104 | 105,809 | 13.5% | 13.0% |
| Ridge Estate | Jul 12 | 5,248 | – | – | 5,471 | – | 15.0% | – |
| | | **223,746** | | | **250,033** | **241,463** | | |
| **Active Lifestyle Estates** | | | | | | | | |
| The Grange | Mar 13 | 12,788 | – | – | 12,593 | – | 10.0% | – |
| Ettalong Beach Holiday Village | Apr 13 | 5,402[3] | – | – | 5,411[3] | – | 18.4% | – |
| | | **18,190** | | | **18,004** | **-** | | |
| **Total completed properties** | | **378,022** | | | **367,726** | **325,662** | | |
| **Property under construction** | | | | | | | | |
| **Garden Villages** | | | | | | | | |
| Lovely Banks Gardens – land[1] | Jun 05 | – | – | – | – | 310 | | |
| **Settlers DMF Conversions** | | | | | | | | |
| South Gladstone Gardens – land | Nov 05 | 199 | Jun 13 | 750 | 750 | 300 | | |
| **Settlers Lifestyle** | | | | | | | | |
| Meadow Springs | Apr 07 | 2,470 | Jun 13 | 2,455 | 2,455 | 1,360 | | |
| **Total properties under construction** | | **2,669** | | | **3,205** | **1,970** | | |
| **Total Investment Properties** | | **380,691** | | | **370,931** | **327,632** | | |

(1) On 12 March 2013 Lovely Banks was sold for its carrying value for $3,140,000

(2) During the year Cessnock Gardens transferred from Garden Villages to Settlers Lifestyle.

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

(4) The replacement value exceeds the value implied by the capitalisation rate valuation approach resulting in implied capitalisation rates below market.

# Notes to the Financial Statements

for the year ended 30 June 2013 | continued

## 13. INVESTMENT PROPERTIES CONTINUED

Investment property that has not been valued by external valuers at reporting date is carried at the responsible entity's estimate of fair value in accordance with the accounting policy detailed at Note 1 (p). Properties acquired during the period are held at cost, which is reflective of the estimate of fair value.

Valuations made in a foreign currency have been converted at the rate of exchange ruling at valuation date which are subsequently translated at exchange rates prevailing at reporting date.

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

Select Settlers Lifestyle villages are in the process of converting from a rental to a deferred management fee model. The discount rate reflects a combination of development risk on vacant units and DMF from both occupied and vacant units. Over time, these properties' discount rates will likely revert downwards as project risk diminishes.

### c. Movements in carrying amounts

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Carrying amount at beginning of year | **327,632** | 344,490 |
| Acquisitions | **39,313** | – |
| Expenditure capitalised | **4,076** | 1,873 |
| Disposals | **(3,140)** | – |
| Transferred to inventory | **(195)** | – |
| Transferred to discontinued operations | **(212)** | (21,130) |
| Net change in fair value | **3,457** | 2,399 |
| Carrying amount at end of year | **370,931** | 327,632 |

## 14. PLANT AND EQUIPMENT

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Plant and equipment | **1,774** | 1,330 |
| Less: Accumulated depreciation | **(740)** | (561) |
| | **1,034** | 769 |
| **Movements in carrying amount** | | |
| Carrying amount at beginning of year | **769** | 309 |
| Acquired through acquisitions | **320** | – |
| Transferred to investment property | **(173)** | – |
| Additions | **296** | 343 |
| Depreciation | **(178)** | 117 |
| Carrying amount at end of year | **1,034** | 769 |

## 15. INTANGIBLE ASSETS

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Transitional services** | | |
| At initial cost, being fair value | **600** | 600 |
| Accumulated amortisation | **(600)** | (200) |
| | **-** | 400 |
| **Rental support** | | |
| At initial cost, being fair value | **200** | 200 |
| Accumulated amortisation | **(200)** | (15) |
| | **-** | 185 |
| Total intangible assets | **-** | 585 |

These intangible assets formed part of the financial support for Internalisation provided by ING Groep NV. Although no consideration was provided by the Group for these assets, Accounting Standards required their recognition at fair value at the date of Internalisation. Refer Note 5.

## 16. TRADE AND OTHER PAYABLES

| | NOTE | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| **Current liabilities** | 26 | | |
| Trade and other payables | | **7,254** | 7,849 |
| Employee liabilities | | **1,812** | 392 |
| | | **9,066** | 8,241 |
| **Non-current liabilities** | | | |
| Employee liabilities | | **140** | 117 |

## 17. RETIREMENT VILLAGE RESIDENT LOANS

### a. Summary of carrying amounts

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Gross retirement village resident loans | **206,629** | 189,563 |
| Accrued deferred management fee | **(30,926)** | (26,960) |
| Net retirement village resident loans | **175,703** | 162,603 |

## 17. RETIREMENT VILLAGE RESIDENT LOANS CONTINUED

### b. Movements in carrying amounts

| | NOTE | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| Opening balance | | **162,603** | 150,761 |
| Net (gain)/loss on change in fair value of retirement village resident loans | | **(327)** | 284 |
| Accrued deferred management fee income | | **(4,850)** | (4,453) |
| Deferred management fee cash collected | | **1,368** | 799 |
| Acquired retirement village resident loans | | **4,473** | – |
| Proceeds from retirement village resident loans | | **19,338** | 20,885 |
| Repayment of retirement village resident loans | | **(7,118)** | (5,977) |
| Other | | **216** | 304 |
| | | **175,703** | 162,603 |

## 18. BORROWINGS

| | NOTE | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| **Current liabilities** | 26 | | |
| Bank debt | (a) | **–** | 81,739 |
| Finance leases | (b) | **267** | – |
| | | **267** | 81,739 |
| **Non-current liabilities** | | | |
| Bank debt | (a) | **68,000** | – |
| Prepaid borrowing costs | | **(578)** | – |
| Finance leases | (b) | **3,117** | – |
| | | **70,539** | – |

### a. Bank debt

On 28 August 2012, the Group refinanced its variable rate Australian dollar denominated debt facility with the Commonwealth Bank of Australia to a $82,000,000 facility expiring 30 September 2015.

As at 30 June 2013, the facility has been drawn to $68,000,000 (2012: $81,739,000). The main financial covenants to be maintained include:

- Loan to value ratio is less than or equal to 50%;
- Total leverage ratio does not exceed 50%; and
- Interest cover ratio of net income from mortgaged properties (including distributions from foreign assets) to facility interest expense of at least 1.50.

The carrying value of investment property net of resident liabilities at reporting date for the Group's Australian properties pledged as security is $179,320,000 (2012: $165,029,000).

## b. Finance leases

On the 23 April 2013, the Group was assigned a commercial lease with 16.5 years remaining with the Gosford City Council for land and facilities as part of its Ettalong Beach Holiday Village acquisition. The lease is for an initial 3 years commencing September 2012 with two 7 year options to renew.

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Minimum lease payments:** | | |
| Within one year | **267** | – |
| Later than one year but not later than five years | **1,135** | – |
| Later than five years | **3,766** | – |
| Total minimum lease payments | **5,168** | – |
| Future finance charges | **(1,784)** | – |
| Present value of minimum lease payments | **3,384** | – |
| **Present value of minimum lease payments:** | | |
| Within one year | **258** | – |
| Later than one year but not later than five years | **962** | – |
| Later than five years | **2,164** | – |
| | **3,384** | – |

## 19. DEFERRED TAX LIABILITIES

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| The balance comprises temporary differences attributable to: | | |
| Investment properties | **7,470** | 7,921 |
| Deferred tax benefit recognised in the income statement in respect of deferred tax liabilities is attributable to temporary differences arising from: | | |
| Investment properties | **(1,273)** | (34) |
| Deductible temporary differences and carried forward losses tax effected for which no deferred tax asset has been recognised | **4,220** | 4,077 |

# Notes to the Financial Statements

for the year ended 30 June 2013 | continued

## 20.ISSUED SECURITIES

### a. Carrying values

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| At beginning of year | **490,044** | 490,044 |
| Issued during the year: | | |
| Institutional placement securities | **21,168** | – |
| Transaction costs of institutional placement securities | **(1,071)** | – |
| On Internalisation | **–** | 6,000 |
| Capital distribution on Internalisation | **–** | (6,000) |
| At end of year | **510,141** | 490,044 |
| The closing balance is attributable to the security holders of: | | |
| Ingenia Communities Holding Limited | **6,078** | 6,000 |
| Ingenia Communities Fund | **497,957** | 480,693 |
| Ingenia Communities Management Trust | **6,106** | 3,351 |
| | **510,141** | 490,044 |

### b. Number of issued securities

| | 2013 THOUSANDS | 2012 THOUSANDS |
|---|---|---|
| At beginning of year | **441,029** | 441,029 |
| Issued during the year | **66,150** | – |
| At end of year | **507,179** | 441,029 |

### c. Terms of securities

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

## 21. RESERVES

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Foreign currency translation reserve** | | |
| Balance at beginning of year | **(17,024)** | (20,240) |
| Translation differences arising during the year | **327** | 3,216 |
| Amounts transferred to profit and loss on disposal of foreign operations | **17,463** | – |
| Balance at end of year | **766** | (17,024) |
| **Share-based payment reserve** | | |
| Balance at beginning of year | **15** | – |
| Share-based payment transactions | **293** | 15 |
| Balance at end of year | **308** | 15 |
| **Total reserves at end of year** | **1,074** | (17,009) |
| The closing balance is attributable to the security holders of: | | |
| Ingenia Communities Holding Limited | **308** | 501 |
| Ingenia Communities Fund | **646** | (16,896) |
| Ingenia Communities Management Trust | **120** | (614) |
| | **1,074** | (17,009) |

The foreign currency translation reserve records exchange differences arising from the translation of the financial statements of foreign subsidiaries.

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. Refer Note 24.

## 22. ACCUMULATED LOSSES

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Balance at beginning of year | **(321,863)** | (355,490) |
| Net profit/(loss) for the year | **(10,290)** | 33,627 |
| Distributions | **(4,410)** | – |
| Balance at end of year | **(336,563)** | (321,863) |
| The closing balance is attributable to the security holders of: | | |
| Ingenia Communities Holding Limited | **77** | 1,322 |
| Ingenia Communities Fund | **(333,650)** | (328,595) |
| Ingenia Communities Management Trust | **(2,990)** | 5,410 |
| | **(336,563)** | (321,863) |

## 23. COMMITMENTS

There are no commitments for capital expenditure on investment property contracted but not provided for at reporting date (2012: $455,500).

For commitments for capital expenditure on discontinued operations, refer to Note 8(f).

The Group has two non-cancellable operating leases for its Sydney and Brisbane offices. These leases have remaining lives of 2.5 years and 1 year respectively.

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

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Within one year | **346** | 95 |
| Later than one year but not later than five years | **395** | 95 |
| | **741** | 190 |

The Group was assigned a commercial lease with 16.5 years remaining with the Gosford City Council for land and facilities as part of its Ettalong Beach Holiday Village acquisition. The lease is for an initial 3 years commencing September 2012 with two 7 year options to renew. The below table is based on the expectation that the lease options will be exercised.

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

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Within one year | **267** | – |
| Later than one year but not later than five years | **1,135** | – |
| Later than five years | **3,766** | – |
| | **5,168** | – |

Future present value of minimum lease payments payable under this lease as at reporting date were:

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Within one year | **258** | – |
| Later than one year but not later than five years | **962** | – |
| Later than five years | **2,164** | – |
| | **3,384** | – |

## 24. SHARE-BASED PAYMENT TRANSACTIONS

The Group has established a long-term incentive scheme ("Scheme"), which provides for the grant of conditional rights to receive securities in the Group. The intention of the Scheme is to align long-term securityholder returns with the 'at-risk' compensation potentially payable to executive level employees and to reward managers who remain in employment and perform at the required levels of performance.

The Scheme encompasses two types of security rights: performance quantum rights ("PQRs") and retention quantum rights ("RQRs"). PQRs vest on completion of a period of service, with the number of rights vesting being based on the Group's performance, as measured by total securityholder returns, and RQRs vest on completion of a period of service. On vesting, each right entitles the employee to receive one security of the Group for no consideration.

Movements in rights during the year were:

| | 2013 THOUSANDS | 2012 THOUSANDS |
|---|---|---|
| **PQRs** | | |
| Outstanding at beginning of year | **3,842** | – |
| Granted during the year | **–** | 3,842 |
| Outstanding at end of year | **3,842** | 3,842 |
| Exerciseable at end of year | **–** | – |
| Weighted average remaining contractual life of outstanding rights (years) | **2.0** | 3.0 |
| **RQRs** | | |
| Outstanding at beginning of year | **1,818** | – |
| Granted during the year | **–** | 1,818 |
| Outstanding at end of year | **1,818** | 1,818 |
| Exerciseable at end of year | **–** | – |
| Weighted average remaining contractual life of outstanding rights (years) | **0.9** | 1.9 |

# Notes to the Financial Statements

for the year ended 30 June 2013 | continued

## 24. SHARE-BASED PAYMENT TRANSACTIONS CONTINUED

The fair values of the rights granted during the previous year were measured using a Monte Carlo Simulation model. Assumptions made in determining these fair values, and the results of these assumptions, were:

| GRANT DATE | 14 MAY 2012 | 31 MAY 2012 | 4 JUNE 2012 |
|---|---|---|---|
| **PQRs** | | | |
| Price of stapled securities at grant date | $0.190 | $0.205 | $0.205 |
| Volatility of security price | 50.0% | 50.0% | 50.0% |
| Distribution yield | 2.63% | 2.44% | 2.44% |
| Risk-free rate at grant date | 2.68% | 2.35% | 2.18% |
| Expected remaining life at grant date | 3.1 | 3.1 | 3.1 |
| Fair value of each right | $0.090 | $0.102 | $0.102 |
| **RQRs** | | | |
| Price of stapled securities at grant date | $0.190 | $0.205 | $0.205 |
| Volatility of security prices | 50.0% | 50.0% | 50.0% |
| Distribution yield | 2.63% | 2.44% | 2.44% |
| Risk-free rate at grant date | 2.68% | 2.35% | 2.18% |
| Expected remaining life at grant date | 2 | 2 | 2 |
| Fair value of each right | $0.171 | $0.186 | $0.186 |

In determining the volatility factor, reference was made to historical volatility measures for the Group and comparable companies using weekly share price data between 31 May 2007 and 31 May 2012.

The fair value of the rights 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 expense recognised for the financial year was $293,113 (2012: $14,736).

## 25. CAPITAL MANAGEMENT

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

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

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

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

The Group's capital position is primarily monitored through its ratio of total liabilities to total assets ("Leverage Ratio"), calculated on a look-through basis, in which the Group's interest in its joint ventures and associates are proportionately consolidated based on the Group's ownership interest. The Group's medium term strategy is to maintain the Leverage Ratio in the range of 45% -55%. At 30 June 2013, the Leverage Ratio was 62.0%, compared to 72.8% at 30 June 2012, calculated as follows:

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Total consolidated liabilities | **284,922** | 307,289 |
| Plus share of liabilities of equity accounted investments | **-** | 99,784 |
| Total look-through liabilities | **284,922** | 407,073 |
| Total consolidated assets | **459,574** | 458,461 |
| Less equity accounted investments | **-** | (36,983) |
| Plus share of assets of equity accounted investments | **-** | 137,314 |
| Total look-through assets | **459,574** | 558,792 |
| Leverage ratio | **62.0%** | 72.8% |

In addition, the Group monitors the ratio of debt to total assets ("Gearing Ratio"), calculated on a look-through basis. At 30 June 2013, the Gearing Ratio was 20.6%, compared to 52.0% at 30 June 2012, calculated as follows:

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Total consolidated borrowings | **88,328** | 124,701 |
| Less cash & cash equivalents (including associates) | **(37,550)** | (34,300) |
| Net consolidated debt | **50,778** | 90,401 |
| Plus share of debt of equity accounted investments | **-** | 97,725 |
| Total look-through debt | **50,778** | 188,126 |
| Total consolidated assets | **459,574** | 458,461 |
| Less cash & cash equivalents | **(37,550)** | (32,812) |
| Less retirements village residents loans | **(175,703)** | (162,603) |
| Less equity accounted investments | **-** | (36,983) |
| Plus share of assets of equity accounted investments | **-** | 137,314 |
| Less cash and cash equivalents of equity accounted investments | **-** | (1,488) |
| Total look-through assets | **246,321** | 361,889 |
| Gearing ratio | **20.6%** | 52.0% |

# Notes to the Financial Statements

for the year ended 30 June 2013 | continued

## 26. FINANCIAL INSTRUMENTS

### a. Introduction

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

The main risks arising from the Group's financial instruments are interest rate risk, foreign exchange risk, credit risk and liquidity risk. The Group manages its exposure to these risks primarily through its Treasury 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 forecast not 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 Treasury 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 Treasury 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 Treasury Policy targets, many factors influence its performance, and it is probable that at any one time it will not meet all its targets. For example, the Group may be unable to negotiate the extension of bank facilities sufficiently ahead of time, so that it fails to achieve its liquidity target. When refinancing loans it may be unable to achieve the desired maturity profile or the desired level of flexibility of financial covenants, because of the cost of such terms or their unavailability. Hedging instruments may not be available, or their cost may outweigh the benefit of risk reduction or they may introduce other risks such as mark to market valuation risk. Changes in market conditions may limit the Group's ability to raise capital through the issue of new securities or sale of properties.

### b. Interest rate risk

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

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

At 30 June 2013, after taking into account the effect of interest rate swaps, approximately 26% of the Group's borrowings are at a fixed rate of interest (2012: 73% ). On 17 July 2013, further interest rate swaps came into effect which increased the Group's fixed rate borrowings ratio to 66%.

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 at reporting date was:

| 30 JUNE 2013 | FLOATING INTEREST RATE | FIXED INTEREST MATURING IN: LESS THAN 1 YEAR | 1 TO 5 YEARS | MORE THAN 5 YEARS | TOTAL |
|---|---|---|---|---|---|
| **Principal amounts $'000** | | | | | |
| *Financial assets* | | | | | |
| Cash at bank | **7,060** | **–** | **–** | **–** | **7,060** |
| Short term deposits | **31,471** | **–** | **–** | **–** | **31,471** |
| *Financial liabilities* | | | | | |
| Bank debt denominated in AUD | **68,000** | **–** | **–** | **–** | **68,000** |
| Finance leases | **–** | **258** | **962** | **2,164** | **3,384** |
| Other external debt denominated in USD | **–** | **–** | **–** | **–** | **–** |
| Interest rate swaps: | | | | | |
| – denominated in AUD; ICF pays fixed rate | **(45,000)** | **45,000** | **–** | **–** | **–** |

The Group's exposure to interest rate risk at the end of the previous financial year was:

| 30 JUNE 2012 | FLOATING INTEREST RATE | FIXED INTEREST MATURING IN: LESS THAN 1 YEAR | 1 TO 5 YEARS | MORE THAN 5 YEARS | TOTAL |
|---|---|---|---|---|---|
| **Principal amounts $'000** | | | | | |
| *Financial assets* | | | | | |
| Cash at bank | 5,210 | – | – | – | 5,210 |
| Short term deposits | 24,351 | – | – | – | 24,351 |
| *Financial liabilities* | | | | | |
| Bank debt denominated in AUD | 81,739 | – | – | – | 81,739 |
| Interest rate swaps: | | | | | |
| – denominated in AUD; ICF pays fixed rate | (60,000) | 60,000 | – | – | – |

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.

## 26. 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 reporting date. As the Group has no derivatives that meet the documentation requirements to qualify for hedge accounting, there would be no impact on securityholders interest (apart from the effect on profit).

**i. Increase in average interest rates of 1%**

The effect on net interest expense for one year would have been:

| | EFFECT ON PROFIT BEFORE TAX HIGHER/(LOWER) | |
|---|---|---|
| | 2013 $'000 | 2012 $'000 |
| Variable interest rate instruments denominated in: | | |
| Australian dollars | **(680)** | (817) |

The effect on change in fair value of derivatives would have been:

| | EFFECT ON PROFIT BEFORE TAX HIGHER/(LOWER) | |
|---|---|---|
| | 2013 $'000 | 2012 $'000 |
| Interest rate swaps denominated in: | | |
| Australian dollars | **793** | 293 |

**ii. Decrease in average interest rates of 1%**

The effect on net interest expense for one year would have been:

| | EFFECT ON PROFIT BEFORE TAX HIGHER/(LOWER) | |
|---|---|---|
| | 2013 $'000 | 2012 $'000 |
| Variable interest rate instruments denominated in: | | |
| Australian dollars | **680** | 817 |

The effect on change in fair value of derivatives would have been:

| | EFFECT ON PROFIT BEFORE TAX HIGHER/(LOWER) | |
|---|---|---|
| | 2013 $'000 | 2012 $'000 |
| Interest rate swaps denominated in: | | |
| Australian dollars | **(810)** | (298) |

### e. Foreign exchange risk

By holding properties in offshore markets, the Group is exposed to the risk of movements in foreign exchange rates. Foreign exchange rate movements may reduce the Australian dollar equivalent of the carrying value of the Group's offshore properties, and may result in lower Australian dollar equivalent proceeds when an offshore property is sold. In addition, foreign exchange rate movements may reduce the Australian dollar equivalent of the earnings from the offshore properties while they are owned by the Group.

The Group reduces its exposure to the foreign exchange risk inherent in the carrying value of its offshore properties and interests in offshore investments by partly or wholly funding their acquisition using borrowings denominated in the particular offshore currency, and by using derivatives. The Treasury Policy sets a target for minimum and maximum hedging of the carrying value of its offshore properties.

The Group's exposure to the impact of exchange rate movements on its earnings from its offshore properties is partly mitigated by the foreign denominated interest expense of its foreign denominated borrowings and any derivative hedges. The Group aims to reduce any residual exposure to its earnings arising because of its investment in offshore markets by using forward exchange contracts. The Treasury Policy sets out targets of minimum and maximum hedging of its earnings from offshore properties over a five-year time horizon.

## f. Net foreign currency exposure

The Group's net foreign currency monetary exposure, after taking into account the effect of foreign exchange derivatives, 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/(LIABILITY) | |
|---|---|---|
| | 2013 $'000 | 2012 $'000 |
| United States dollars | **1,282** | 2,310 |

## 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 reporting date.

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

| | EFFECT ON PROFIT BEFORE TAX HIGHER/(LOWER) | |
|---|---|---|
| | 2013 $'000 | 2012 $'000 |
| Foreign exchange risk exposures denominated in: | | |
| United States dollars | **(128)** | (231) |

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

| | EFFECT ON PROFIT BEFORE TAX HIGHER/(LOWER) | |
|---|---|---|
| | 2013 $'000 | 2012 $'000 |
| Foreign exchange risk exposures denominated in: | | |
| United States dollars | **128** | 231 |

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

These tables do not show the effect on equity that would occur from the translation of the financial statements of foreign operations because of the assumed 10% change in exchange rates.

## 26. FINANCIAL INSTRUMENTS CONTINUED

### h. Foreign exchange derivatives held

Forward exchange contracts, options and foreign exchange swaps outstanding at reporting date are taken out to mitigate the effect of foreign exchange movements on the financial statements.

At reporting date, none of the following foreign exchange derivatives qualifies for hedge accounting and gains and losses arising from changes in fair value have been taken to the income statement. The consolidated loss for the year ended 30 June 2013 was $9,000 (2012: gain $111,000).

The Group did not hold any foreign exchange derivatives at 30 June 2013.

The Group held a USD put/AUD call option at 30 June 2012 for a principal amount of AUD$44.1m with a strike price of 1.0000 and expiry of 28 November 2012.

The effect of a 10% appreciation in the Australian dollar would have resulted in a higher profit after tax of $3.5m and a depreciation of 10% would have resulted in a lower profit after tax of $2.3m for the year ended 30 June 2012.

### i. 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 Treasury 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.

### j. 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 Treasury 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 cashflow in the next year, estimated distributions and 5% of the value of retirement village resident loan liabilities.

The Group may also be exposed to contingent liquidity risk under its term loan facilities, where term loan facilities include covenants which if breached give the lender the right to call in the loan, thereby accelerating a cash flow which otherwise was scheduled for the loan maturity. The Group monitors adherence to loan covenants on a regular basis, and the Treasury 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 and 15% fall in the exchange rate 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. Foreign currencies have been converted at rates of exchange ruling at reporting date.

Although the expected average residency term is around eleven years, retirement village resident 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.

| 2013 | LESS THAN 1 YEAR $'000 | 1 TO 5 YEARS $'000 | MORE THAN 5 YEARS $'000 | TOTAL $'000 |
|---|---|---|---|---|
| Trade & other payables | **9,066** | **–** | **140** | **9,206** |
| Retirement village resident loans | **175,703** | **–** | **–** | **175,703** |
| Borrowings | **3,271** | **72,089** | **–** | **75,360** |
| Finance leases | **267** | **1,135** | **3,766** | **5,168** |
| | **188,307** | **73,224** | **3,906** | **265,437** |
| **2012** | | | | |
| Trade & other payables | 8,241 | – | – | 8,241 |
| Retirement village resident loans | 162,603 | – | – | 162,603 |
| Borrowings | 81,739 | – | – | 81,739 |
| | 252,583 | – | – | 252,583 |

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. Foreign currencies have been converted at rates of exchange ruling at reporting date.

| 2013 | LESS THAN 1 YEAR $'000 | 1 TO 5 YEARS $'000 | MORE THAN 5 YEARS $'000 | TOTAL $'000 |
|---|---|---|---|---|
| **Liabilities** | | | | |
| Derivative liabilities – net settled | **–** | **209** | **–** | **209** |

The contractual maturities of the Group's derivative financial liabilities at 30 June 2012, on the same basis, were:

| 2012 | LESS THAN 1 YEAR $'000 | 1 TO 5 YEARS $'000 | MORE THAN 5 YEARS $'000 | TOTAL $'000 |
|---|---|---|---|---|
| **Liabilities** | | | | |
| Derivative liabilities – net settled | 970 | – | – | 970 |

## 26. FINANCIAL INSTRUMENTS CONTINUED

### k. Other financial instrument risk

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

| | EFFECT ON PROFIT BEFORE TAX HIGHER/(LOWER) | |
|---|---|---|
| | 2013 $'000 | 2012 $'000 |
| Increase in market prices of investment properties of 10% | **(20,700)** | (19,000) |
| Decrease in market prices of investment properties of 10% | **20,700** | 19,000 |

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.

### l. Fair value

The Group uses the following fair value measurement hierarchy:

**Level 1:** fair value is calculated using quoted prices in active markets;

**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 fair value of the listed equity investments are based on quoted market prices.

The fair value of derivatives was calculated as the net present value of future payment obligations discounted at market rates adjusted for the Group's credit risk. The fair value of retirement village resident loans was measured as the ingoing resident's contribution plus the resident's share of capital appreciation to reporting date, less deferred management fee accrued to reporting date. These valuation techniques use both observable and unobservable market inputs.

Financial instruments that use valuation techniques with only observable market inputs or unobservable inputs that are not significant to the overall valuation include derivatives.

The fair value of retirement village resident loans is based on valuation techniques using market data that is not observable. Refer Note 2 for assumptions used in valuing the loans.

The following tables present the Group's financial instruments that were measured and recognised at fair value at reporting date.

| 2013 | LEVEL 1 $'000 | LEVEL 2 $'000 | LEVEL 3 $'000 | TOTAL $'000 |
|---|---|---|---|---|
| **Financial liabilities** | | | | |
| Retirement village resident loans | – | – | 175,703 | 175,703 |
| Derivatives | – | 209 | – | 209 |
| | – | 209 | 175,703 | 175,912 |

The following tables present the Group's financial instruments that were measured and recognised at fair value at 30 June 2012.

| 2012 | LEVEL 1 $'000 | LEVEL 2 $'000 | LEVEL 3 $'000 | TOTAL $'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Derivatives | – | 1,659 | – | 1,659 |
| **Financial liabilities** | | | | |
| Retirement village resident loans | – | – | 162,603 | 162,603 |
| Derivatives | – | 970 | – | 970 |
| | – | 970 | 162,603 | 163,573 |

Changes in the Group's retirement village resident loans which are level 3 instruments are presented in Note 17.

The current market value of the independent living units is an input to the valuation of retirement village resident loans. Changing the value used for this input by an increase of 10% would increase the fair value of these loans by $20,700,000 (2012: $19,000,000).

The change has been calculated in accordance with the formula set out in the contracts with the residents and incorporates the market value of the property and the expected tenure of each resident.

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

## 27. AUDITOR'S REMUNERATION

| | 2013 $ | 2012 $ |
|---|---|---|
| Amounts received or receivable by EY for: | | |
| Audit or review of the financial reports | 277,423 | 406,603 |
| Other audit related services | 32,683 | 33,020 |
| | 310,106 | 439,623 |

## 28. 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 Ingenia Communities Holdings Limited.

Until 4 June 2012, the responsible entity for both Trusts was ING Management Limited ("IML"), a member of the ING group of companies for which the ultimate holding company is ING Groep NV, a company incorporated in the Netherlands.

### b. Fees of the responsible entity and its related parties

| | 2013 $ | 2012 $ |
|---|---|---|
| ING Management Limited: | | |
| Asset management fees | - | 2,006,044 |
| Fees waived | - | (2,499,536) |
| | - | (493,492) |

Fees paid to ICRE have been eliminated on consolidation.

ICRE is entitled to a fee of 0.5% of total assets. In addition, it is entitled to recover certain expenses.

As part of the Internalisation of the Trusts that occurred on 4 June 2012, IML waived its right to receive $2,500,000 in fees that accrued to 30 June 2011.

### c. Other transactions with the responsible entity and its related parties

Details of the financial support provided by ING Groep NV for Internalisation are given in Note 5.

### d. 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) | |
| Philip Clark AM | |
| Amanda Heyworth | |
| Robert Morrison | Appointed 8 February 2013 |
| Simon Owen (Managing Director) | |

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:

| | |
|---|---|
| Simon Owen | Managing Director |
| Nicole Fisher | Chief Operating Officer |
| Tania Betts | Chief Financial Officer |

Remuneration of key management personnel was:

| | NOTE | 2013 $ | 2012 $ |
|---|---|---|---|
| Directors fees | | **319,167** | 70,416 |
| Salaries and other short-term benefits | | **756,735** | 70,070 |
| Short-term incentives | | **182,382** | – |
| Superannuation benefits | | **48,957** | 6,306 |
| Long-term incentives | 24 | **293,113** | 14,736 |
| | | **1,600,354** | 161,528 |

The amounts disclosed in the table are the amounts recognised as an expense during the reporting period related to key management personnel. They only include remuneration received directly from the Group. Prior to Internalisation some key management personnel also received remuneration from IML or its related parties in their capacity as directors or employees of the responsible entity or its related parties.

Securities of the Group held directly, indirectly or beneficially by each key management person, including their related parties, were:

| | 2013 | 2012 |
|---|---|---|
| Jim Hazel | | |
| Held at the beginning of the financial year | **500,000** | – |
| Acquisitions | **800,000** | 500,000 |
| Disposals | **(300,000)** | – |
| Held at the end of the financial year | **1,000,000** | 500,000 |
| Philip Clark | | |
| Held at the beginning of the financial year | **90,151** | 90,151 |
| Acquisitions | **9,849** | – |
| Held at the end of the financial year | **100,000** | 90,151 |
| Amanda Heyworth | | |
| Held at the beginning of the financial year | **200,000** | – |
| Acquisitions | **221,000** | 200,000 |
| Held at the end of the financial year | **421,000** | 200,000 |
| Robert Morrison | | |
| Held at the beginning of the financial year | **–** | – |
| Acquisitions | **110,000** | – |
| Held at the end of the financial year | **110,000** | – |
| Simon Owen | | |
| Held at the beginning of the financial year | **1,440,750** | 367,600 |
| Acquisitions | **77,000** | 1,073,150 |
| Held at the end of the financial year | **1,517,750** | 1,440,750 |

# Notes to the Financial Statements

for the year ended 30 June 2013 | continued

## 28. RELATED PARTIES CONTINUED

Performance quantum rights held by each key management person were:

| | 2013 | 2012 |
|---|---|---|
| Simon Owen | | |
| Held at the beginning of the financial year | **2,260,000** | – |
| Granted | **–** | 2,260,000 |
| Held at the end of the financial year | **2,260,000** | 2,260,000 |
| Nicole Fisher | | |
| Held at the beginning of the financial year | **791,000** | – |
| Granted | **–** | 791,000 |
| Held at the end of the financial year | **791,000** | 791,000 |
| Tania Betts | | |
| Held at the beginning of the financial year | **791,000** | – |
| Granted | **–** | 791,000 |
| Held at the end of the financial year | **791,000** | 791,000 |

Retention quantum rights held by each key management person were:

| | 2013 | 2012 |
|---|---|---|
| Simon Owen | | |
| Held at the beginning of the financial year | **1,070,000** | – |
| Granted | **–** | 1,070,000 |
| Held at the end of the financial year | **1,070,000** | 1,070,000 |
| Nicole Fisher | | |
| Held at the beginning of the financial year | **374,000** | – |
| Granted | **–** | 374,000 |
| Held at the end of the financial year | **374,000** | 374,000 |
| Tania Betts | | |
| Held at the beginning of the financial year | **374,000** | – |
| Granted | **–** | 374,000 |
| Held at the end of the financial year | **374,000** | 374,000 |

## 29. COMPANY FINANCIAL INFORMATION

Summary financial information about the Company is:

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Current assets | **190** | 50 |
| Total assets | **6,459** | 6,635 |
| Current liabilities | **3,494** | 30 |
| Total liabilities | **3,117** | 30 |
| Net assets | **3,342** | 6,605 |
| Shareholders' equity | | |
| Issued securities | **6,078** | 6,000 |
| Reserves | **308** | 15 |
| Retained earnings | **(3,044)** | 590 |
| Total shareholders' equity | **3,342** | 6,605 |
| Profit from continuing operations | **(3,636)** | 590 |
| Profit from discontinued operations | **–** | – |
| Net profit attributable to shareholders | **(3,636)** | 590 |
| Total comprehensive income | **(3,636)** | 590 |

The Company's results for 2012 are for the period from incorporation on 24 November 2011 to 30 June 2012.

The Company is a joint guarantor of the Commonwealth Bank of Australia debt facility, which has an outstanding balance of $68,000,000 at 30 June 2013 (2012: $81,739,000).

# Notes to the Financial Statements

for the year ended 30 June 2013 | continued

## 30. SUBSIDIARIES

### a. Names of 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):

| NAME | COUNTRY OF RESIDENCE | OWNERSHIP INTEREST 2013 % | OWNERSHIP INTEREST 2012 % |
|---|---|---|---|
| Bridge Street Trust | Australia | **100** | 100 |
| Browns Plains Road Trust | Australia | **100** | 100 |
| Casuarina Road Trust | Australia | **100** | 100 |
| Edinburgh Drive Trust | Australia | **100** | 100 |
| Garden Villages Management Trust | Australia | **100** | 100 |
| INA CC Holdings Pty Ltd | Australia | **100** | 100 |
| INA CC Pty Ltd | Australia | **100** | 100 |
| INA Community Living Lynbrook Trust | Australia | **100** | 100 |
| INA Community Living Subsidiary Trust No. 1 | Australia | **100** | 100 |
| INA Community Living Subsidiary Trust No. 2 | Australia | **100** | 100 |
| INA Garden Villages Pty Ltd | Australia | **100** | 100 |
| INA Kiwi Communities Pty Ltd | Australia | **100** | 100 |
| INA Kiwi Communities Subsidiary Trust No. 1 | Australia | **100** | 100 |
| INA Management Pty Ltd | Australia | **100** | 100 |
| INA Real Estate CC Trust No. 1 | Australia | **100** | 100 |
| INA Regency Co 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 |
| ILF Regency Operations Trust | Australia | **100** | 100 |
| ILF Regency Subsidiary 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** | – |
| INA Subsidiary Trust No.2 | Australia | **100** | – |
| INA Subsidiary Trust No.3 | Australia | **100** | – |

| NAME | COUNTRY OF RESIDENCE | OWNERSHIP INTEREST 2013 % | OWNERSHIP INTEREST 2012 % |
|---|---|---|---|
| INA Operations Pty Ltd | Australia | **100** | – |
| INA Operations Trust No.1 | Australia | **100** | – |
| INA Operations Trust No.2 | Australia | **100** | – |
| INA Operations Trust No.3 | Australia | **100** | – |
| IGC NZ Student Holdings Ltd | New Zealand | **100** | 100 |
| INA NZ Subsidiary Trust No 1[(1)] | New Zealand | **100** | 100 |
| CSH Lynbrook GP LLC | United States of America | **100** | 100 |
| CSH Lynbrook LP | United States of America | **100** | 100 |
| Lynbrook Freer Street Member LLC | United States of America | **100** | 100 |
| Lynbrook Management, LLC | United States of America | **100** | 100 |
| ING Community Living Fund Inc | United States of America | **–** | 100 |
| ING Community Living II LLC | United States of America | **100** | 100 |
| ING Community Living LLC | United States of America | **100** | 100 |

(1) On 4 June 2012, ICMT acquired a 10% economic interest and all of the voting rights in respect of this trust, and consequently consolidates it from that date. ICF has a 90% economic interest.

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

## b. Acquisition of subsidiary

During the year ending 30 June 2012, ICMT acquired a 10% economic interest and all of the voting rights in respect of INA NZ Subsidiary Trust No 1 ("NZS") for no consideration, as part of the Internalisation of management of the Group. At the date of acquisition, NZS owned the Group's New Zealand Students portfolio.

The fair value of the assets and liabilities arising from the acquisition, and their carrying amounts in the financial statements of NZS immediately prior to the acquisition were:

| | FAIR VALUES $'000 | CARRYING AMOUNTS $'000 |
|---|---|---|
| Cash | 2,268 | 2,268 |
| Receivables | 904 | 904 |
| Property investments | 19,843 | 19,843 |
| Payables | (1,202) | (1,202) |
| Borrowings | (16,153) | (16,153) |
| Net assets | 5,660 | 5,660 |

The purchase consideration compares to net assets acquired as follows:

| | $'000 |
|---|---|
| Carrying amount of former equity accounted investment | 3,874 |
| Net assets | 5,660 |
| Gross gain on acquisition | 1,786 |
| Less foreign currency translation reserve associated with former equity accounted investment | (488) |
| Gain on acquisition | 1,298 |

## 30. SUBSIDIARIES CONTINUED

The net inflow of cash resulting from the acquisition was:

| | $'000 |
|---|---|
| Purchase consideration: | |
| Cash paid | – |
| Cash included in net assets | 2,268 |
| Inflow of cash | 2,268 |

The net assets referred to in the above table represent 100% of the NZS entity assets. Prior to ICMT acquiring the remaining 10% economic interest, ICF held its 90% economic interest as an equity accounted investment. On 30 June 2011 this equity accounted investment was reclassified as a discontinued operation. The purchase price above represents the carrying amount of the equity accounted investment adjusted for a reversal of the associated foreign currency translation reserve which effectively has been exchanged from the Group's perspective for a 100% consolidated investment. No cash was exchanged for the remaining 10%.

The acquisition of NZS contributed a $1,595,000 gain to the net profit attributable to securityholders for the 2012 financial year.

If the acquisition had occurred at the beginning of the 2012 financial year, the Group's revenue would have been $30,373,000 and net profit attributable to stapled securityholders would have been $34,950,000.

## 31. SEGMENT INFORMATION

### a. Description of segments

The Group invests in seniors accommodation properties located in Australia. The rental villages in Australia comprise the Garden Villages segment; the deferred management fee properties comprise the Settlers Lifestyle segment; and the manufactured home estate villages ("MHEs") which comprise both permanent and short stay rental income and income from the sale of manufactured homes is referred to as the Active Lifestyle Estates segment. 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 in 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".

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **b. Segment revenue** | | |
| Revenues from external customers: | | |
| Garden Villages | **20,445** | 19,024 |
| Settlers Lifestyle | **6,824** | 6,321 |
| Active Lifestyle Estates | **1,058** | – |
| Total segment revenue | **28,327** | 25,345 |
| Interest income | **563** | 860 |
| Total revenue | **28,890** | 26,205 |

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **c. Segment result** | | |
| Garden Villages | **7,691** | 7,000 |
| Settlers Lifestyle | **5,665** | 5,530 |
| Active Lifestyle Estates | **355** | – |
| Total segment result | **13,711** | 12,530 |
| Interest income | **563** | 861 |
| Net foreign exchange loss | **37** | (249) |
| Net gain/(loss) on disposal of investment properties | **(107)** | (35) |
| Net gain/(loss) on change in fair value of: | | |
| Investment properties | **3,457** | 2,399 |
| Derivatives | **752** | 111 |
| Retirement village resident loans | **327** | (284) |
| Gain/(loss) on internalisation | **(35)** | 2,758 |
| Finance cost | **(6,112)** | (8,538) |
| Responsible entity's fees and expenses | **–** | (2,006) |
| Amortisation of intangibles | **(585)** | (215) |
| Other expenses | **(4,928)** | (814) |
| (Gain)/loss on revaluation of newly constructed retirement villages | **(4,619)** | (5,124) |
| Income tax benefit | **367** | 38 |
| Other | **–** | 16 |
| Profit/(loss) from continuing operations | **2,828** | 1,448 |
| **d. Segment assets** | | |
| Garden Villages | **81,140** | 128,610 |
| Settlers Lifestyle | **274,974** | 227,873 |
| Active Lifestyle Estates | **18,559** | – |
| Total segment assets | **374,673** | 356,483 |
| Discontinued operations | **36,576** | 95,325 |
| Corporate/Unallocated | **48,325** | 6,653 |
| | **459,574** | 458,461 |
| **e. Other information** | | |
| Net gain on change in fair value of investment property: | | |
| Garden Villages | **1,307** | 1,136 |
| Settlers Lifestyle | **2,165** | (3,535) |
| Active Lifestyle Estates | **(15)** | – |
| | **3,457** | (2,399) |
| Additions to investment properties: | | |
| Garden Villages | **17,012** | 1,501 |
| Settlers Lifestyle | **8,165** | 372 |
| Active Lifestyle Estates | **18,212** | – |
| | **43,389** | 1,873 |

# Notes to the Financial Statements

for the year ended 30 June 2013 | continued

## 32. NOTES TO THE CASH FLOW STATEMENT

### Reconciliation of profit to net cash flow from operating activities

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Net profit for the year** | **(10,290)** | 33,627 |
| Adjustments for: | | |
| Unrealised foreign exchange loss | **718** | 225 |
| Release of FCTR on disposal of foreign operations | **17,463** | – |
| Net (gain)/loss on disposal of investment properties - continuing | **107** | 35 |
| Net (gain)/loss on disposal of investment properties - discontinued | **994** | – |
| Disposal costs associated with overseas investments - continuing | **150** | – |
| Disposal costs associated with overseas investments - discontinued | **672** | – |
| Loss on disposal of equity accounted investments | **(7,584)** | 3,969 |
| Net (gain)/loss on change in fair value of: | | |
| Investment properties – continuing | **(3,457)** | (2,399) |
| Investment properties – discontinued | **2,783** | (246) |
| Derivatives | **(752)** | (111) |
| Borrowings – discontinued | **-** | (6,922) |
| Retirement village resident loan | **(327)** | 284 |
| Excess of distributions received from equity accounted investments over share of profits | | |
| Continuing | **-** | – |
| Discontinued | **-** | (26,089) |
| Income tax expenses | | |
| Continuing | **(367)** | 34 |
| Discontinued | **1,002** | 70 |
| Gain/(loss) on internalisation | **35** | (2,758) |
| Amortisation of intangibles | **585** | 215 |
| Share based payments expense | **293** | 15 |
| Other non-cash items | **-** | 706 |
| Operating profit for the year before changes in working capital | **2,025** | 655 |
| Changes in working capital: | | |
| Increase in receivables | **(3,309)** | (736) |
| Increase in retirement village resident loans | **12,220** | 11,557 |
| Decrease in other payables | **304** | (6,324) |
| **Net cash provided by operating activities** | **11,240** | 5,152 |

## 33. SUBSEQUENT EVENTS

On 16 August 2013, the Group acquired Nepean River Holiday Village, a manufactured home estate in Penrith, New South Wales. The purchase price was $10.0m and was funded by the institutional placement in late June 2013.

On 22 August 2013, the Group acquired Albury City Gate Tourist Park, a manufactured home estate in Albury, New South Wales. The purchase price was $2.2m and will be funded by the institutional placement in late June 2013.

On 23 August 2013, the Group refinanced its Bank of New Zealand debt facility, which funds the New Zealand Students portfolio. The refinance is for an existing NZ$20.8m core facility and a new NZ$11.9m development facility for required seismic works. Both facilities have a term of 5 years.

On 27 August 2013, the Group announced the acquisition of the Mudgee Valley Tourist Park for $4.0m and Mudgee Tourist and Van Resort for $7m. The Group has long identified Mudgee as an attractive and significantly untapped market for active retirees.

# Directors' Declaration

for the year ended 30 June 2013

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 2013 are in accordance with the *Corporations Act 2001*, including:
      i. giving a true and fair view of its financial position as at 30 June 2013 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, 27 August 2013

# Independent Auditors' Report

to the members of Ingenia Communities Holdings Limited

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## Independent auditor's report to the members of Ingenia Communities Holdings Limited

### Report on the financial report

We have audited the accompanying financial report of Ingenia Communities Holdings Limited, which comprises the consolidated statement of financial position as at 30 June 2013, the consolidated income statement, consolidated statement of comprehensive income, the statement of changes in equity and the consolidated cash flow statement for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

#### *Directors' responsibility for the financial report*

The directors of Ingenia Communities Holdings Limited are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1(b), the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

#### *Independence*

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

# Independent Auditors' Report

to the members of Ingenia Communities Holdings Limited | continued

### *Opinion*

In our opinion:

a. the financial report of Ingenia Communities Holdings Limited is in accordance with the Corporations Act 2001, including:

   i giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and

b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(b).

## Report on the remuneration report

We have audited the Remuneration Report included in pages 24 to 39 of the directors' report for the year ended 30 June 2013. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

### *Opinion*

In our opinion, the Remuneration Report of Ingenia Communities Holdings Limited for the year ended 30 June 2013, complies with section 300A of the Corporations Act 2001.

Ernst & Young

Chris Lawton
Partner
Sydney
27 August 2013

# Ingenia Communities Fund & Ingenia Communities Management Trust Annual Reports

for the year ended 30 June 2013

**CONTENTS**

# Directors' Report

for the year ended 30 June 2013

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

The Ingenia Communities Fund (formerly the ING Real Estate Community Living Fund) ("ICF" or the "Fund") and the Ingenia Communities Management Trust (formerly the ING Real Estate Community Living Management Trust) ("ICMT") (collectively the "Trusts") were constituted on 22 November 2003 and 24 November 2006, respectively.

Previously, the Trusts operated as a stapled entity known as ING Real Estate Community Living Group. In accordance with Accounting Standard AASB 3 *Business Combinations*, the stapling of both Trusts, which terminated on 4 June 2012, was regarded as a business combination and ICF was identified as the parent for preparing consolidated financial reports. The responsible entity for both trusts until 4 June 2012 was ING Management Limited ("IML"). IML is an Australian domiciled company and is a wholly owned company within the ING Groep NV group of companies.

From 4 June 2012 Ingenia Communities RE Limited ("ICRE"), a wholly owned subsidiary of Ingenia Holdings Limited ("ICH" or the "Company") became the responsible entity for the Trusts. On that date, management of the Trusts was internalised and the stapled entity known as Ingenia Communities Group (consisting of the Company and the Trusts) (the "Group") was formed ("Internalisation").

The directors' report is a combined directors' report that covers both Trusts.

## DIRECTORS

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

| | |
|---|---|
| Jim Hazel (Chairman) | Appointed 27 March 2012 |
| Philip Clark AM | Appointed 4 June 2012 |
| Amanda Heyworth | Appointed 16 April 2012 |
| Robert Morrison | Appointed 8 February 2013 |
| Simon Owen (Managing Director) | Appointed 25 November 2011 |

## PRINCIPAL ACTIVITY

The principal activity of ICF is investment in seniors living communities in Australia. The principal activities of ICMT are the development, management and operation of seniors living communities in Australia. There was no significant change in the nature of either Trust's activities during the financial year.

## OPERATING AND FINANCIAL REVIEW

### a. ICF and ICMT overview

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

The Group's vision is to be a leading Australian provider of affordable seniors living accommodation whilst delivering value to all its stakeholders, which includes strong earnings growth for security holders and value to residents.

### b. Strategy

The strategy of ICF and ICMT is aligned with the Group's strategy of growing its Australian seniors living portfolio with a focus on affordability. Manufactured home estates have been identified as a key target area for achieving growth, and the Group remains focused on completing divestment of its non-core New Zealand Students portfolio over the next couple of years. The growth of the Australian portfolio will be largely achieved through building out the existing development pipeline and further targeted acquisitions.

## c. FY13 Financial results

FY13 was a key transitional year for the Group following Internalisation on 4 June 2012. The Group made several important strategic decisions in order to establish the appropriate foundation for executing its strategy.

These decisions included recommencement of distributions from ICF, refinancing Australian debt facilities in ICF, completion of the divestment of its US Seniors portfolio held by ICF and ICMT with repatriation of funds for reinvestment, entry into the manufactured home estate market by ICMT and a $21.2 million equity placement, of which $17.3m was raised by ICF and $2.8m by ICMT. This placement will fund further manufactured home estate acquisitions in early FY14.

## d. Key metrics

- Net profit for the year of $2.7m for ICF and a loss of $11.7m for ICMT.
- Full year distribution of 1.0 cent per security by ICF, nil for ICMT.

These results are reflective of execution of the strategy to divest overseas operations, which is now largely complete, and redeploy that capital into the Australian market to generate strong returns for securityholders.

The ICF and ICMT statutory results respectively include a $15.5m and $2.4m non-cash expense, being the reclassification of the foreign currency translation reserve to accumulated losses following completion of the divestment of the US Seniors portfolio. The divestment of the US Seniors portfolio, excluding the reclassification of the foreign currency translation reserve generated a gain on sale of $7.4m in ICF and $0.8m loss on sale in ICMT.

## e. Continuing operations

The key strategic priorities of the continuing operations are:

- Growing rental village occupancy.
- Improving operating cash margins.
- Ensuring residents are actively engaged and promoting a strong sense of community.
- Accelerating the launch and construction of village expansions.
- Acquiring existing manufactured home estates with available development land and repositioning upside.
- Maintaining affordability whilst leveraging scale efficiencies across the portfolio.
- Promoting the Ingenia Care Assist program which facilitates residents accessing accredited Commonwealth Government care providers to provide in-home care. This program will be initially focused on rental villages and will enable residents to live independently for longer in the villages.

## f. Discontinued operations

### i. New Zealand Students

New 15 year leases have been entered into with Wellington based tertiary education providers which underpin the value of the New Zealand student accommodation portfolio.

### ii. New York Seniors

Settlement of the New York based Bristol portfolio occurred in February 2013 which saw the Trusts exit the last of their North American student and seniors assets.

# Directors' Report

for the year ended 30 June 2013 | continued

### g. Capital management

ICF refinanced the Australian debt facility in August 2012.

On 27 June 2013, the Trust's undertook an institutional equity placement and issued 66,150,000 units to fund acquisitions.

On the 23 August 2013, the Trust's refinanced their Bank of New Zealand debt facility, which funds the New Zealand Students portfolio to a 5 year, NZ$20.8m core facility plus an additional development facility of NZ$11.9m for required seismic works.

ICF recommenced distributions in FY13 and will have paid a total of 1.0 cent for the year. The Trusts remain confident of growing earnings over the coming year and will seek to increase distribution levels moving forward.

### h. Outlook

The Trust's will look to drive growth through acquisitions and development during the coming year. An improving residential property market is expected to lead to higher sales in the Settlers Lifestyle and Active Lifestyle Estates portfolios and management believe the affordability focus of its villages will likely find strong market support.

A strong focus will remain on finalising divestment of the New Zealand Students portfolio and reinvesting those funds into Australia. At the same time, the Trust's will continue to regularly assess the performance of their existing assets and where appropriate may look to recycle that capital into other opportunities delivering superior returns.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Changes in the state of affairs during the financial year are set out in the various reports in this Annual Report. Refer to Note 8 of the accompanying financial statements for discontinued operations, Note 13 for Australian investment properties acquired or disposed of during the year, Note 16 for details of Australian debt refinanced and Note 18 for securities issued.

## EVENTS SUBSEQUENT TO REPORTING DATE

On 16 August 2013, ICMT acquired Nepean River Holiday Village, a manufactured home estate in Penrith, New South Wales. The purchase price was $10.0m and was funded by the institutional placement in late June 2013.

On 22 August 2013, ICMT acquired Albury City Gate Tourist Park, a manufactured home estate in Albury, New South Wales. The purchase price was $2.2m and was funded by the institutional placement in late June 2013.

On 23 August 2013, ICMT refinanced its Bank of New Zealand debt facility, which funds the New Zealand Students portfolio. The refinance is for an existing NZ$20.8m core facility and a new NZ$11.9m development facility for required seismic works. Both facilities have a term of 5 years.

On 27 August 2013, ICMT announced the acquisition of the Mudgee Valley Tourist Park for $4.0m and Mudgee Tourist and Van Resort for $7m. The Trust's have long identified Mudgee as an attractive and significantly untapped market for active retirees.

## LIKELY DEVELOPMENTS

The Trust's will continue to pursue strategies aimed at improving cash earnings, profitability and market share within the seniors living industry during the next financial year, with a strong focus on the development and acquisition of manufactured home estates.

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

## ENVIRONMENTAL REGULATION

The Trusts' operations are not subject to any particular and significant environmental regulation under a law of the Commonwealth or of a State or Territory.

## INDEMNITIES

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

## INTERESTS OF DIRECTORS OF THE RESPONSIBLE ENTITY

Units in each Trust held by directors of the responsible entity as at 30 June 2013 were:

| | NUMBER OF UNITS | PERFORMANCE QUANTUM RIGHTS | RETENTION QUANTUM RIGHTS |
|---|---|---|---|
| Jim Hazel | 1,000,000 | – | – |
| Philip Clark AM | 100,000 | – | – |
| Amanda Elizabeth Heyworth | 421,000 | – | – |
| Rob Morrison | 110,000 | – | – |
| Simon Richard Owen | 1,517,750 | 2,260,000 | 1,070,000 |

## 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 26 in the financial report.

## 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 94.

## ROUNDING OF AMOUNTS

The Trusts are of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the ''rounding off'' of amounts in this report and in the financial report. Amounts in these reports have been rounded off in accordance with that Class Order to the nearest thousand dollars, unless otherwise stated.

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

Jim Hazel
Chairman
Sydney
27 August 2013

# Auditors' Independence Declaration

for the year ended 30 June 2013

Ernst & Young
680 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

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

In relation to our audit of the financial report of Ingenia Communities Fund and its controlled entities and Ingenia Communities Management Trust and its controlled entities for the financial year ended 30 June 2013, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Chris Lawton
Partner
27 August 2013

# Consolidated Statements of Comprehensive Income

for the year ended 30 June 2013

| | NOTE | INGENIA COMMUNITIES FUND 2013 $'000 | INGENIA COMMUNITIES FUND 2012 $'000 | INGENIA COMMUNITIES MANAGEMENT TRUST 2013 $'000 | INGENIA COMMUNITIES MANAGEMENT TRUST 2012 $'000 |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Rental income | 4 | **8,439** | 17,015 | **19,388** | 17,901 |
| Accrued deferred management fee income | | **–** | 4,045 | **4,850** | 4,453 |
| Manufactured home sales | | **–** | – | **405** | – |
| Other property income | | **142** | 2,748 | **3,387** | 2,980 |
| Interest income | | **3,524** | 1,244 | **14** | 85 |
| | | **12,105** | 25,052 | **28,044** | 25,419 |
| **Other income** | | | | | |
| Other income | | **–** | 234 | **–** | 8 |
| Net foreign exchange gain/(loss) | | **37** | (225) | **–** | (123) |
| Net gain/(loss) on equity accounted investments | | **–** | (73) | **–** | – |
| Net gain/(loss) on disposal of subsidiary | | **–** | (2,934) | **–** | 2,934 |
| Net gain/(loss) on disposal of investment properties | | **(107)** | (35) | **–** | – |
| Net gain/(loss) on change in fair value of: | | | | | |
| Investment properties | | **1,618** | 2,636 | **1,839** | 4,948 |
| Derivatives | | **752** | 111 | **–** | – |
| Retirement village resident loans | | **–** | (322) | **327** | (284) |
| Gain/(loss) on internalisation | 5 | **(35)** | 439 | **–** | 786 |
| **Expenses** | | | | | |
| Property expenses | | **–** | (7,384) | **(16,198)** | (16,601) |
| Manufactured home cost of sales | | **–** | – | **(297)** | – |
| Operational, marketing and selling expenses | | **(96)** | (1,734) | **(2,189)** | (1,875) |
| Finance expense | 6 | **(3,841)** | (8,521) | **(5,212)** | (4,897) |
| Responsible entity's fees and expenses | 26 | **(1,101)** | (1,888) | **(1,456)** | (572) |
| Employee expenses | | **–** | (6,051) | **(7,226)** | (6,674) |
| Administration expenses | | **(797)** | (2,146) | **(1,439)** | (1,226) |
| Disposal costs associated with overseas investments | | **(150)** | – | **–** | – |
| **Profit/(loss) from continuing operations before income tax** | | **8,385** | (2,841) | **(3,807)** | 1,843 |
| Income tax benefit/(expense) | 7 | **–** | 158 | **(17)** | 38 |
| **Profit/(loss) from continuing operations** | | **8,385** | (2,683) | **(3,824)** | 1,881 |
| Profit/(loss) from discontinued operations | 8 | **(5,715)** | 31,807 | **(7,891)** | 6,855 |
| **Net profit/(loss) for the year** | | **2,670** | 29,124 | **(11,715)** | 8,736 |
| Attributable to unit holders of: | | | | | |
| Ingenia Communities Fund | | **2,670** | 23,571 | **(3,314)** | – |
| Ingenia Communities Management Trust | | **–** | 5,553 | **(8,401)** | 8,736 |
| | | **2,670** | 29,124 | **(11,715)** | 8,736 |

# Consolidated Statements of Comprehensive Income

for the year ended 30 June 2013 | continued

| | NOTE | INGENIA COMMUNITIES FUND 2013 $'000 | INGENIA COMMUNITIES FUND 2012 $'000 | INGENIA COMMUNITIES MANAGEMENT TRUST 2013 $'000 | INGENIA COMMUNITIES MANAGEMENT TRUST 2012 $'000 |
|---|---|---|---|---|---|
| **Net profit for the year** | | **2,670** | 29,124 | **(11,715)** | 8,736 |
| **Other comprehensive income:** | | | | | |
| Items that may be reclassified subsequently to profit or loss | | | | | |
| Exchange differences on translation of foreign operations | 19 | **1,389** | 2,663 | **(1,064)** | (54) |
| Release of foreign currency translation reserve on disposal of foreign operations | 19 | **15,507** | – | **2,444** | – |
| **Total comprehensive income/(loss) for the year** | | **19,566** | 31,787 | **(10,335)** | 8,682 |
| Total comprehensive income for the year is attributable to: | | | | | |
| Ingenia Communities Fund | | **19,566** | 26,234 | **(2,668)** | – |
| Ingenia Communities Management Trust | | **–** | 5,553 | **(7,667)** | 8,682 |
| | | **19,566** | 31,787 | **(10,335)** | 8,682 |

The components of other comprehensive income shown above are presented net of related income tax effects.

| | | 2013 CENTS | 2012 CENTS | 2013 CENTS | 2012 CENTS |
|---|---|---|---|---|---|
| Distributions per unit | | **1.0** | – | – | – |
| Basic and diluted earnings per unit from continuing operations | 3 | **1.9** | (0.6) | **(0.9)** | 0.4 |
| Basic and diluted earnings per unit | 3 | **0.6** | 6.6 | **(2.7)** | 2.0 |

# Consolidated Balance Sheets

as at 30 June 2013

| | NOTE | INGENIA COMMUNITIES FUND 2013 $'000 | INGENIA COMMUNITIES FUND 2012 $'000 | INGENIA COMMUNITIES MANAGEMENT TRUST 2013 $'000 | INGENIA COMMUNITIES MANAGEMENT TRUST 2012 $'000 |
|---|---|---|---|---|---|
| **Current assets** | | | | | |
| Cash and cash equivalents | 9 | **31,014** | 20,677 | **1,229** | 2,878 |
| Trade and other receivables | 10 | **9,204** | 3,271 | **2,819** | 2,326 |
| Inventory | 11 | **–** | – | **285** | – |
| Receivable from related party | | **31,870** | 16,854 | **–** | – |
| Derivatives | 12 | **–** | 1,659 | **–** | – |
| Income tax receivable | | **882** | – | **–** | – |
| Assets of discontinued operations | 8 | **3,874** | 43,414 | **36,576** | 55,785 |
| | | **76,844** | 85,875 | **40,909** | 60,989 |
| **Non-current assets** | | | | | |
| Trade and other receivables | 10 | **39,472** | 34,607 | **438** | 2,187 |
| Investment properties | 13 | **120,167** | 100,967 | **250,764** | 226,665 |
| Plant and equipment | 14 | **339** | 342 | **547** | 427 |
| | | **159,978** | 135,916 | **251,749** | 229,279 |
| **Total assets** | | **236,822** | 221,791 | **292,658** | 290,268 |
| **Current liabilities** | | | | | |
| Trade and other payables | 15 | **1,569** | 1,513 | **6,812** | 6,810 |
| Retirement village resident loans | | **–** | – | **175,703** | 162,602 |
| Borrowings | 16 | **–** | 81,739 | **3,589** | 3,003 |
| Derivatives | 12 | **–** | 970 | **–** | – |
| Provision for income tax | | **–** | – | **126** | – |
| Payable to related party | | **–** | – | **30,769** | 16,899 |
| Liabilities of discontinued operations | 8 | **–** | 515 | **21,527** | 45,184 |
| | | **1,569** | 84,737 | **238,526** | 234,498 |
| **Non-current liabilities** | | | | | |
| Trade and other payables | 15 | **–** | 1,851 | **140** | – |
| Borrowings | 16 | **67,422** | – | **40,475** | 34,607 |
| Derivatives | 12 | **209** | – | **–** | – |
| Deferred tax liabilities | 17 | **–** | – | **7,855** | 7,921 |
| | | **67,631** | 1,851 | **48,470** | 42,528 |
| **Total liabilities** | | **69,200** | 86,588 | **286,996** | 277,026 |
| **Net assets** | | **167,622** | 135,203 | **5,662** | 13,242 |
| **Equity** | | | | | |
| Issued units | 18 | **497,956** | 480,693 | **6,106** | 3,351 |
| Reserves | 19 | **–** | (16,896) | **120** | (614) |
| Retained earnings/(accumulated losses) | 20 | **(330,334)** | (328,594) | **(2,990)** | 5,411 |
| **Unitholders' interest** | | **167,622** | 135,203 | **3,236** | 8,148 |
| Non-controlling interest | | **–** | – | **2,426** | 5,094 |
| **Total equity** | | **167,622** | 135,203 | **5,662** | 13,242 |
| **Attributable to unit holders of:** | | | | | |
| Ingenia Communities Fund | | **167,622** | 135,203 | **–** | – |
| Ingenia Communities Management Trust | | **–** | – | **3,236** | 8,148 |
| Non-controlling interest | | **–** | – | **2,426** | 5,094 |
| | | **167,622** | 135,203 | **5,662** | 13,242 |

# Consolidated Cash Flow Statements

for the year ended 30 June 2013

| | NOTE | INGENIA COMMUNITIES FUND 2013 $'000 | INGENIA COMMUNITIES FUND 2012 $'000 | INGENIA COMMUNITIES MANAGEMENT TRUST 2013 $'000 | INGENIA COMMUNITIES MANAGEMENT TRUST 2012 $'000 |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | 30 | | | | |
| Rental and other property income | | **33** | 28,053 | **29,478** | 25,372 |
| Payment of management fees (including arrears) | | **–** | (8,670) | **(167)** | (439) |
| Property and other expenses | | **(210)** | (12,186) | **(21,487)** | (35,143) |
| Proceeds from retirement village resident loans | | **–** | – | **19,338** | 20,885 |
| Repayment of retirement village resident loans | | **–** | – | **(7,118)** | (5,977) |
| Proceeds from manufactured home sales | | **–** | – | **450** | – |
| Payments for manufactured homes | | **–** | – | **(275)** | – |
| Distributions received from equity accounted investments | | **2,353** | 3,118 | **–** | 58 |
| Interest received | | **243** | 1,243 | **54** | 87 |
| Borrowing costs paid | | **(5,249)** | (8,270) | **(1,836)** | (2,134) |
| Income taxes received/(paid) | | **(76)** | 235 | **–** | (40) |
| Goods and services taxes recovered from investing and financing activities | | **–** | 7 | **–** | – |
| | | **(2,906)** | 3,530 | **18,437** | 2,669 |
| **Cash flows from investing activities** | | | | | |
| Payments for plant and equipment | | **(81)** | – | **(329)** | – |
| Additions to investment properties | | **(474)** | (813) | **(16,416)** | (1,549) |
| Proceeds from sale of investment properties | | **3,030** | – | **26,292** | – |
| Payments for investment properties | | **(23,315)** | – | **(7,708)** | – |
| Costs from sale of investment properties | | **–** | (35) | **–** | – |
| Amounts advanced to villages | | **–** | – | **(330)** | – |
| Payments for lease arrangements | | **–** | – | **(699)** | – |
| Net inflow on acquisition of subsidiary | 28(b) | **–** | – | **–** | 2,268 |
| Purchase of equity accounted investments | | **–** | (702) | **–** | (702) |
| Proceeds of equity accounted investments | | **37,560** | 29,940 | **–** | 473 |
| | | **16,720** | 28,390 | **810** | 491 |
| **Cash flows from financing activities** | | | | | |
| Proceeds from the issue units | | **18,170** | – | **2,900** | – |
| Payment for issue costs | | **(907)** | – | **(145)** | – |
| Internalisation costs | | **(600)** | (1,228) | **–** | – |
| Distributions to unitholders | 20 | **(4,235)** | (6,000) | **–** | – |
| Receipts from derivatives | | **1,650** | – | **–** | – |
| Payments for derivatives | | **(150)** | – | **–** | – |
| Termination of derivatives | | **–** | (1,060) | **–** | – |
| Finance lease payments | | **–** | – | **(13)** | – |
| Proceeds from borrowings | | **16,261** | 3,246 | **–** | 134 |
| Repayment of borrowings | | **(33,195)** | (17,668) | **(27,749)** | (284) |
| Payment of borrowing costs | | **(586)** | – | **–** | – |
| | | **(3,592)** | (22,710) | **(25,007)** | (150) |
| **Net increase/(decrease) in cash** | | **10,222** | 9,210 | **(5,760)** | 3,011 |
| Cash at beginning of the year | | **20,777** | 15,041 | **6,029** | 3,105 |
| Outflow of cash on deconsolidation of ICMT | | **–** | (3,105) | **–** | – |
| Effects of exchange rate changes on cash | | **15** | (369) | **(21)** | (87) |
| **Cash at the end of the year** | 9 | **31,014** | 20,777 | **248** | 6,029 |

# Statements of Changes in Unitholders' Interest

for the year ended 30 June 2013

| | | INGENIA COMMUNITIES FUND | | | | | |
|---|---|---|---|---|---|---|---|
| | | ATTRIBUTABLE TO UNITHOLDERS | | | | | |
| | NOTE | ISSUED CAPITAL $'000 | RESERVES $'000 | RETAINED EARNINGS $'000 | TOTAL $'000 | NON-CONTROLLING INTEREST $'000 | TOTAL EQUITY $'000 |
| **Carrying amounts at 1 July 2011** | | **490,044** | **(20,240)** | **(355,490)** | **114,314** | **–** | **114,314** |
| Net profit for the year | | – | – | 23,571 | 23,571 | 5,553 | 29,124 |
| Other comprehensive income | | – | 2,663 | – | 2,663 | – | 2,663 |
| **Total comprehensive income for the year** | | – | 2,663 | 23,571 | 26,234 | 5,553 | 31,787 |
| Transactions with unitholders in their capacity as unitholders: | 18 | | | | | | |
| Deconsolidation of ICMT | | (3,351) | 681 | 3,325 | 655 | (5,553) | (4,898) |
| Capital distribution | | (6,000) | – | – | (6,000) | – | (6,000) |
| **Carrying amounts at 30 June 2012** | | **480,693** | **(16,896)** | **(328,594)** | **135,203** | **–** | **135,203** |
| Net profit for the year | | **–** | **–** | **2,670** | **2,670** | **–** | **2,670** |
| Other comprehensive income | | **–** | **16,896** | **–** | **16,896** | **–** | **16,896** |
| **Total comprehensive income for the year** | | **–** | **16,896** | **2,670** | **19,566** | **–** | **19,566** |
| Transactions with unitholders in their capacity as unitholders: | | | | | | | |
| Placement securities | 18 | **17,263** | **–** | **–** | **17,263** | **–** | **17,263** |
| Distributions paid or payable | 20 | **–** | **–** | **(4,410)** | **(4,410)** | **–** | **(4,410)** |
| Total transactions with unitholders in their capacity as unitholders | | **17,263** | **–** | **(4,410)** | **12,853** | **–** | **12,853** |
| **Carrying amounts at 30 June 2013** | | **497,956** | **–** | **(330,334)** | **167,622** | **–** | **167,622** |

# Statements of Changes in Unitholders' Interest

for the year ended 30 June 2013 | continued

| | | INGENIA COMMUNITIES MANAGEMENT TRUST | | | | | |
|---|---|---|---|---|---|---|---|
| | | ATTRIBUTABLE TO UNITHOLDERS | | | | | |
| | NOTE | ISSUED CAPITAL $'000 | RESERVES $'000 | RETAINED EARNINGS $'000 | TOTAL $'000 | NON-CONTROLLING INTEREST $'000 | TOTAL EQUITY $'000 |
| **Carrying amounts at 1 July 2011** | | 3,351 | (560) | (3,325) | (534) | – | (534) |
| Net profit for the year | | – | – | 8,736 | 8,736 | – | 8,736 |
| Other comprehensive income | | – | (54) | – | (54) | – | (54) |
| **Total comprehensive income for the year** | | – | (54) | 8,736 | 8,682 | – | 8,682 |
| **Carrying amounts at 30 June 2012** | | 3,351 | (614) | 5,411 | 8,148 | 5,094 | 13,242 |
| Net profit for the year | | – | – | (8,401) | (8,401) | (3,314) | (11,715) |
| Other comprehensive income | | – | 734 | – | 734 | 646 | 1,380 |
| **Total comprehensive income for the year** | | – | 734 | (8,401) | (7,667) | (2,668) | (10,335) |
| Transactions with unitholders in their capacity as unitholders: | | | | | | | |
| Placement securities | 18 | 2,755 | – | – | 2,755 | – | 2,755 |
| Total transactions with unitholders in their capacity as unitholders | | 2,755 | – | – | 2,755 | – | 2,755 |
| **Carrying amounts at 30 June 2013** | | 6,106 | 120 | (2,990) | 3,236 | 2,426 | 5,662 |

# Notes to the Financial Statements

for the year ended 30 June 2013

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### a. The Trusts

The Ingenia Communities Fund (formerly the ING Real Estate Community Living Fund) ("ICF" or the "Fund") and the Ingenia Communities Management Trust (formerly the ING Real Estate Community Living Management Trust) ("ICMT") (collectively the "Trusts") were constituted on 22 November 2003 and 24 November 2006, respectively.

The responsible entity for the Trusts from 4 June 2012 is Ingenia Communities RE Limited ("ICRE"), a wholly owned subsidiary of Ingenia Communities Holdings Limited ("ICH"). From that date, ICH and the Trusts form the stapled entity known as Ingenia Communities Group (the "Group").

The constitutions of ICH and the Trusts require that, for as long as they remain jointly quoted on the Australian Securities Exchange, the number of shares in ICH and of units in each trust shall remain equal and that shareholders in ICH and unitholders in each trust shall be identical.

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

(a) ICH or either of the Trusts resolving by special resolution in accordance with its constitution to terminate the stapling provisions; or

(b) the commencement of the winding up of ICH or either of the Trusts.

Previously, the Trusts operated as a stapled entity known as ING Real Estate Community Living Group. The responsible entity for both trusts until 4 June 2012 was ING Management Limited. ING Management Limited is an Australian domiciled company and is a wholly owned company within the ING Groep NV group of companies.

### b. Basis of preparation

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

In accordance with Accounting Standard AASB 3 Business Combinations, the stapling of both Trusts, which terminated on 4 June 2012, was regarded as a business combination and ICF was identified as the parent for preparing consolidated financial reports.

As permitted by Class Order 05/642, 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 the Ingenia Communities Fund and Ingenia Communities Management Trust. The financial statements and accompanying notes of the Trusts have been presented in the attached associated financial report.

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

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated.

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

### c. Adoption of new and revised accounting standards

In the current year, the Trusts adopted all the new and revised standards and interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for the current annual reporting period. There was no material effect on the financial statements.

### d. Principles of consolidation

ICF's consolidated financial statements comprise the parent and its subsidiaries (including ICMT and its subsidiaries until 4 June 2012). ICMT's consolidated financial statements comprise ICMT and its subsidiaries. Subsidiaries are all those entities (including special purpose entities) whose financial and operating policies a trust has the power to govern, so as to obtain benefits from their activities.

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

Subsidiaries are consolidated from the date on which the parent obtains control. They are de-consolidated from the date that control ceases. As ICF lost control of ICMT on Internalisation on 4 June 2012, it de-consolidated ICMT from that date.

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### e Business combinations

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

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

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

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

### f Discontinued operations and assets held for sale

The Trusts have classified certain components as discontinued operations. A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of such a line of business or area of operations. The results of discontinued operations are presented separately on the face of the income statement.

Components of the entity are classified as held for sale if their carrying amount 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.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets classified as held for sale, and the assets of a disposal group classified as held for sale are presented separately from the other assets on the face of the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities on the face of the balance sheet.

Details of discontinued operations and disposal groups 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

#### i. Functional and presentation currencies

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

#### ii. Translation of foreign currency transactions

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

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.

#### iii. Translation of financial statements of foreign subsidiaries

The functional currency of certain subsidiaries is not the Australian dollar. At reporting date, the assets and liabilities of these entities are translated into the presentation currency of the Trusts at the rate of exchange prevailing at balance date. Financial performance is translated at the average exchange rate prevailing during the reporting period. The exchange differences arising on translation are taken directly to the foreign currency translation reserve in equity.

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

### i. Leases

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

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

Leases where the lessor retains substantially all the risk and benefits of ownership are classified as operating leases. For operating leases for which the Trusts are the lessor, initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the term of the lease on the same basis as the lease income.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the term of the lease.

### j. Financial assets and liabilities

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

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

### k. Impairment of non-financial assets

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

### l. Cash and cash equivalents

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

### m. Trade and other receivables

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### n Inventories

The Trusts hold inventory in relation to the acquisition and development of manufactured homes within their Active Lifestyle Estates segment.

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

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

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

### o. Derivative financial instruments

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

### p. Investment property

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

Investment property includes property under construction.

It is the Trusts policy to have all investment properties externally valued at intervals of not more than two years (previously three years) and that such valuation be reflected in the financial reports of the Trusts. It is the policy of the Responsible Entity to review the fair value of each investment property every six months and to cause investment properties to be revalued to fair values whenever their carrying value differs materially to their fair values.

Fair value represents the amount at which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation. It is based on current prices in an active market for similar property in the same location and condition and subject to similar lease and other contracts, adjusted for any differences in the nature, location or condition of the property, or in the contractual terms of the leases and other contracts relating to the property.

In the absence of current prices in an active market, the Responsible Entity considers information from a variety of sources, including current prices in an active market for properties of different nature, condition or location, adjusted to reflect those differences, recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices, and discounted cash flow projections based on reliable estimates of future cash flows, using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

In determining fair values, expected net cash flows are discounted to their present value using a market determined risk adjusted discount rate. The assessment of fair value of investment properties does not take into account potential capital gains tax assessable. Changes in the fair value of an investment property are recorded in the income statement.

### q. Equity accounted investments

A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. A contractual arrangement between the venturers establishes joint control over the economic activity of the entity. Associates are those entities over which the Trusts have significant influence, but not control. Jointly controlled entities and associates, and investments in those entities, are referred to as "equity accounted investments". Equity accounted investments are accounted for in the parent's financial statements using the cost method and in the consolidated financial statements using the equity method. The Trusts share of net profit is recognised in the consolidated income statement and its share of any movement in reserves is recognised in reserves in the consolidated balance sheet. The accumulation of post-acquisition movements in the trust's share of net assets is adjusted against the carrying value of the investment. Distributions received or receivable reduce the carrying value of the investment in their consolidated financial statements.

## r. Payables

Trade and other payables are carried at amortised cost and due to their short-term nature are not discounted. They represent liabilities for goods and services provided to the Trusts prior to the end of the financial year that are unpaid and are recognised when the Trusts become obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 60 days of recognition.

## s. Retirement village resident loans

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

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

## t. Borrowings

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

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

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

## u. Issued units

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

## v. Revenue

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

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

Reflecting this accounting policy, 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 Active Lifestyle Estate segment is recognised when the significant risks, rewards of ownership and effective control has been transferred to the buyer.

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

## w. Income tax

### i. Current income tax

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

However, ICMT and its subsidiaries are subject to Australian income tax.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### w. Income tax continued

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

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

#### ii. Deferred income tax

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

### x. 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.

### y. Pending accounting standards

AASB 13 *Fair Value Measurement* is applicable to annual reporting periods beginning 1 July 2013. The Trust's have not early adopted this standard. The standard establishes a single source of guidance for determining the fair value of assets and liabilities. AASB13 also expands the disclosure requirements in relation to assumptions made and the impact of those assumptions on the fair value determined. The standard categorises input assumptions under three levels; level 1 - quoted prices, level 2 - observable market data, level 3 – not based on observable market data. The Trust's have assessed that the introduction of this standard is unlikely to have a financial impact on amounts disclosed however will potentially require additional disclosure on input assumptions and valuation techniques.

AASB 119 *Employee benefit*s is applicable to reporting periods beginning 1 July 2013. The Trust's have not early adopted this standard. The revised standard changes the definition of short-term employee benefits. The distinction is now based on whether the benefits are expected to be settled wholly within 12 months after reporting date (short-term benefit), rather than when due to be settled. Long term employee benefits are required to be measured using the actuarial valuation method. This method involves projecting future cashflows and discounting back to present value. This will apply to annual leave balances if they are allowed to be carried forward beyond 12 months. The classification affects the measurement of the outstanding leave balance, it does not impact the classification in the balance sheet as to whether it is current of non-current because there is no unconditional right to defer settlement. The Trust's are currently evaluating the impact of this standard.

AASB2011-4 *Amendments to Australian Accounting Standards – Remove individual Key Management Personnel Disclosure Requirements [AASB124 Related Party Disclosures]* is applicable to reporting periods beginning 1 July 2013. The Trust's have not early adopted this standard. This amendment removes the individual key management personnel disclosure requirements in relation to equity holdings, loans and other related party transactions.

AASB2012-2 *Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities and* AASB2012-3 *Amendments to Australia Accounting Standards – Offsetting Financial Assets and Financial Liabilities* are applicable to reporting periods beginning 1 July 2013 and 1 July 2014 respectively. The Trust's have not early adopted these standards. These standards provide application and presentation guidance to AASB132 Financial Instruments: Presentation for applying some of the offsetting criteria, including the meaning of "currently has legally enforceable right of set off". The Trust's don't expect any changes in underlying valuations of financial instruments however may include some variation to the presentation in the note disclosure with respect to retirement village resident loans.

AASB9 *Financial Instruments* is applicable to reporting periods beginning 1 July 2015. The Trust's have not early adopted this standard. This standard provides requirements for the classification and measurement of financial assets and accounting for financial liabilities. These requirements seek to improve and simplify the requirements listed in AASB139 Financial Instruments: Recognition and Measurement. The Trust's are currently evaluating the impact of this standard.

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 Trust's financial report in future reporting periods.

## 2. ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

### a. Critical accounting estimates and assumptions

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

#### i. Valuation of investment property

The Trusts have investment properties with a combined carrying amount of $370,931,000 (2012: $327,632,000) (refer Note 13), and combined retirement village resident loans with a carrying amount of $175,703,000 (2012: $162,602,000) which together represent the estimated fair value of the Trusts' interest in retirement villages. In addition, the Trusts hold investment properties with carrying amounts of $35,343,000 (2012: $48,017,000) which are included in assets of discontinued operations. These carrying amounts reflect certain assumptions about expected future rentals, rent-free periods, operating costs and appropriate discount and capitalisation rates. The valuation assumptions for deferred management fee villages reflect assumptions relating to average length of stay, unit market values, estimates of capital expenditure, contract terms with residents, discount rates and projected property growth rates. In forming these assumptions, the Responsible Entity considered information about current and recent sales activity, current market rents, and discount and capitalisation rates, for properties similar to those owned by the Trusts, as well as independent valuations of the Trusts' property.

#### ii. Fair value of derivatives

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

#### iii. Valuation of intangibles

The valuation of transitional services and rental support provided as part of the Internalisation is based on the estimated market value of these services if they were to be obtained by a third party at arms length.

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

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

### b. Critical judgements in applying the Trusts' accounting policies

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

# Notes to the Financial Statements

for the year ended 30 June 2013 | continued

## 3. EARNINGS PER UNIT

| | INGENIA COMMUNITIES FUND | | INGENIA COMMUNITIES MANAGEMENT TRUST | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| **Earnings per unit** | | | | |
| Profit/(loss) from continuing operations | **8,385** | (2,683) | **(3,824)** | 1,881 |
| Profit/(loss) from discontinued operations ($'000) | **(5,715)** | 31,807 | **(7,891)** | 6,855 |
| Net profit/(loss) for the year ($'000) | **2,670** | 29,124 | **(11,715)** | 8,736 |
| Weighted average number of units outstanding (thousands) | **441,754** | 441,029 | **441,754** | 441,029 |
| Dilutive securities: | | | | |
| Performance quantum rights | **3,842** | 354 | **3,842** | 354 |
| Retention quantum rights | **1,818** | 167 | **1,818** | 167 |
| Weighted average number of issued and dilutive potential securities outstanding (thousands) | **447,414** | 441,550 | **447,414** | 441,550 |
| Basic and diluted earnings per unit from continuing operations (cents) | **1.9** | (0.6) | **(0.9)** | 0.4 |
| Basic and diluted earnings per unit from discontinued operations (cents) | **(1.3)** | 7.2 | **(1.8)** | 1.6 |
| Basic and diluted earnings per unit (cents) | **0.6** | 6.6 | **(2.7)** | 2.0 |

## 4. RENTAL INCOME

| | INGENIA COMMUNITIES FUND | | INGENIA COMMUNITIES MANAGEMENT TRUST | |
|---|---|---|---|---|
| | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 |
| Rental village income | **8,321** | 17,015 | **18,971** | 17,901 |
| Ground rental income – Active Lifestyle Estates | **118** | – | **361** | – |
| Tourism income | **–** | – | **56** | – |
| | **8,439** | 17,015 | **19,388** | 17,901 |

## 5. GAIN/(LOSS) ON INTERNALISATION

On 4 June 2012, management of the Trusts was internalised and the stapled entity known as Ingenia Communities Group (consisting of the Company and the Trusts) was formed ("Internalisation"), after the Internalisation was approved by unitholders at meetings held on 31 May 2012. The Internalisation involved:

- a capital distribution by ICF which was applied towards the issue of shares in the Company to unitholders of the Trusts (other than foreign resident unitholders);
- the change of the responsible entity of the Trusts from ING Management Limited to ICRE; and
- the stapling of each share in the Company to each unit in each Trust to form the new stapled securities of Ingenia Communities Group.

Financial support for Internalisation was provided by the previous responsible entity and its related parties ING Groep NV at no cost to the Trusts. The gain resulting from this financial support, after deducting transaction costs, was:

| | | INGENIA COMMUNITIES FUND | | INGENIA COMMUNITIES MANAGEMENT TRUST | |
|---|---|---|---|---|---|
| | NOTE | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 |
| Waiver of accrued management fees | (a) | – | 2,279 | – | 220 |
| Gain on acquisition of 10% interest in New Zealand Students | (b) | – | – | – | 566 |
| Transaction costs | (c) | **(35)** | (1,840) | – | – |
| | | **(35)** | 439 | – | 786 |

(a) ING Groep NV waived accrued management fees of $2,500,000 in 2012.

(b) ING Groep NV transferred its 10% equity (and 100% voting power) in the New Zealand Students portfolio to ICMT for no consideration in 2012. Further details on this gain are given in Note 28(b).

(c) The Trusts incurred transaction costs in relation to Internalisation.

Additional financial support was provided by ING Groep NV to ICH which are not included in the financial statements of either Trust.

## 6. FINANCE EXPENSE

| | INGENIA COMMUNITIES FUND | | INGENIA COMMUNITIES MANAGEMENT TRUST | |
|---|---|---|---|---|
| | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 |
| Interest paid or payable | **(3,841)** | (8,521) | **(5,212)** | (4,897) |

## 7. INCOME TAX BENEFIT/(EXPENSE)

| | | INGENIA COMMUNITIES FUND | | INGENIA COMMUNITIES MANAGEMENT TRUST | |
|---|---|---|---|---|---|
| | NOTE | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 |
| **a. Income tax benefit** | | | | | |
| Current tax | | – | – | **(83)** | 4 |
| Decrease in deferred tax liabilities | 17 | – | 158 | **66** | 34 |
| | | – | 158 | **(17)** | 38 |
| **b. Reconciliation between tax expense and pre-tax net profit** | | | | | |
| Profit/(loss) before income tax | | **8,385** | (2,841) | **(3,807)** | 1,843 |
| Income tax at the Australian tax rate of 30% (2012: 30%) | | **(2,516)** | 852 | **1,142** | (553) |
| Tax effect of amounts which are not deductible/(taxable) in calculating taxable income: | | | | | |
| Australian income | | **2,516** | (694) | **(1,159)** | 591 |
| **Income tax benefit/(expense)** | | – | 158 | **(17)** | 38 |

## 8. DISCONTINUED OPERATIONS

### a. Details of discontinued operations

The Trusts investment in the New Zealand Students business (U-Stay) was classified as a discontinued operation at 30 June 2011, consistent with the previously announced strategy to focus on transitioning to an actively managed Australian seniors living business. Following Internalisation the Trusts hold a 100% interest in three facilities in Wellington, New Zealand that are primarily leased to Victoria University of Wellington and Wellington Institute of Technology. Prior to Internalisation ICF held a 90% interest in this investment.

### b. Details of disposals

On 23 November 2009, the Trusts announced that they would cease to provide financial support to their United States Students business, which had previously enabled that business to meet its interest and principal payments on debt. The cessation of this support resulted in a breach of borrowing agreements. Since then management has worked with debt holders to dispose of all of the United States Students properties. The final property was the subject of a foreclosure sale on 9 February 2012. During the year ended 30 June 2012, investment properties carried at US$6,672,000 with interest bearing liabilities of US$6,672,000 were disposed of for nil consideration.

During the year end 30 June 2012 the Trusts disposed of their 50% interest in 15 of their 21 US Seniors communities to their joint venture partner Chartwell Seniors Housing Real Estate Investment Trust. This transaction settled on 4 November 2011. This transaction was completed at a $4,447,000 loss and resulted in cash proceeds of $29,898,000 which were commercially hedged by foreign currency forward contracts.

During the year ended 30 June 2013 the Trusts disposed of their remaining United States Seniors Living portfolio (the Bristals) made up of 50% interest in 5 seniors living communities and a 100% interest in 1 community (Lynbrook), all located on Long Island, New York. This transaction was completed at a $6,653,000 gain before the release of an accumulated deficit foreign currency translation reserve of $17,951,000. Cash proceeds of $29,600,000, which were commercially hedged by foreign currency forward contracts were received on 13 February 2013. A remaining amount of $5,608,000 held in escrow for warranties made under the sale agreement is included in continuing operations while profit and loss and cashflow up to sale completion have been disclosed in discontinued operations.

## c. Financial performance

The financial performance of components of the Trusts disposed of or classified as discontinued operations at each reporting date were:

| | INGENIA COMMUNITIES FUND | | INGENIA COMMUNITIES MANAGEMENT TRUST | |
|---|---|---|---|---|
| | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 |
| Revenue | 40 | 4,046 | 5,256 | 2,869 |
| Net gain/(loss) on change in fair value of investment properties | (43) | 740 | (2,740) | 5,765 |
| Unrealised net foreign exchange gain/(loss) | – | – | (718) | – |
| Other income | 31 | 6,536 | – | – |
| Expenses | 759 | (3,127) | (5,505) | (2,074) |
| Distributions from formerly equity accounted investments | 2,262 | – | 24 | – |
| Share of net profit of equity accounted investments | – | 27,751 | – | 549 |
| Disposal costs associated with overseas investments | – | – | (672) | – |
| **Profit/(loss) from operating activities before income tax** | 3,049 | 35,946 | (4,355) | 7,109 |
| Income tax benefit/(expense) | (747) | 235 | (255) | (181) |
| **Profit/(loss) from operating activities** | 2,302 | 36,181 | (4,610) | 6,928 |
| Gain/(loss) on sale of discontinued operations | 7,490 | (4,374) | (837) | (73) |
| Release of foreign currency translation reserve on disposal of foreign operations | (15,507) | – | (2,444) | – |
| **Net profit/(loss) for the year** | (5,715) | 31,807 | (7,891) | 6,855 |

Net profit/(loss) attributable to the parent of ICF is ($5,715,000) (2012: $31,807,000), and to the parent of ICMT is ($7,891,000) (2012:$6,855,000).

## d. Cash flows

The cash flows of components of the Trusts disposed of or classified as discontinued operations at each reporting date were:

| | INGENIA COMMUNITIES FUND | | INGENIA COMMUNITIES MANAGEMENT TRUST | |
|---|---|---|---|---|
| | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 |
| Net cash flow from operating activities | 1,155 | 3,185 | – | 781 |
| Net cash flow from investing activities: | | | | |
| Proceeds on sale of discontinued operations | 28,531 | 29,898 | 35,818 | 598 |
| Additions to investment properties | – | – | (13,666) | – |
| Other | – | (712) | – | 1,556 |
| Net cash flow from financing activities | (29,786) | – | (26,283) | (150) |
| **Net cash flows from discontinued operations** | (100) | 32,371 | (4,131) | 2,785 |

## 8. DISCONTINUED OPERATIONS CONTINUED

### e. Assets and liabilities

The assets and liabilities of components of the Trusts classified as disposal groups at each reporting date were:

| | INGENIA COMMUNITIES FUND | | INGENIA COMMUNITIES MANAGEMENT TRUST | |
|---|---|---|---|---|
| | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 |
| **Assets** | | | | |
| Cash and cash equivalents | **–** | 100 | **974** | 3,151 |
| Trade and other receivables | **–** | 3,140 | **259** | 3,934 |
| Investment properties | **–** | 43 | **35,343** | 46,533 |
| Plant and equipment | **–** | – | **–** | 1,440 |
| Equity accounted investments | **3,874** | 40,131 | **–** | 727 |
| **Total assets** | **3,874** | 43,414 | **36,576** | 55,785 |
| **Liabilities** | | | | |
| Bank overdraft | **–** | – | **1,955** | – |
| Payables | **–** | 515 | **2,050** | 1,995 |
| Borrowings | **–** | – | **17,522** | 42,962 |
| Deferred tax liabilities | **–** | – | **–** | 227 |
| **Total liabilities** | **–** | 515 | **21,527** | 45,184 |
| **Net assets of disposal groups** | **3,874** | 42,899 | **15,049** | 10,601 |

### f. Capital commitments

Capital commitments under construction contracts for the New Zealand Students business for the year ended 30 June 2013 A$9,208,234 (2012: Nil).

### g. Capitalisation rate

The weighted average capitalisation rate of the New Zealand Students properties within discontinued operations is 7.75%.

## 9. CASH AND CASH EQUIVALENTS

| | | INGENIA COMMUNITIES FUND | | INGENIA COMMUNITIES MANAGEMENT TRUST | |
|---|---|---|---|---|---|
| | NOTE | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 |
| Cash at bank and in hand | 23 | **5,733** | 2,331 | **1,229** | 2,878 |
| Short term deposits | 23 | **25,281** | 18,346 | **–** | – |
| | | **31,014** | 20,677 | **1,229** | 2,878 |
| **Reconciliation to statements of cash flows** | | | | | |
| Cash and cash equivalents attributable to: | | | | | |
| Continuing operations – cash at bank | | **31,014** | 20,677 | **1,229** | 2,878 |
| Discontinued operations – cash at bank | | **–** | 100 | **974** | 3,151 |
| Discontinued operations – bank overdraft | | **–** | – | **(1,955)** | – |
| **Cash at end of the year as per cash flow statement** | | **31,014** | 20,777 | **248** | 6,029 |

## 10. TRADE AND OTHER RECEIVABLES

| | INGENIA COMMUNITIES FUND | | INGENIA COMMUNITIES MANAGEMENT TRUST | |
|---|---|---|---|---|
| | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 |
| **Current** | | | | |
| Rental and other amounts due | **4,822** | 24 | **1,336** | 106 |
| Finance lease receivable from stapled entity | **3,322** | 3,003 | **–** | – |
| Accrued income, prepayments and deposits | **1,060** | 244 | **1,483** | 2,220 |
| | **9,204** | 3,271 | **2,819** | 2,326 |
| **Non-current** | | | | |
| Finance lease receivable from stapled entity | **37,358** | 34,607 | **–** | – |
| Accrued income, prepayments and deposits | **2,114** | – | **438** | 2,187 |
| | **39,472** | 34,607 | **438** | 2,187 |

Rental and other amounts due are receivable within 30 days.

ICF has leased a number of its properties to ICMT under leases that are classified as finance leases. The remaining term of each agreement varies between 93 and 116 years. There are no purchase options. Minimum payments under the agreements and their present values are:

| | INGENIA COMMUNITIES FUND | | INGENIA COMMUNITIES MANAGEMENT TRUST | |
|---|---|---|---|---|
| | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 |
| Minimum lease payments receivable: | | | | |
| Not later than one year | **3,322** | 3,003 | **–** | – |
| Later than one year and not later than five years | **13,287** | 12,011 | **–** | – |
| Later than five years | **304,862** | 275,616 | **–** | – |
| | **321,471** | 290,630 | **–** | – |
| Unearned finance income | **(280,791)** | (253,020) | **–** | – |
| Net present value of minimum lease payments | **40,680** | 37,610 | **–** | – |
| Net present value of minimum lease payments receiveable: | | | | |
| Not later than one year | **3,178** | 3,003 | **–** | – |
| Later than one year and not later than five years | **10,400** | 9,461 | **–** | – |
| Later than five years | **27,102** | 25,146 | **–** | – |
| | **40,680** | 37,610 | **–** | – |
| Finance income recognised and included in interest income in the income statement | **3,160** | 385 | **–** | – |

Information about the related finance lease payable by ICMT is given in Note 16.

## 11. INVENTORIES

| | INGENIA COMMUNITIES FUND | | INGENIA COMMUNITIES MANAGEMENT TRUST | |
|---|---|---|---|---|
| | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 |
| **Current assets** | | | | |
| Manufactured homes | – | – | **285** | – |

## 12. DERIVATIVES

| | NOTE | INGENIA COMMUNITIES FUND | | INGENIA COMMUNITIES MANAGEMENT TRUST | |
|---|---|---|---|---|---|
| | | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 |
| **Current assets** | | | | | |
| Foreign exchange options | 23 | **–** | 1,659 | **–** | – |
| **Current liabilities** | | | | | |
| Interest rate swap contracts | 23 | **–** | 970 | **–** | – |
| **Non-current liabilities** | | | | | |
| Interest rate swap contracts | 23 | **209** | – | **–** | – |

## 13. INVESTMENT PROPERTIES

### a. Summary of carrying amounts

| | INGENIA COMMUNITIES FUND | | INGENIA COMMUNITIES MANAGEMENT TRUST | |
|---|---|---|---|---|
| | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 |
| Completed properties | **120,167** | 100,657 | **247,559** | 225,005 |
| Properties under construction | **–** | 310 | **3,205** | 1,660 |
| | **120,167** | 100,967 | **250,764** | 226,665 |

## b. Movements in carrying amounts

| | INGENIA COMMUNITIES FUND | | INGENIA COMMUNITIES MANAGEMENT TRUST | |
|---|---|---|---|---|
| | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 |
| **Completed investment property** | | | | |
| Carrying amount at beginning of year | **100,657** | 344,180 | **225,005** | 240,185 |
| Exchange rate fluctuations | **–** | 1,056 | **–** | 1,056 |
| Initial acquisitions | **23,317** | – | **16,006** | – |
| Additions to existing property | **474** | 3,512 | **3,380** | 5,274 |
| Transferred from property under construction | **–** | – | **–** | – |
| Disposals | **(2,830)** | (22,789) | **–** | (26,457) |
| Transfer (to)/from finance lease | **(3,069)** | – | **3,069** | – |
| Transfer to inventory | **–** | – | **(195)** | – |
| Deconsolidation of ICMT on internalisation | **–** | (227,938) | **–** | – |
| Net change in fair value | **1,618** | 2,636 | **294** | 4,947 |
| Carrying amount at end of year | **120,167** | 100,657 | **247,559** | 225,005 |
| **Property under construction** | | | | |
| Carrying amount at beginning of year | **310** | 310 | **1,660** | 1,660 |
| Additions | **–** | – | **–** | – |
| Net change in fair value | **–** | – | **1,545** | – |
| Disposals | **(310)** | – | **–** | – |
| Transferred to investment property | **–** | – | **–** | – |
| **Carrying amount at end of year** | **–** | 310 | **3,205** | 1,660 |

## 14. PLANT AND EQUIPMENT

| | INGENIA COMMUNITIES FUND | | INGENIA COMMUNITIES MANAGEMENT TRUST | |
|---|---|---|---|---|
| | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 |
| Plant and equipment | **423** | 425 | **1,185** | 989 |
| Less: Accumulated depreciation | **(84)** | (83) | **(638)** | (562) |
| | **339** | 342 | **547** | 427 |
| **Movements in carrying amount** | | | | |
| Carrying amount at beginning of year | **342** | 309 | **427** | 309 |
| Acquired through acquisitions | **–** | – | **320** | – |
| Transferred to investment property | **–** | – | **(173)** | – |
| Additions | **81** | 116 | **49** | 210 |
| Depreciation | **(84)** | (83) | **(76)** | (92) |
| Carrying amount at end of year | **339** | 342 | **547** | 427 |

## 15. TRADE AND OTHER PAYABLES

| | INGENIA COMMUNITIES FUND | | INGENIA COMMUNITIES MANAGEMENT TRUST | |
|---|---|---|---|---|
| | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 |
| **Current liabilities** | | | | |
| Trade and other payables | **1,569** | 1,513 | **6,812** | 6,810 |
| **Non-current liabilities** | | | | |
| Other payables | **–** | 1,851 | **140** | – |

## 16. BORROWINGS

| | | INGENIA COMMUNITIES FUND | | INGENIA COMMUNITIES MANAGEMENT TRUST | |
|---|---|---|---|---|---|
| | NOTE | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 |
| **Current liabilities** | 23 | | | | |
| Bank debt | (a) | **–** | 81,739 | **–** | – |
| Finance leases | (b) | **–** | – | **3,589** | 3,003 |
| | | **–** | 81,739 | **3,589** | 3,003 |
| **Non-current liabilities** | | | | | |
| Bank debt | (a) | **68,000** | – | **–** | – |
| Prepaid borrowing costs | | **(578)** | – | **–** | – |
| Finance leases | (b) | **–** | – | **40,475** | 34,607 |
| | | **67,422** | – | **40,475** | 34,607 |

### a. Bank debt

On 28 August 2012, ICF refinanced its variable rate Australian dollar denominated debt facility with the Commonwealth Bank of Australia to a $82,000,000 facility expiring 30 September 2015.

As at 30 June 2013, the facility has been drawn to $68,000,000 (2012: $81,739,000). The main financial covenants to be maintained include:

- Loan to value ratio is less than or equal to 50%;
- Total leverage ratio does not exceed 50%; and
- Interest cover ratio of net income from mortgaged properties (including distributions from foreign assets) to facility interest expense of at least 1.50.

The carrying value of investment property net of resident liabilities at reporting date for the Group's Australian properties pledged as security is $179,320,000 (2012: $165,029,000).

## b. Finance leases

Subsidiaries of ICMT have entered into agreements with subsidiaries of ICF. The subject of each agreement is to lease a retirement village. The remaining term of each agreement varies between 93 and 116 years. There are no purchase options.

On the 23 of April 2013, ICMT was assigned a commercial lease with 16.5 years remaining with the Gosford City Council for land and facilities as part of its Ettalong Beach Holiday Village acquisition. The lease is for an initial 3 years commencing September 2012 with two 7 year options to renew.

| | INGENIA COMMUNITIES FUND | | INGENIA COMMUNITIES MANAGEMENT TRUST | |
|---|---|---|---|---|
| | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 |
| **Minimum lease payments:** | | | | |
| Within one year | – | – | 3,589 | 3,003 |
| Later than one year but not later than five years | – | – | 14,422 | 12,011 |
| Later than five years | – | – | 308,628 | 275,616 |
| Total minimum lease payments | – | – | 326,639 | 290,630 |
| Future finance charges | – | – | (282,575) | (253,020) |
| Present value of minimum lease payments | – | – | 44,064 | 37,610 |
| **Present value of minimum lease payments:** | | | | |
| Within one year | – | – | 3,436 | 3,003 |
| Later than one year but not later than five years | – | – | 11,362 | 9,461 |
| Later than five years | – | – | 29,266 | 25,146 |
| | – | – | 44,064 | 37,610 |

## 17. DEFERRED TAX LIABILITIES

| | INGENIA COMMUNITIES FUND | | INGENIA COMMUNITIES MANAGEMENT TRUST | |
|---|---|---|---|---|
| | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 |
| The balance comprises temporary differences attributable to: Investment properties | – | – | 7,855 | 7,921 |
| Deferred tax benefit recognised in the income statement in respect of deferred tax liabilities is attributable to temporary differences arising from: Investment properties | – | (158) | (66) | (34) |
| Deductible temporary differences and carried forward losses tax effected for which no deferred tax asset has been recognised | – | – | 4,220 | 4,077 |

# Notes to the Financial Statements

for the year ended 30 June 2013 | continued

## 18. ISSUED UNITS

### a. Carrying amounts

| | INGENIA COMMUNITIES FUND | | INGENIA COMMUNITIES MANAGEMENT TRUST | |
|---|---|---|---|---|
| | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 |
| At beginning of year | **480,693** | 486,693 | **3,351** | 3,351 |
| Institutional placement securities | **18,179** | – | **2,908** | – |
| Transaction costs of institutional placement securities | **(916)** | – | **(153)** | – |
| Capital distribution [(1)] | **–** | (6,000) | **–** | – |
| At end of year | **497,956** | 480,693 | **6,106** | 3,351 |
| **The closing balance is attributable to the unitholders of:** | | | | |
| Ingenia Communities Fund | **497,956** | 480,693 | **–** | – |
| Ingenia Communities Management Trust | **–** | – | **6,106** | 3,351 |
| | **497,956** | 480,693 | **6,106** | 3,351 |

(1) The capital distribution applied towards the issue of shares in ICH to unitholders of the Trusts (other than foreign resident unitholders) as part of Internalisation.

### b. Number of issued units

| | | INGENIA COMMUNITIES FUND | | INGENIA COMMUNITIES MANAGEMENT TRUST | |
|---|---|---|---|---|---|
| | NOTE | 2013 THOUSANDS | 2012 THOUSANDS | 2013 THOUSANDS | 2012 THOUSANDS |
| At beginning and end of year | | **441,029** | 441,029 | **441,029** | 441,029 |
| Issued during the year | | **66,150** | – | **66,150** | – |
| At end of year | | **507,179** | 441,029 | **507,179** | 441,029 |

### c. Terms of units

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

## 19. RESERVES

| | INGENIA COMMUNITIES FUND | | INGENIA COMMUNITIES MANAGEMENT TRUST | |
|---|---|---|---|---|
| | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 |
| **Foreign currency translation reserve** | | | | |
| Balance at beginning of year | (16,896) | (20,240) | (614) | (560) |
| Translation differences arising during the year | 1,389 | 2,663 | (1,064) | (54) |
| Amounts transferred to profit and loss on disposal of foreign operations | 15,507 | – | 2,444 | – |
| Deconsolidation of ICMT | – | 681 | – | – |
| Balance at end of a year | – | (16,896) | 766 | (614) |
| The closing balance is attributable to the unitholders of: | | | | |
| Ingenia Communities Fund | – | (16,896) | 646 | – |
| Ingenia Communities Management Trust | – | – | 120 | (614) |
| | – | (16,896) | 766 | (614) |

The foreign currency translation reserve records exchange differences arising from the translation of the financial statements of foreign subsidiaries.

## 20.RETAINED EARNINGS/(ACCUMULATED LOSSES)

| | INGENIA COMMUNITIES FUND | | INGENIA COMMUNITIES MANAGEMENT TRUST | |
|---|---|---|---|---|
| | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 |
| Balance at beginning of year | (328,594) | (352,165) | 5,411 | (3,325) |
| Net profit for the year | 2,670 | 23,571 | (11,715) | 8,736 |
| Distributions | (4,410) | – | – | – |
| Balance at end of year | (330,334) | (328,594) | (6,304) | 5,411 |

## 21. COMMITMENTS

Commitments for capital expenditure on investment property contracted but not provided for at reporting date amounted to nil (2012: $455,500), all payable within one year.

A subsidiary of ICMT has entered into a non-cancellable operating lease for its Brisbane office. The lease has a remaining life of 1 year.

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

| | INGENIA COMMUNITIES FUND | | INGENIA COMMUNITIES MANAGEMENT TRUST | |
|---|---|---|---|---|
| | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 |
| Within one year | – | – | 95 | 95 |
| Later than one year but not later than five years | – | – | – | 95 |
| Later than five years | – | – | – | – |
| | – | – | 95 | 190 |

A subsidiary of ICMT was assigned a commercial lease with 16.5 years remaining with the Gosford City Council for land and facilities as part of its Ettalong Beach Holiday Village acquisition. The lease is for an initial 3 years commencing September 2012 with two 7 year options to renew.

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

| | INGENIA COMMUNITIES FUND | | INGENIA COMMUNITIES MANAGEMENT TRUST | |
|---|---|---|---|---|
| | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 |
| Within one year | – | – | 267 | – |
| Later than one year but not later than five years | – | – | 1,135 | – |
| Later than five years | – | – | 3,766 | – |
| | – | – | 5,168 | – |

Future present value of minimum lease payments payable under this lease as at reporting date were:

| | INGENIA COMMUNITIES FUND | | INGENIA COMMUNITIES MANAGEMENT TRUST | |
|---|---|---|---|---|
| | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 |
| Within one year | – | – | 258 | – |
| Later than one year but not later than five years | – | – | 962 | – |
| Later than five years | – | – | 2,164 | – |
| | – | – | 3,384 | – |

For commitments for inter-staple related party finance leases refer to Notes 10, 16 and 26.

## 22. CAPITAL MANAGEMENT

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

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

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

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

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 on gearing levels, the availability of new equity and the liquidity in real estate markets. While the Group periodically determines the optimal capital structure, the ability to achieve the optimal structure may be impacted by market conditions and the actual position may often differ from the optimal position.

The Group's capital position is primarily monitored through the ratio of total liabilities to total assets ("Leverage Ratio"), calculated on a look-through basis, in which the Group's interest in its joint ventures and associates are proportionately consolidated based on the Group's ownership interest.

In addition, the Group monitors the ratio of debt to total assets ("Gearing Ratio"), calculated on a look-through basis.

## 23. FINANCIAL INSTRUMENTS

### a. Introduction

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

The main risks arising from the Trust's 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 Treasury 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 forecast not 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 Treasury 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 Treasury 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 Treasury 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 Trust's ability to raise capital through the issue of units or sale of properties.

Risks arising from the Trusts 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 one Trust may result in consequential changes for the other Trust.

## 23. FINANCIAL INSTRUMENTS CONTINUED

### b. Interest rate risk

The Trusts exposure to the risk of changes in market interest rates arises primarily from their 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 Treasury Policy. The policy sets minimum and maximum levels of fixed rate exposure over a ten-year time horizon.

At 30 June 2013, after taking into account the effect of interest rate swaps, approximately 26% of ICF's borrowings are at a fixed rate of interest (30 June 2012: 73%). On 17 July 2013, further interest rate swaps came into effect which increased ICF's fixed rate borrowings ratio to 66%. ICMT's borrowings all relate to fixed rate finance leases.

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

ICF's exposure to interest rate risk on financial instruments at reporting date was:

| | INGENIA COMMUNITIES FUND | | | | |
|---|---|---|---|---|---|
| | | FIXED INTEREST MATURING IN: | | | |
| 30 JUNE 2013 | FLOATING INTEREST RATE | LESS THAN 1 YEAR | 1 TO 5 YEARS | MORE THAN 5 YEARS | TOTAL |
| **Principal amounts $'000** | | | | | |
| **Financial assets** | | | | | |
| Cash at bank | 5,733 | – | – | – | 5,733 |
| Short term deposits | 25,281 | – | – | – | 25,281 |
| **Financial liabilities** | | | | | |
| Bank debt denominated in AUD | 68,000 | – | – | – | 68,000 |
| Interest rate swaps: | | | | | |
| – denominated in AUD; ICF pays fixed rate | (45,000) | 45,000 | – | – | – |

ICF's exposure to interest rate risk on financial instruments at the end of the previous financial year was:

| | INGENIA COMMUNITIES FUND | | | | |
|---|---|---|---|---|---|
| | | FIXED INTEREST MATURING IN: | | | |
| 30 JUNE 2012 | FLOATING INTEREST RATE | LESS THAN 1 YEAR | 1 TO 5 YEARS | MORE THAN 5 YEARS | TOTAL |
| **Principal amounts $'000** | | | | | |
| **Financial assets** | | | | | |
| Cash at bank | 2,331 | – | – | – | 2,331 |
| Short term deposits | 18,346 | – | – | – | 18,346 |
| **Financial liabilities** | | | | | |
| Bank debt denominated in AUD | 81,739 | – | – | – | 81,739 |
| Interest rate swaps: | | | | | |
| – denominated in AUD; ICF pays fixed rate | (60,000) | 60,000 | – | – | – |

ICMT's exposure to interest rate risk on financial instruments at reporting date was:

| | INGENIA COMMUNITIES MANAGEMENT TRUST | | | | |
|---|---|---|---|---|---|
| | | FIXED INTEREST MATURING IN: | | | |
| 30 JUNE 2013 | FLOATING INTEREST RATE | LESS THAN 1 YEAR | 1 TO 5 YEARS | MORE THAN 5 YEARS | TOTAL |
| **Principal amounts $'000** | | | | | |
| **Financial assets** | | | | | |
| Cash at bank | **1,229** | **–** | **–** | **–** | **1,229** |
| **Financial liabilities** | | | | | |
| Finance leases | **–** | **3,436** | **11,362** | **29,266** | **44,064** |

ICMT's exposure to interest rate risk on financial instruments at the end of the previous financial year was:

| | INGENIA COMMUNITIES MANAGEMENT TRUST | | | | |
|---|---|---|---|---|---|
| | | FIXED INTEREST MATURING IN: | | | |
| 30 JUNE 2012 | FLOATING INTEREST RATE | LESS THAN 1 YEAR | 1 TO 5 YEARS | MORE THAN 5 YEARS | TOTAL |
| **Principal amounts $'000** | | | | | |
| **Financial assets** | | | | | |
| Cash at bank | 2,878 | – | – | – | 2,878 |
| **Financial liabilities** | | | | | |
| Finance leases | – | 3,003 | 9,461 | 25,146 | 37,610 |

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.

## 23. 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 reporting date. As the Trusts have no derivatives that meet the documentation requirements to qualify for hedge accounting, there would be no impact on unitholders' interest (apart from the effect on profit).

**i. Increase in average interest rates of 1%**

The effect on net interest expense for one year would have been:

| | EFFECT ON PROFIT BEFORE TAX | | | |
|---|---|---|---|---|
| | INGENIA COMMUNITIES FUND HIGHER/(LOWER) | | INGENIA COMMUNITIES MANAGEMENT TRUST HIGHER/(LOWER) | |
| | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 |
| Variable interest rate instruments denominated in: | | | | |
| Australian dollars | **(680)** | (817) | **–** | – |

The effect on change in fair value of derivatives would have been:

| | EFFECT ON PROFIT BEFORE TAX | | | |
|---|---|---|---|---|
| | INGENIA COMMUNITIES FUND HIGHER/(LOWER) | | INGENIA COMMUNITIES MANAGEMENT TRUST HIGHER/(LOWER) | |
| | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 |
| Interest rate swaps denominated in: | | | | |
| Australian dollars | **793** | 293 | **–** | – |

**ii. Decrease in average interest rates of 1%**

The effect on net interest expense for one year would have been:

| | EFFECT ON PROFIT BEFORE TAX | | | |
|---|---|---|---|---|
| | INGENIA COMMUNITIES FUND HIGHER/(LOWER) | | INGENIA COMMUNITIES MANAGEMENT TRUST HIGHER/(LOWER) | |
| | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 |
| Variable interest rate instruments denominated in: | | | | |
| Australian dollars | **680** | 817 | **–** | – |

The effect on change in fair value of derivatives would have been:

| | EFFECT ON PROFIT BEFORE TAX | | | |
|---|---|---|---|---|
| | INGENIA COMMUNITIES FUND HIGHER/(LOWER) | | INGENIA COMMUNITIES MANAGEMENT TRUST HIGHER/(LOWER) | |
| | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 |
| Interest rate swaps denominated in: | | | | |
| Australian dollars | **(810)** | (298) | **–** | – |

## e. Foreign exchange risk

By holding properties in offshore markets, the Trusts are exposed to the risk of movements in foreign exchange rates. Foreign exchange rate movements may reduce the Australian dollar equivalent of the carrying value of the Trusts offshore properties, and may result in lower Australian dollar equivalent proceeds when an offshore property is sold. In addition, foreign exchange rate movements may reduce the Australian dollar equivalent of the earnings from the offshore properties while they are owned by the Trusts.

The Trusts reduce exposure to the foreign exchange risk inherent in the carrying value of its offshore properties and interests in offshore investments by partly or wholly funding their acquisition using borrowings denominated in the particular offshore currency, and by using derivatives. The Treasury Policy sets a target for minimum and maximum hedging of the carrying value of its offshore properties.

The Trusts exposure to the impact of exchange rate movements on earnings from offshore properties is partly mitigated by the foreign denominated interest expense of its foreign denominated borrowings and any derivative hedges. The Trusts aim to reduce any residual exposure to earnings arising because of investment in offshore markets by using forward exchange contracts. The Treasury Policy sets out targets of minimum and maximum hedging of earnings from offshore properties over a five-year time horizon.

The Trusts net foreign currency monetary exposure, after taking into account the effect of foreign exchange derivatives, 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 the Trusts United States subsidiaries and equity accounted investments, whose functional currency is not the Australian dollar.

| | NET FOREIGN CURRENCY ASSET/(LIABILITY) | | | |
|---|---|---|---|---|
| | INGENIA COMMUNITIES FUND | | INGENIA COMMUNITIES MANAGEMENT TRUST | |
| | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 |
| United States dollars | 1,282 | 2,310 | – | – |

## f. 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 reporting date.

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

| | EFFECT ON PROFIT BEFORE TAX | | | |
|---|---|---|---|---|
| | INGENIA COMMUNITIES FUND HIGHER/(LOWER) | | INGENIA COMMUNITIES MANAGEMENT TRUST HIGHER/(LOWER) | |
| | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 |
| Foreign exchange risk exposures denominated in: | | | | |
| United States dollars | (128) | (231) | – | – |

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

| | EFFECT ON PROFIT BEFORE TAX | | | |
|---|---|---|---|---|
| | INGENIA COMMUNITIES FUND HIGHER/(LOWER) | | INGENIA COMMUNITIES MANAGEMENT TRUST HIGHER/(LOWER) | |
| | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 |
| Foreign exchange risk exposures denominated in: | | | | |
| United States dollars | 128 | 231 | – | – |

## 23. FINANCIAL INSTRUMENTS CONTINUED

### g. Foreign exchange derivatives held

Forward exchange contracts, options and foreign exchange swaps are taken out to mitigate the effect of foreign exchange movements on the financial statements.

At reporting date, none of the following foreign exchange derivatives qualifies for hedge accounting and gains and losses arising from changes in fair value have been taken to the income statement. The consolidated loss for the year ended 30 June 2013 was $9000 (2012: gain $111,000).

The Trusts did not hold any foreign exchange derivatives at 30 June 2013.

ICF held a USD put/AUD call option at 30 June 2012 for a principal amount of AUD$44.1m with a strike price of 1.0000 and expiry of 28 November 2012.

### 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 Trust's 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 Trust's Treasury 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 Treasury 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 Treasury 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 Trust'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 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 around eleven years, retirement village resident 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.

The contractual maturities of ICF's non-derivative financial liabilities at reporting date, on the same basis, were:

| | **INGENIA COMMUNITIES FUND** | | | |
|---|---|---|---|---|
| **2013** | **LESS THAN 1 YEAR $'000** | **1 TO 5 YEARS $'000** | **MORE THAN 5 YEARS $'000** | **TOTAL $'000** |
| Trade & other payables | **1,569** | **–** | **–** | **1,569** |
| Borrowings | **3,271** | **72,089** | **–** | **75,360** |
| | **4,840** | **72,089** | | **76,929** |
| **2012** | | | | |
| Trade & other payables | 1,513 | – | – | 1,513 |
| Borrowings | 81,739 | – | – | 81,739 |
| | 83,252 | – | – | 83,252 |

The contractual maturities of ICMT's non-derivative financial liabilities at reporting date, on the same basis, were:

| | **INGENIA COMMUNITIES FUND** | | | |
|---|---|---|---|---|
| **2013** | **LESS THAN 1 YEAR $'000** | **1 TO 5 YEARS $'000** | **MORE THAN 5 YEARS $'000** | **TOTAL $'000** |
| Trade & other payables | **6,812** | **–** | **–** | **6,812** |
| Retirement village resident loans | **175,703** | **–** | **–** | **175,703** |
| Borrowings | **3,589** | **14,422** | **308,628** | **326,639** |
| | **186,104** | **14,422** | **308,628** | **509,154** |
| **2012** | | | | |
| Trade & other payables | 6,810 | – | – | 6,810 |
| Retirement village resident loans | 162,602 | – | – | 162,602 |
| Borrowings | 3,003 | 12,011 | 275,616 | 290,630 |
| | 172,415 | 12,011 | 275,616 | 460,042 |

## 23. FINANCIAL INSTRUMENTS CONTINUED

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 including interest at market rates. Foreign currencies have been converted at rates of exchange ruling at reporting date.

| | INGENIA COMMUNITIES FUND | | | |
|---|---|---|---|---|
| 2013 | LESS THAN 1 YEAR $'000 | 1 TO 5 YEARS $'000 | MORE THAN 5 YEARS $'000 | TOTAL $'000 |
| **Liabilities** | | | | |
| **Derivative liabilities – net settled** | **–** | **209** | **–** | **209** |

The contractual maturities of ICF's derivative financial liabilities at 30 June 2012, on the same basis, were:

| | INGENIA COMMUNITIES FUND | | | |
|---|---|---|---|---|
| 2012 | LESS THAN 1 YEAR $'000 | 1 TO 5 YEARS $'000 | MORE THAN 5 YEARS $'000 | TOTAL $'000 |
| Liabilities | | | | |
| **Derivative liabilities – net settled** | 970 | – | – | 970 |

ICMT did not have any derivative financial liabilities at either 30 June 2013 or 30 June 2012.

### j. Other financial instrument risk

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

| | EFFECT ON PROFIT BEFORE TAX | | | |
|---|---|---|---|---|
| | INGENIA COMMUNITIES FUND HIGHER/(LOWER) | | INGENIA COMMUNITIES MANAGEMENT TRUST HIGHER/(LOWER) | |
| | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 |
| Increase in market prices of investment properties of 10% | **–** | – | **(20,700)** | (19,000) |
| Decrease in market prices of investment properties of 10% | **–** | – | **20,700** | 19,000 |

However, these effects are largely offset by corresponding changes in the fair value of the Trusts investment properties.

The effect on unitholders' interest would have been the same as the effect on profit.

### k. Fair value

The Trusts use the following fair value measurement hierarchy:

**Level 1:** fair value is calculated using quoted prices in active markets;

**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 fair value of the listed equity investments are based on quoted market prices.

The fair value of derivatives was calculated as the net present value of future payment obligations discounted at market rates adjusted for the Trust's credit risk. The fair value of retirement village resident loans was measured as the ingoing resident's contribution plus the resident's share of capital appreciation to reporting date, less deferred management fee accrued to reporting date. These valuation techniques use both observable and unobservable market inputs.

Financial instruments that use valuation techniques with only observable market inputs or unobservable inputs that are not significant to the overall valuation include derivatives.

The fair value of retirement village resident loans is based on valuation techniques using market data that is not observable. Refer to Note 2 for assumptions used in valuing the loans.

The following tables present the Trust's financial instruments that were measured and recognised at fair value at reporting date.

| | INGENIA COMMUNITIES FUND | | | |
|---|---|---|---|---|
| **2013** | **LEVEL 1 $'000** | **LEVEL 2 $'000** | **LEVEL 3 $'000** | **TOTAL $'000** |
| **Financial liabilities** | | | | |
| Derivatives | – | 209 | – | 209 |

| | INGENIA COMMUNITIES MANAGEMENT TRUST | | | |
|---|---|---|---|---|
| **2013** | **LEVEL 1 $'000** | **LEVEL 2 $'000** | **LEVEL 3 $'000** | **TOTAL $'000** |
| **Financial liabilities** | | | | |
| Retirement village resident loans | – | – | 175,703 | 175,703 |

# Notes to the Financial Statements

for the year ended 30 June 2013 | continued

## 23. FINANCIAL INSTRUMENTS CONTINUED

The following tables present the Trust's financial instruments that were measured and recognised at fair value at 30 June 2012.

| | INGENIA COMMUNITIES FUND | | | |
|---|---|---|---|---|
| **2012** | **LEVEL 1 $'000** | **LEVEL 2 $'000** | **LEVEL 3 $'000** | **TOTAL $'000** |
| **Financial assets** | | | | |
| Derivatives | – | 1,659 | – | 1,659 |
| **Financial liabilities** | | | | |
| Derivatives | – | 970 | – | 970 |

| | INGENIA COMMUNITIES MANAGEMENT TRUST | | | |
|---|---|---|---|---|
| **2012** | **LEVEL 1 $'000** | **LEVEL 2 $'000** | **LEVEL 3 $'000** | **TOTAL $'000** |
| **Financial liabilities** | | | | |
| Retirement village resident loans | – | – | 162,602 | 162,602 |

The current market value of the independent living units is an input to the valuation of retirement village resident loans. Changing the value used for this input by an increase of 10% would increase the fair value of these loans by $20,700,000 (2012: $19,000,000).

The change has been calculated in accordance with the formula set out in the contracts with the residents and incorporates the market value of the property and the expected tenure of each resident.

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

## 24. AUDITOR'S REMUNERATION

| | INGENIA COMMUNITIES FUND | | INGENIA COMMUNITIES MANAGEMENT TRUST | |
|---|---|---|---|---|
| | **2013 $** | **2012 $** | **2013 $** | **2012 $** |
| Amounts received or receivable by EY for: | | | | |
| Audit or review of financial reports | **120,339** | 406,603 | **122,364** | – |
| Other audit related services | **9,183** | 33,020 | **–** | – |
| | **129,522** | 439,623 | **122,364** | – |

## 25. CONTINGENCIES

There are no contingent liabilities noted by the Trusts.

## 26. RELATED PARTIES

### a. Responsible Entity

The Responsible Entity for both trusts from 4 June 2012 is Ingenia Communities RE Limited ("ICRE"). Ingenia Communities RE Limited is an Australian domiciled company and is a wholly owned subsidiary of Ingenia Communities Holdings Limited.

Until 4 June 2012, the Responsible Entity for both Trusts was ING Management Limited ("IML"), a member of the ING group of companies for which the ultimate holding company is ING Groep NV, a company incorporated in the Netherlands.

### b. Fees of the Responsible Entity and its related parties

| | | INGENIA COMMUNITIES FUND | | INGENIA COMMUNITIES MANAGEMENT TRUST | |
|---|---|---|---|---|---|
| | NOTE | 2013 $ | 2012 $ | 2013 $ | 2012 $ |
| ING Management Limited: | | | | | |
| Asset management fees | | **–** | 1,830,036 | **–** | 477,646 |
| Ingenia Communities RE Limited: | | | | | |
| Asset management fees | | **1,101,265** | 57,564 | **1,456,230** | 94,744 |
| | | **1,101,265** | 1,887,600 | **1,456,230** | 572,390 |
| ING Management Limited | | | | | |
| Fees waived | 4 | **–** | (2,279,213) | **–** | (220,324) |
| | | **1,101,265** | (391,613) | **1,456,230** | 352,066 |

ICRE is entitled to a fee of 0.5% of total assets. In addition, it is entitled to recover certain expenses.

As part of the Internalisation of the trusts that occurred on 4 June 2012, IML waived its right to receive $2,500,000 in fees that accrued to 30 June 2011.

The amount accrued and recognised but unpaid at reporting date was:

| | INGENIA COMMUNITIES FUND | | INGENIA COMMUNITIES MANAGEMENT TRUST | |
|---|---|---|---|---|
| | 2013 $ | 2012 $ | 2013 $ | 2012 $ |
| Current trade payables | **1,169,801** | 57,564 | **1,542,056** | 94,744 |

These are included in current trade payables in the balance sheet.

### 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 2013 and 30 June 2012.

### d. Other related party transactions

Details of the financial support provided by ING Groep NV for Internalisation are given in Note 5.

There are a number of other transactions and balances that occur between the Trusts which are detailed below:

## 26. RELATED PARTIES CONTINUED

Subsidiaries of ICMT have entered into agreements with subsidiaries of ICF for the leases of land that retirement villages are operated on. The remaining term of each agreement varies between 93 and 116 years. There are no purchase options. Rental villages have been classified as operating leases and DMF villages have been classified as finance leases.

Intercompany loans are subject to a loan deed dated 29 June 2012 encompassing ICH, ICF and ICMT and their respective subsidiaries. The deed stipulates that on the last business day of each month intercompany balances are set off within each of the ICH, ICF and ICMT sub-groups and the balances between ICH, ICF and ICMT incur interest at 8.5%pa. Intercompany loan balances are payable on demand.

| | | INGENIA COMMUNITIES FUND | | INGENIA COMMUNITIES MANAGEMENT TRUST | |
|---|---|---|---|---|---|
| | NOTE | 2013 $ | 2012 $ | 2013 $ | 2012 $ |
| Finance lease fees received or accrued/(paid or payable) for the year between ICF and ICMT | | **3,321,780** | 3,002,784 | **(3,321,780)** | (3,002,784) |
| Finance lease balance receivable/(payable) between ICF and ICMT | 10 | **40,679,518** | 37,610,000 | **(40,679,518)** | (37,610,000) |
| Finance lease commitments | | **321,470,845** | 290,630,000 | **(321,470,845)** | (290,630,000) |
| Operating lease fees received or accrued/(paid or payable) for the year between ICF and ICMT | | **8,467,260** | 8,467,260 | **(8,467,260)** | (8,467,260) |
| Interest on intercompany loans received or accrued/(paid or payable) between stapled entities | | **2,039,631** | 135,138 | **1,820,680** | 1,734,103 |
| Intercompany loan balances between stapled entities | | **31,870,000** | 16,854,000 | **(30,769,000)** | (16,899,000) |

### 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) | |
| Philip Clark AM | |
| Amanda Heyworth | |
| Robert Morrison | Appointed 8 February 2013 |
| Simon Owen (Managing Director) | |

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:

| | |
|---|---|
| Simon Owen | Managing Director |
| Nicole Fisher | Chief Operating Officer |
| Tania Betts | Chief Financial Officer |

Key management personnel do not receive any remuneration directly from the Trusts. They receive remuneration from ICH in their capacity as directors or employees of ICH. Consequently, the Trusts do not pay any compensation as defined in Accounting Standard AASB 124 Related Parties to its key management personnel.

Units in the Trusts held directly, indirectly or beneficially by each key management person, including their related parties, were:

| | 2013 | 2012 |
|---|---|---|
| **Stapled securities** | | |
| Jim Hazel | | |
| Held at the beginning of the financial year | **500,000** | – |
| Acquisitions | **800,000** | 500,000 |
| Disposals | **(300,000)** | – |
| Held at the end of the financial year | **1,000,000** | 500,000 |
| Philip Clark AM | | |
| Held at the beginning of the financial year | **90,151** | 90,151 |
| Acquisitions | **9,849** | – |
| Held at the end of the financial year | **100,000** | 90,151 |
| Amanda Heyworth | | |
| Held at the beginning of the financial year | **200,000** | – |
| Acquisitions | **221,000** | 200,000 |
| Held at the end of the financial year | **421,000** | 200,000 |
| Robert Morrison | | |
| Held at the beginning of the financial year | **–** | – |
| Acquisitions | **110,000** | – |
| | **110,000** | – |
| Simon Owen | | |
| Held at the beginning of the financial year | **1,440,750** | 367,600 |
| Acquisitions | **77,000** | 1,073,150 |
| Held at the end of the financial year | **1,517,750** | 1,440,750 |

## 26. RELATED PARTIES CONTINUED

Performance quantum rights held by key management personnel were:

| | 2013 | 2012 |
|---|---|---|
| **Performance quantum rights** | | |
| Simon Owen | | |
| Held at the beginning of the financial year | **2,260,000** | – |
| Granted | **–** | 2,260,000 |
| Held at the end of the financial year | **2,260,000** | 2,260,000 |
| Nicole Fisher | | |
| Held at the beginning of the financial year | **791,000** | – |
| Granted | **–** | 791,000 |
| Held at the end of the financial year | **791,000** | 791,000 |
| Tania Betts | | |
| Held at the beginning of the financial year | **791,000** | – |
| Granted | **–** | 791,000 |
| Held at the end of the financial year | **791,000** | 791,000 |

Retention quantum rights held by key management personnel were:

| | 2013 | 2012 |
|---|---|---|
| **Retention quantum rights** | | |
| Simon Owen | | |
| Held at the beginning of the financial year | **1,070,000** | – |
| Granted | **–** | 1,070,000 |
| Held at the end of the financial year | **1,070,000** | 1,070,000 |
| Nicole Fisher | | |
| Held at the beginning of the financial year | **374,000** | – |
| Granted | **–** | 374,000 |
| Held at the end of the financial year | **374,000** | 374,000 |
| Tania Betts | | |
| Held at the beginning of the financial year | **374,000** | – |
| Granted | **–** | 374,000 |
| Held at the end of the financial year | **374,000** | 374,000 |

## 27. PARENT FINANCIAL INFORMATION

Summary financial information about the parent of each Trust is:

| | INGENIA COMMUNITIES FUND | | INGENIA COMMUNITIES MANAGEMENT TRUST | |
|---|---|---|---|---|
| | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 |
| Current assets | **57,833** | 29,101 | **3** | 65 |
| Total assets | **183,749** | 202,596 | **2,991** | 3,629 |
| Current liabilities | **1,779** | 33,865 | **9,332** | 3,083 |
| Total liabilities | **69,202** | 114,914 | **9,332** | 3,310 |
| Net assets | **114,547** | 87,682 | **(6,341)** | 319 |
| Unitholders equity: | | | | |
| Issued units | **497,957** | 480,694 | **6,106** | 3,351 |
| Foreign currency translation reserve | **–** | 1 | **–** | (33) |
| Accumulated losses | **(383,410)** | (393,013) | **(12,447)** | (2,999) |
| Total unitholders' equity | **114,547** | 87,682 | **(6,341)** | 319 |
| Profit/(loss) from continuing operations | **(4,744)** | (1,968) | **(3,511)** | (1,821) |
| Net profit/(loss) attributable to unitholders of each Trust | **19,704** | (1,968) | **(9,088)** | (1,821) |
| Total comprehensive income/(loss) | **19,703** | (1,967) | **(9,055)** | (1,854) |

## 28. SUBSIDIARIES

### a. Names of 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):

| | | OWNERSHIP INTEREST | |
|---|---|---|---|
| NAME | COUNTRY OF RESIDENCE | 2013 % | 2012 % |
| **Subsidiaries of Ingenia Communities Fund** | | | |
| 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 No. 2 | Australia | **100** | 100 |
| INA Community Living Subsidiary Trust No. 1 | Australia | **100** | 100 |
| INA Kiwi Communities Subsidiary Trust No. 1 | Australia | **100** | 100 |
| INA Sunny Trust | Australia | **100** | 100 |
| Jefferis Street Trust | Australia | **100** | 100 |
| Lovett Street Trust | Australia | **100** | 100 |
| ILF Regency Subsidiary Trust | Australia | **100** | 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** | – |
| INA Subsidiary Trust No.2 | Australia | **100** | – |
| INA Subsidiary Trust No.3 | Australia | **100** | – |
| ING Community Living Fund Inc | United States of America | **–** | 100 |
| ING Community Living LLC | United States of America | **100** | 100 |

| NAME | COUNTRY OF RESIDENCE | OWNERSHIP INTEREST 2013 % | OWNERSHIP INTEREST 2012 % |
|---|---|---|---|
| **Subsidiaries of Ingenia Communities Management Trust** | | | |
| Garden Villages Management Trust | Australia | **100** | 100 |
| INA Community Living Lynbrook Trust | Australia | **100** | 100 |
| INA Real Estate CC Trust No. 1 | Australia | **100** | 100 |
| ILF Regency Operations Trust | Australia | **100** | 100 |
| Settlers Operations Trust | Australia | **100** | 100 |
| INA Operations Trust No.1 | Australia | **100** | – |
| INA Operations Trust No.2 | Australia | **100** | – |
| INA Operations Trust No.3 | Australia | **100** | – |
| INA NZ Subsidiary Trust No. 1(1) | New Zealand | **100** | 10 |
| CSH Lynbrook GP LLC | United States of America | **100** | 100 |
| CSH Lynbrook LP | United States of America | **100** | 100 |
| ING Community Living II LLC | United States of America | **100** | 100 |
| Lynbrook Freer Street Member LLC | United States of America | **100** | 100 |
| Lynbrook Management, LLC | United States of America | **100** | 100 |

(1) On 4 June 2012, ICMT acquired a 10% economic interest and all of the voting rights in respect of this trust, and consequently consolidates it from that date.

The Trusts voting interest in all other subsidiaries is the same as the ownership interest.

## b. Acquisition of subsidiary

As noted above, ICMT acquired a 10% economic interest and all of the voting rights (controlling interest) in respect of INA NZ Subsidiary Trust No 1 ("NZS") for no consideration, as part of the Internalisation of management of the Trusts. At the date of acquisition, NZS owned the Trust's New Zealand Students portfolio.

The fair value of the assets and liabilities arising from the acquisition, and their carrying amounts in the financial statements of NZS immediately prior to the acquisition were:

| | FAIR VALUES $'000 | CARRYING AMOUNTS $'000 |
|---|---|---|
| Cash | 2,268 | 2,268 |
| Receivables | 904 | 904 |
| Property investments | 19,843 | 19,843 |
| Payables | (1,202) | (1,202) |
| Borrowings | (16,153) | (16,153) |
| Net assets | 5,660 | 5,660 |
| Non-controlling interest - ICF | (5,094) | (5,094) |
| ICMT share of net assets acquired | 566 | 566 |

# Notes to the Financial Statements

for the year ended 30 June 2013 | continued

## 28. SUBSIDIARIES CONTINUED

The purchase consideration compares to net assets acquired as follows:

| | $'000 |
|---|---|
| Purchase price | – |
| ICMT share of net assets acquired | 566 |
| Gain on acquisition | 566 |

The net inflow of cash resulting from the acquisition was:

| | $'000 |
|---|---|
| Cash paid | – |
| Cash included in net assets | 2,268 |
| Inflow of cash | 2,268 |

Given ICMT acquired 100% of the voting rights in NZS, it is deemed to have a controlling interest and therefore consolidates 100% of the net assets in the financial statements of ICMT showing separately a 90% non-controlling interest attributable to ICF. ICF continues to hold its 90% economic interest as an equity accounted investment which from 30 June 2011 was reclassified as a discontinued operation.

The acquisition of NZS contributed a $863,000 gain to the net profit for the 2012 financial year.

If the acquisition had occurred at the beginning of the 2012 financial year, ICMT revenue would have been $29,586,000 and net profit would have been $10,058,000.

## 29. SEGMENT INFORMATION

### a. Description of segments

The Trust's invest in seniors and tourist accommodation properties located in Australia. The rental villages in Australia comprise the Garden Villages segment; the deferred management fee properties comprise the Settlers Lifestyle segment; and the manufactured home estate villages ("MHE"s) which comprise both permanent and short stay rental income and income from the sale of manufactured homes is referred to as the Active Lifestyle Estates segment. The Trusts have identified their operating segments based on the internal reports that are reviewed and used by the chief operating decision maker in assessing performance and in determining the allocation of resources. Other parts of the Trusts are neither an operating segment nor part of an operating segment. Assets that do not belong to an operating segment are described below as "unallocated".

### b. Segment revenue

| | INGENIA COMMUNITIES FUND | | INGENIA COMMUNITIES MANAGEMENT TRUST | |
|---|---|---|---|---|
| | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 |
| **Revenues from external customers:** | | | | |
| Garden Villages | **8,321** | 18,032 | **20,265** | 19,012 |
| Settlers Lifestyle | **3,161** | 5,776 | **6,825** | 6,322 |
| Active Lifestyle Estates | **118** | – | **940** | – |
| Total segment revenue | **11,600** | 23,808 | **28,030** | 25,334 |
| Interest income | **363** | 1,244 | **14** | 85 |
| Other income | **142** | – | **–** | – |
| **Total revenue** | **12,105** | 25,052 | **28,044** | 25,419 |

## c. Segment result

| | INGENIA COMMUNITIES FUND | | INGENIA COMMUNITIES MANAGEMENT TRUST | |
|---|---|---|---|---|
| | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 |
| Garden Villages | **8,341** | 5,327 | **(4,202)** | 346 |
| Settlers Lifestyle | **3,161** | 2,205 | **1,565** | (1,363) |
| Active Lifestyle Estates | **118** | – | **158** | – |
| Total segment result | **11,620** | 7,532 | **(2,479)** | (1,017) |
| Interest income | **363** | 1,244 | **14** | 85 |
| Net foreign exchange loss | **37** | (225) | **–** | (123) |
| Net gain on disposal of investment properties | **(107)** | (109) | **–** | – |
| Gain/(loss) on acquisition | **–** | (2,934) | **–** | 2,934 |
| Net gain on change in fair value of: | | | | |
| Investment properties | **1,618** | 2,636 | **1,839** | 4,948 |
| Derivatives | **752** | 111 | **–** | – |
| Retirement village resident loans | **–** | (322) | **327** | (284) |
| Gain/(loss) on internalisation | **(35)** | 439 | **–** | 786 |
| Finance cost | **(3,841)** | (8,521) | **(1,817)** | (4,897) |
| Responsible entity's fees and expenses | **(1,101)** | (1,888) | **(1,456)** | (572) |
| Other expenses | **(921)** | (804) | **(235)** | (17) |
| Income tax benefit | **–** | 158 | **(17)** | 38 |
| **Profit/(loss) from continuing operations** | **8,385** | (2,683) | **(3,824)** | 1,881 |

## d. Segment assets

| | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 |
|---|---|---|---|---|
| Garden Villages | **99,699** | 113,005 | **1,390** | 37,408 |
| Settlers Lifestyle | **54,009** | 48,503 | **241,674** | 197,075 |
| Active Lifestyle Estates | **7,154** | – | **11,488** | – |
| Total segment assets | **160,862** | 161,508 | **254,552** | 234,483 |
| Now discontinued | **3,874** | 43,414 | **36,576** | 55,785 |
| Unallocated | **72,086** | 16,869 | **1,530** | – |
| **Total Assets** | **236,822** | 221,791 | **292,658** | 290,268 |

## 30. NOTES TO THE CASH FLOW STATEMENTS

### a. Reconciliation of profit to net cash flows from operations

| | INGENIA COMMUNITIES FUND | | INGENIA COMMUNITIES MANAGEMENT TRUST | |
|---|---|---|---|---|
| | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 |
| **Net profit for the year** | **2,670** | 29,124 | **(11,715)** | 8,736 |
| Adjustments for: | | | | |
| Gain on internalisation | **35** | (439) | **-** | (786) |
| Unrealised foreign exchange (gain)/loss | **-** | 225 | **718** | (123) |
| Release of FCTR on disposal of foreign operations | **15,507** | – | **2,444** | – |
| Net (gain)/loss on disposal of investment | **-** | 2,934 | **-** | (2,934) |
| Net (gain)/loss on disposal of equity accounted investment | **(7,584)** | – | **-** | – |
| Net (gain)/loss on disposal of investment properties | **107** | – | **994** | – |
| Net (gain)/loss on change in fair value of: | | | | |
| Investment properties - continuing | **(1,618)** | (2,636) | **(1,839)** | (4,948) |
| Investment properties - discontinued | **43** | 5,562 | **2,740** | (2,884) |
| Derivatives | **(752)** | (111) | **-** | – |
| Retirement village resident loans | **-** | 322 | **(327)** | 284 |
| US Students borrowings forgiven | **-** | (6,922) | **-** | – |
| Disposal costs associated with overseas investments | **150** | – | **672** | – |
| Excess of distributions received from equity accounted investments over share of profits | **-** | (25,539) | **-** | (418) |
| Income tax expense/(benefit) | **748** | 412 | **273** | (34) |
| Other non-cash items | **-** | 158 | **-** | 393 |
| Operating profit/(loss) for the year before changes in working capital | **9,306** | 3,090 | **(6,040)** | (2,714) |
| Changes in working capital: | | | | |
| (Increase)/decrease in receivables | **(12,676)** | (376) | **12,060** | (13,710) |
| (Increase)/decrease in other assets | **-** | (237) | **-** | (119) |
| Increase in retirement village resident loans | **-** | – | **12,220** | 14,907 |
| Increase/(decrease) in other payables | **464** | 1,053 | **197** | 4,305 |
| **Net cash provided by operating activities** | **(2,906)** | 3,530 | **18,437** | 2,669 |

## 31. SUBSEQUENT EVENTS

On 16 August 2013, ICMT acquired Nepean River Holiday Village, a manufactured home estate in Penrith, New South Wales. The purchase price was $10.0m and was funded by the institutional placement in late June 2013.

On 22 August 2013, ICMT acquired Albury City Gate Tourist Park, a manufactured home estate in Albury, New South Wales. The purchase price was $2.2m and was funded by the institutional placement in late June 2013.

On 23 August 2013, ICMT refinanced its Bank of New Zealand debt facility, which funds the New Zealand Students portfolio. The refinance is for an existing NZ$20.8m core facility and a new NZ$11.9m development facility for required seismic works. Both facilities have a term of 5 years.

On 27 August 2013, ICMT announced the acquisition of the Mudgee Valley Tourist Park for $4.0m and Mudgee Tourist and Van Resort for $7m. The Trust's have long identified Mudgee as an attractive and significantly untapped market for active retirees.

# Directors' Declaration

for the year ended 30 June 2013

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

1. In the opinion of the directors:
   a. the financial statements and notes of Ingenia Communities Fund and of Ingenia Communities Management Trust are in accordance with the *Corporations Act 2001*, including:
      i. giving a true and fair view of each Trust's financial position as at 30 June 2013 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 2013.

On behalf of the board

Jim Hazel
Chairman
Sydney, 27 August 2013

# Independent Auditors' Report

for the year ended 30 June 2013

Ernst & Young
680 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

## Independent auditor's report to the unitholders of Ingenia Communities Fund and Ingenia Communities Management Trust ("the Trusts")

### Report on the Financial Report

We have audited the accompanying financial report which has been prepared in accordance with ASIC class order 05/642 and comprises:

- the consolidated balance sheet as at 30 June 2013, the consolidated income statement, the consolidated statement of comprehensive income, the statement of changes in unitholders' interest and the consolidated cash flow statement for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of Ingenia Communities Fund, comprising Ingenia Communities Fund and the entities it controlled at year end or from time to time during the financial year.

- the consolidated balance sheet as at 30 June 2013, the consolidated income statement, the consolidated statement of comprehensive income, the statement of changes in unitholders' interest and the consolidated cash flow statement for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of Ingenia Communities Management Trust, comprising Ingenia Communities Management Trust and the entities it controlled at year end or from time to time during the financial year.

### *Directors' Responsibility for the Financial Report*

The directors of Ingenia Communities RE Limited as Responsible Entity of the Trusts are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1 (b), the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

# Independent Auditors' Report

for the year ended 30 June 2013

EY
Building a better working world

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

### *Independence*

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

### *Opinion*

In our opinion:

1. the financial report of Ingenia Communities Fund and Ingenia Communities Management Trust is in accordance with the Corporations Act 2001, including:

   i giving a true and fair view of the financial position of the Trusts as at 30 June 2013 and of their performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and

2. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1 (b)

Ernst & Young

Chris Lawton
Partner
Sydney
27 August 2013

# Top 20 Securityholders

for the year ended 30 June 2013

| RANK | NAME OF SECURITYHOLDER | NUMBER OF SECURITIES HELD AT 30 AUG 2013 | % |
|---|---|---|---|
| 1 | NATIONAL NOMINEES LIMITED | 59,121,501 | 11.66% |
| 2 | AUST EXECUTOR TRUSTEES SA LTD <TEA CUSTODIANS LIMITED> | 47,202,066 | 9.31% |
| 3 | J P MORGAN NOMINEES AUSTRALIA LIMITED | 46,485,258 | 9.17% |
| 4 | JP MORGAN NOMINEES AUSTRALIA LIMITED <CASH INCOME A/C> | 38,332,892 | 7.56% |
| 5 | MCNEIL NOMINEES PTY LIMITED | 21,653,533 | 4.27% |
| 6 | CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C> | 21,575,004 | 4.25% |
| 7 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 19,698,085 | 3.88% |
| 8 | BNP PARIBAS NOMS (NZ) LTD <DRP> | 15,431,035 | 3.04% |
| 9 | BNP PARIBAS NOMS PTY LTD <DRP> | 14,669,457 | 2.89% |
| 10 | MERCANTILE INVESTMENT COMPANY LTD | 14,104,177 | 2.78% |
| 11 | CITICORP NOMINEES PTY LIMITED | 10,993,294 | 2.17% |
| 12 | RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <BKCUST A/C> | 9,564,628 | 1.89% |
| 13 | MERCANTILE INVESTMENT COMPANY LTD | 9,470,823 | 1.87% |
| 14 | MIRRABOOKA INVESTMENTS LIMITED | 7,804,839 | 1.54% |
| 15 | BOND STREET CUSTODIANS LIMITED <MOSAIC SPECIAL SITUAT A/C> | 6,588,461 | 1.30% |
| 16 | GWYNVILL TRADING PTY LTD | 5,875,000 | 1.16% |
| 17 | CUSTODIAL SERVICES LIMITED <BENEFICIARIES HOLDING A/C> | 4,043,908 | 0.80% |
| 18 | BLUEFLAG HOLDINGS PTY LTD <THE BLUEFLAG A/C> | 4,000,000 | 0.79% |
| 19 | MRS MONIKA BATKIN <EST J S W BATKIN A/C> | 3,100,000 | 0.61% |
| 20 | EQUITY TRUSTEES LIMITED <EQT SGH PROPERTY INC FUND> | 2,327,477 | 0.46% |
| | **TOTAL** | **362,041,438** | **71.38%** |

**Range of securityholders**

| RANGE | % | NO OF HOLDERS |
|---|---|---|
| 1 to 1,000 | 5.25 | 194 |
| 1,001 to 5,000 | 18.81 | 695 |
| 5,001 to 10,000 | 20.22 | 747 |
| 10,001 to 100,000 | 48.36 | 1,787 |
| 100,001 and Over | 7.36 | 272 |
| **Total** | **100.00** | **3,695** |

# Investor Relations

for the year ended 30 June 2013

**Enquiries relating to Ingenia Communities Group (ASX code: INA) can be directed to the Link Market Services Investor Information line on 1300 554 474 (or from outside Australia +61 2 8280 7111). This service is available from 8:30am to 5:30pm (Sydney time) on all business days.**

## www.ingeniacommunities.com.au

You can visit the Ingenia Communities Group website to find information on the Group and its property portfolios. While visiting the website, all securityholders can access their investment details including holding balance and payment history. Past Annual Reports along with all ASX Announcements made by the Group are also available.

## Distribution Payments and Annual Taxation Statement

INA paid a distribution for the 2013 financial year. The 2012/2013 annual tax statement was issued to securityholders.

## 2013/2014 Securityholder Calendar

| | |
|---|---|
| Annual General Meeting | 19 November 2013 |
| 1H14 Results Release | February 2014 |
| FY14 Results Release | August 2014 |
| 2014 Annual Report | September 2014 |

## Privacy Policy

Ingenia Communities RE Limited is committed to ensuring the confidentiality and security of your personal information. The Ingenia Communities RE Limited Privacy Policy, detailing our handling of personal information, is available on our website

**www.ingeniacommunities.com.au**

## Complaints

Any securityholders wishing to register a complaint should direct it to Investor Relations in the first instance, at the Responsible Entity's address listed in this Report.

Ingenia Communities RE Limited is a member of an independent dispute resolution scheme, the Financial Ombudsman Service (FOS ). If a securityholder feels that a complaint remains unresolved or wishes it to be investigated further, FOS can be contacted as below:

By telephone: 1300 780 808

In writing: Financial Ombudsman Service
GPO Box 3, Melbourne VIC 3001

By email: info@fos.org.au
Website: www.fos.org.au

# Corporate Directory

for the year ended 30 June 2013

## Ingenia Communities Group

Ingenia Communities Management Trust
ARSN 122 928 410

Ingenia Communities Fund
ARSN 107 459 576

Ingenia Communities Holdings Limited
ACN 154 444 925

## Responsible Entity

Ingenia Communities RE Limited
ACN 154 565 990

## Registered Office

Level 5, 151 Castlereagh Street Sydney NSW 2000

Telephone: 1300 132 946
Facsimile: +61 2 9263 0500

Email: investor@ingeniacommunities.com.au
Website: www.ingeniacommunities.com.au

## Directors of INA (as at 30 August 2013)

J Hazel (Chairman)
A Heyworth
P Clark AM
R Morrison
S Owen

## Secretary

L Ralph
T Betts

## Unit Registry

**Link Market Services Limited**

Level 12, 680 George Street Sydney NSW 2000
Locked Bag A14 Sydney South NSW 1235

Telephone: 1300 554 474 (local call cost)
or from outside Australia: +61 2 8280 7111
Facsimile: +61 2 9287 0303

Email: registrars@linkmarketservices.com.au

## Auditors

**EY**

680 George Street Sydney NSW 2000

## Disclaimer

This report was prepared by Ingenia Communities Holdings Limited (ACN 154 444 925) and Ingenia Communities RE Limited (ACN 154 565 990) as responsible entity for Ingenia Communities Fund (ARSN 107 459 576) and Ingenia Communities Management Trust (ARSN 122 928 410) (together Ingenia Communities Group , INA or the Group). Information contained in this report is current as at 30 June 2013. This report is provided for information purposes only and has been prepared without taking account of any particular reader's financial situation, objectives or needs. Nothing contained in this report constitutes investment, legal, tax or other advice. Accordingly, readers should, before acting on any information in this report, consider its appropriateness, having regard to their objectives, financial situation and needs, and seek the assistance of their financial or other licensed professional adviser before making any investment decision. This report does not constitute an offer, invitation, solicitation or recommendation with respect to the subscription for, purchase or sale of any security, nor does it form the basis of any contract or commitment.



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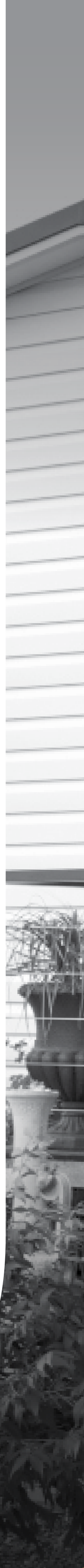


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