

## APPENDIX 4E

### Annual Financial Report

### Year ended 30 June 2012

**Name of Entity:** Ingenia Communities Holdings Limited ("INA"), a stapled entity comprising Ingenia Communities Holdings Limited ACN 154 444 925, Ingenia Communities Fund (formerly ING Real Estate Community Living Fund) ARSN 107 459 576, and Ingenia Communities Management Trust (formerly ING Real Estate Community Living Management Trust) ARSN 122 928 410.

Current period:	1 July 2011 - 30 June 2012
Previous corresponding period:	1 July 2010 - 30 June 2011

#### Results for announcement to the market

	2012	2011	change
	\$'000	\$'000	%
Revenues from Continuing operations	26,206	26,915	(3%)
Profit from ordinary activities after tax attributable to members	33,627	13,051	158%
Net profit for the period attributable to members	33,627	13,051	158%
Operating income from continuing operations	2,053	(1,846)	211%
Operating income	7,434	6,889	8%
Net asset value per security	\$0.34	\$0.26	32%
Distributions - current period			
Final Distribution	\$ 0.005	na	
Interim Distribution (paid)	-	na	
Distributions - previous period			
Final Distribution (paid)	na	-	
Interim Distribution (paid)	na	-	
Record date for determining entitlement to the distribution	5:00pm, 7 September 2012		
The Dividend and Distribution Reinvestment Plan is not operational for this distribution			

**Other significant information and commentary on results**

See attached ASX announcement

**For further details, please refer to the following attached documents:**

- Directors' report
- Audited financial report
- Results presentation and Media Release



Tania Betts  
Company Secretary

29 August 2012



**INGENIA COMMUNITIES HOLDINGS LIMITED**

**A.C.N. 154 444 925**

**ANNUAL REPORT**

**YEAR ENDED 30 JUNE 2012**

**[www.ingeniacommunities.com.au](http://www.ingeniacommunities.com.au)**

Registered Office: Level 6, 345 George Street, Sydney NSW 2000

# Ingenia Communities Holdings Limited

## Financial & Associated Reports

### Year ended 30 June 2012

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# Ingenia Communities Holdings Limited

## Directors' Report

### Year ended 30 June 2012

The directors of Ingenia Communities Holdings Limited (the "Company") present their report together with the Company's financial report for the year ended 30 June 2012 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 the Ingenia Communities Fund ("ICF" or the "Fund") and the Ingenia Communities Management Trust ("ICMT") (collectively, the "Trusts").

The Fund 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

### Executive directors

Simon Owen (Managing Director)	Appointed 24 November 2011
Greg Inkson	Appointed 24 November 2011; resigned 24 April 2012
Peter Day	Appointed 24 November 2011; resigned 24 April 2012

### 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 and 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.

#### *Philip Clark AM*

Mr Clark is a member of the J.P. Morgan Advisory Council and 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 to 2005. Prior to joining Minter Ellison, Mr Clark was a 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 a former director of IML.

# Ingenia Communities Holdings Limited

## Directors' Report

### Year ended 30 June 2012

#### **Amanda Heyworth**

Ms Heyworth serves as executive director of Playford Capital. 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 including SA Lotteries and the Phoenix Society.

#### **Simon Owen – Managing Director**

Mr Owen joined the former ING Real Estate Community Living 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 Ingenia Communities in-depth experience in the retirement sector and is currently the National President of the Retirement Villages Association (RVA), the peak industry advocacy group 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.

#### **Greg Inkson**

An executive director from the date of incorporation until 24 April 2012, which was prior to completion of the Internalisation.

#### **Peter Day**

An executive director from the date of incorporation until 24 April 2012, which was prior to completion of the Internalisation.

## 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 Committee		Remuneration & Nomination Committee	
	A	B	A	B	A	B
Jim Hazel	3	3	-	-	-	-
Philip Clark AM	1	1	-	-	-	-
Amanda Heyworth	2	2	-	-	-	-
Simon Owen	4	4	-	-	-	-
Greg Inkson	3	3	-	-	-	-
Peter Day	3	3	-	-	-	-

A: Meetings eligible to attend B: Meetings attended

## 1.3 Interests of directors

Securities in the Group held by directors as at 30 June 2012 were:

	Issued stapled securities	Performance quantum rights	Retention quantum rights
Jim Hazel	500,000	-	-
Philip Clark AM	90,151	-	-
Amanda Heyworth	200,000	-	-
Simon Owen	1,440,750	2,260,000	1,070,000

# Ingenia Communities Holdings Limited

## Directors' Report

### Year ended 30 June 2012

## 2. COMPANY SECRETARIES

### **Leanne Ralph**

Mrs Ralph was appointed to the part-time position of Company Secretary in April 2012. Mrs Ralph has over 21 years experience in chief financial officer and company secretarial roles for various publicly listed and unlisted entities. Mrs Ralph is a member of Chartered Secretaries Australia, Australian Institute of Company Directors and CPA Australia. Mrs 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 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 that 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 in place as at the end of the financial year, post Internalisation. The Board will continue 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 Management Trust, and Ingenia Communities Fund. The Trust and Fund 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 the Trust and the Fund, Ingenia Communities RE Limited is the holder of an Australian Financial Services Licence.

#### **(b) Compliance plans**

In accordance with the Corporations Act requirements, the responsible entity has registered Compliance Plans with ASIC. The Compliance Plans for the Group describe the procedures that the responsible entity will apply in operating the Trust and Fund to ensure compliance with the Corporations Act and the Constitutions.

The Board of the responsible entity is responsible for monitoring the Group's compliance with the Compliance Plan. Further details are provided under the section on risk management.

# Ingenia Communities Holdings Limited

## Directors' Report

### Year ended 30 June 2012

#### 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](http://www.ingeniacommunities.com.au)). In addition to the function prescribed by law, the Board has the following functions and 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 options 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 managing director ("MD").
- Approve the employment terms and conditions of the MD.
- Review and provide feedback on the performance of the MD.
- Approve the appointment of the MD's direct reports and oversee their performance and remuneration.
- Review management succession planning.
- Approve the level of delegated authority to the MD, via the Delegations and Authority 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 Delegation of Authority Policy.
- Recommending to securityholders the appointment of the external auditor.



# Ingenia Communities Holdings Limited

## Directors' Report

### Year ended 30 June 2012

#### ***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 Stock Exchange 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 Communication 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 managing director 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 the Fund and Trust. The responsible entity must exercise its powers and perform the obligations conferred on it under the Constitutions and the *Corporations Act 2001* and to 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 Australian Financial Services Licence 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.

#### ***(a) Terms of appointment***

Non-executive directors are appointed pursuant to formal letters of appointment which, among other things, sets 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.

## **Ingenia Communities Holdings Limited**

### **Directors' Report**

#### **Year ended 30 June 2012**

##### ***(b) Directors' interests***

Directors are required to keep the Board advised of any interest that may be in conflict with those of Ingenia Communities 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.

Ingenia Communities 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' stapled security holdings. Directors and their nominated related party security holdings, 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 Ingenia Communities 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 Ingenia Communities 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 three non-executive directors, and one executive director. The Boards of Ingenia Communities Holdings Limited and Ingenia Communities RE Limited 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) and Mr Simon Owen (Managing Director).

Mr Jim Hazel, Ms Amanda Heyworth and Mr Philip Clark are considered by the Board to be independent. Ingenia Communities 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 Ingenia Communities Group's current operations and stage of development.

Directors' details are listed on pages 1 to 2, including details of their other listed company directorships and experience.

##### ***(e) Chairman***

The role of Chairman and managing director 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 managing director 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.

# Ingenia Communities Holdings Limited

## Directors' Report

### Year ended 30 June 2012

#### **(f) Board diversity**

In appointing members to the new Ingenia Communities Group Board, consideration was 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 Ingenia Communities 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 not yet been adopted by the Board due to the Group only recently internalising, but this will be considered by the Board in the coming months. Once the Board adopts a diversity policy it will include measurable objectives for achieving gender diversity. However, 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 in the whole organisation: 60%
- The proportion of female employees in senior positions: 47%
- The proportion of female employees on the executive committee: 75%

#### **(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 managing director and input from the Chairman, and are distributed prior to the meeting together with supporting papers.

Standing items include the managing director'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 has only been in its current form, since Internalisation on 4 June 2012. The Board intends to review its performance, the performance of its Committees and that of individual directors at the appropriate intervals, likely to be commencing towards the mid-end of the 2013 calendar year. This timing will be approximately 12 months from Internalisation. The Board has already compiled a skill-matrix to identify potential skills 'gaps' as the operations of the Group grow in size and diversity. Any future appointment of a non-executive director is likely to be specifically from the property sector and/or a marketing background.

### **3.5 Board committees**

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

## Ingenia Communities Holdings Limited

### Directors' Report

#### Year ended 30 June 2012

The Board has established the following committees, and it is the intention of the Board to review 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 Ingenia Communities Group website ([www.ingeniacommunities.com.au](http://www.ingeniacommunities.com.au)).

#### **(a) Audit and Risk Committee**

The Board has established an Audit and Risk Committee, which assists the Board in fulfilling its governance and disclosure responsibilities. The Audit Committee has a written charter outlining the role and responsibility of the committee.

The purpose of the Committee 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 Committee has the following responsibilities.

#### *(i) Review of the Group's financial reports:*

- Review the Group's financial reports and commentary prepared by Management.
- Review any reports on the financial reports prepared 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.

#### *(ii) 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.

#### *(iii) 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.

## Ingenia Communities Holdings Limited

### Directors' Report

#### Year ended 30 June 2012

- Review of the internal compliance and control systems in relation to functions other than financial reporting.
- (iv) *Compliance*
- Review the adequacy of the Group's system for compliance with relevant laws, regulations, standards and codes.
- (v) *Risk management*
- The Committee shall be responsible for implementing and overseeing the Group's risk management policies.
  - In addition, the Committee shall:
    - Identify and assess the Group's material business risks;
    - Regularly review and update the Group's risk profile; and
    - Oversee the risk management policies and systems.

The Audit and Risk Committee consists of three non-executive directors, all of which are independent directors, and is chaired by an independent director, who is not chair of the Board. The chairman satisfies the test of independence.

The current members of the Audit and Risk Committee are Ms Amanda Heyworth (Chair), Mr Philip Clark and Mr Jim Hazel, in accordance with recommendation 2.1 of the ASX recommendations.

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

The external auditor will attend the annual general meeting and be available to answer securityholder questions about the conduct of the audit and the preparation and content of the audit report, accounting policies adopted by Ingenia Communities 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. The Remuneration and Nomination Committee has a written charter defining the role and responsibilities of the committee.

The Remuneration and Nomination Committee 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 Committee 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;

## Ingenia Communities Holdings Limited

### Directors' Report

#### Year ended 30 June 2012

- 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 managing director, 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; and

The Remuneration and Nomination Committee consists of three non-executive directors all of which 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 Remuneration and Nomination Committee are Mr Philip Clark (Chair), Ms Amanda Heyworth and Mr Jim Hazel.

Each member of the senior executive team, including the executive director, have 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 his or her entitlements to any rights under incentive plans.

Ingenia Communities Group aims to have a clear process for evaluating the performance of senior executives. The Board has delegated to the Remuneration and Nomination Committee the responsibility to oversee the annual performance evaluation of the Group's senior executives, but retains the performance evaluation of the managing director.

The evaluation for all executives will be based on specific criteria, including the business performance of the Company, 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".

### 3.6 Risk management

The Board is responsible for ensuring that sound risk management strategy and policies are in place. The Board has established an Audit and Risk Committee that has the delegated responsibility for identifying and overseeing major risks and ensuring that systems are in place to manage them.

In addition, the Committee:

- 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.

## Ingenia Communities Holdings Limited

### Directors' Report

#### Year ended 30 June 2012

Ingenia Communities 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 the Fund and Trust. The compliance officer is responsible for ensuring adequate internal systems and controls have been implemented to ensure compliance with the *Corporations Act 2001*, the Trusts' constitutions, the responsible entity's Australian Financial Services Licence, 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 Audit and Risk Committee; and acting on recommendations of the Audit and Risk Committee. Matters will be escalated to the Board of the responsible entity or ASIC when necessary.

The compliance officer has direct access to the Chair of the Audit and Risk Committee 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 Audit and Risk Committee 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.

#### **(a) Compliance plans**

Each of the Trusts has a formal compliance plan in place that has 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 the Fund and Trust;
- 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**

Our external auditors conduct annual audits on the Compliance Plan and report on:

- whether the responsible entity has complied with the compliance plans of the Trust and the Fund 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*;

## Ingenia Communities Holdings Limited

### Directors' Report

#### Year ended 30 June 2012

- 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) AUSTRAC

AUSTRAC may undertake a review of the responsible entity's compliance with the Anti-money Laundering laws at any time.

#### (c) Executive confirmations

In accordance with Ingenia Communities Group's legal obligations, Simon Owen (Managing Director or "MD") and Tania Betts (Chief Financial Officer or "CFO") have made the following certifications to the Board:

- Ingenia Communities Group's financial records have been properly maintained in accordance with Section 286 of the *Corporations Act 2001*;
- Ingenia Communities 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 Ingenia Communities 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 2012, nothing has come to the attention of the MD or CFO that would indicate any 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 Ingenia Communities 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 Ingenia Communities 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;



## Ingenia Communities Holdings Limited

### Directors' Report

#### Year ended 30 June 2012

- 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 Ingenia Communities Group in relation to confidential information they possess.

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

Ingenia Communities Group Securities Trading Policy was released to the Australian Securities Exchange in June 2012. Subject to necessary prior written consents being obtained, the Group's directors, executives and employees may trade in Ingenia Communities Group stapled securities ("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; and
- the annual general meeting or any extraordinary general meeting.

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 managing director for key executives, and the compliance officer 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 Ingenia Communities Group that is not generally available to the public.

The Group's Securities Trading Policy may be viewed on the Ingenia Communities Group website ([www.ingeniacommunities.com.au](http://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 Ingenia Communities Group 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;
- securityholder review sent 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 managing director'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 Ingenia Communities Group website ([www.ingeniacommunities.com.au](http://www.ingeniacommunities.com.au)).

## **Ingenia Communities Holdings Limited**

### **Directors' Report**

#### **Year ended 30 June 2012**

The Group has a continuous disclosure policy that includes a formal procedure for dealing with potentially price-sensitive information. The policy sets out how Ingenia Communities Group meets its disclosure obligations under ASX Listing Rule 3.1. Ingenia Communities Group policy is to lodge with the Australian Securities Exchange ("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.

Ingenia Communities 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. The securityholder review is sent to all securityholders.

Securityholders have the right to attend the Ingenia Communities 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 Ingenia Communities 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 managing director'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 Ingenia Communities Group website ([www.ingeniacommunities.com.au](http://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 ASX Guidance Note 8 and embraces the principles contained in ASIC guidance note titled "*Better Disclosure for Investors*".

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 ASX.

The Group has written policies and procedures on information disclosure 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.

# Ingenia Communities Holdings Limited

## Directors' Report

### Year ended 30 June 2012

#### 5. OPERATING AND FINANCIAL REVIEW

A summary of the Group's result for the financial year is:

	<b>2012</b>	<b>2011</b>
Profit/(Loss) from continuing operations (\$'000)	1,448	(5,603)
Net profit attributable to securityholders (\$'000)	33,627	13,051
Operating income from continuing operations (\$'000)	2,053	(1,846)
Distributions per security (cents)	-	-
Basic earnings per security from continuing operations (cents)	0.3	(1.3)
Basic earnings per security (cents)	7.6	3.0
Operating income from continuing operations per security (cents)	0.5	(0.4)
Operating income per security (cents)	1.7	1.6

The directors use the Group's operating income as an additional performance indicator as it more closely reflects the directors' assessment of the results of the ongoing business activities of the Group.

Operating income does not take into account certain items recognised in the Income Statement including unrealised gains or losses on the revaluation of the Group's properties and derivatives. Consequently, operating income is a less volatile measure of underlying performance than net profit.

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

	<b>2012</b>	<b>2011</b>
	<b>\$'000</b>	<b>\$'000</b>
Net profit attributable to security holders	33,627	13,051
Adjusted for:		
Net foreign exchange loss	249	503
Net loss on disposal of investment property	35	(2,256)
Net (gain)/loss on change in fair value of:		
Investment properties	(2,399)	2,189
Derivatives	(111)	2,149
Retirement village resident loans	284	(182)
Gain on revaluation of newly constructed retirement villages	5,124	2,743
Gain on internalisation	(2,758)	-
Amortisation of intangibles	215	-
Deferred income tax benefit	(34)	(1,389)
Profit from discontinued operations	(32,179)	(18,654)
Operating income from continuing operations	2,053	(1,846)
Operating income from discontinuing operations	5,381	8,735
Operating income	7,434	6,889

#### Financial position

- Look-through gearing of 52.0%.
- Net asset value per security of 34.3 cents.
- \$29.6m held in cash and the Australian debt facility subsequently refinanced to September 2015.

# Ingenia Communities Holdings Limited

## Directors' Report

### Year ended 30 June 2012

#### Operational highlights

##### *Garden Villages Rental*

- Occupancy at 83% which, represents an all time high since the Group took over Garden Villages management in September 2008.
- Operating income of \$7.0m, up 7.7%.
- Exchanged conditional contracts in June 2012 to sell Lovely Banks village in Victoria for 6.8% premium to book value.

##### *Garden Villages DMF Conversion Portfolio*

- Settled 51 units worth \$9.7m with a further 14 contracted and reserved.
- Operating income of \$3.9m, up from \$0.5m last year.
- Board approved the conversion of Cessnock Gardens village in New South Wales in June 2012, with first sales anticipated in early 2013.

##### *Settlers Lifestyle Portfolio*

- Occupancy at 96% and sales of \$12.1m completed during the year.
- Operating income of \$1.6m, down from \$2.8m last year due to shift in sales mix.
- Highly accretive acquisition of Ridge Estate village settled in July 2012 (IRR >50%) which complements the closely situated Cessnock Gardens conversion village.

##### *Overseas Portfolios – Discontinued Operations*

- In May 2012, entered into a conditional contract to sell the remaining US Seniors assets for US\$173.3m, a 2.1 cents per security uplift to book value. Settlement expected to occur in late 2012 with net proceeds of \$49.9m to be repatriated to Australia.
- NZ Students occupancy of 95% with active negotiations underway with local universities for new long term contracts expected in late 2013.
- New Zealand debt facility of NZ\$20.8m successfully refinanced for a further six months to March 2013.

## 6. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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 the Fund 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 both 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.

## **Ingenia Communities Holdings Limited**

### **Directors' Report**

#### **Year ended 30 June 2012**

Previously, the Trusts operated as a stapled entity known as ING Real Estate Community Living Group.

#### **7. EVENTS SUBSEQUENT TO REPORTING DATE**

On 13 July 2012, Ingenia Communities acquired Ridge Estate Village, a partially developed deferred management fee retirement village, in Gillieston Heights, NSW. The purchase price was \$2,025,000 and was funded from cash reserves.

On 28 August 2012, the Group refinanced its variable rate Australian dollar denominated bank debt facility, which was due to expire in March 2013. The new facility is a market competitive variable rate revolving debt facility of \$82.0m with Commonwealth Bank of Australia expiring 30 September 2015.

On 13 August 2012, the expiry date of the Bank of New Zealand debt facility, which funds the NZ Students portfolio, was extended by six months to 31 March 2013. All other terms and conditions remain unchanged.

#### **8. LIKELY DEVELOPMENTS**

Management are continuing to explore options to unlock value within the New Zealand Student portfolio, whilst the settlement of the United States Seniors sale remains on schedule for settlement in late 2012.

Overall, the Group will continue to pursue strategies aimed at growing its Australian seniors living communities business through acquisitions and development whilst maintaining discipline around capital management and allocation to drive securityholder returns via improved profitability, earnings per share and share price.

#### **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 an insurance policy that covers any loss that the Officers of the Company and its subsidiaries may suffer as a result of serving as Officer.

#### **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 32.

#### **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.

# Ingenia Communities Holdings Limited

## Directors' Report

### Year ended 30 June 2012

#### 13. MESSAGE FROM THE REMUNERATION AND NOMINATION COMMITTEE

Dear Securityholders

The Remuneration and Nomination Committee conducted an extensive review of the approach to executive remuneration as part of the preparation for Internalisation, which was effective from 4 June 2012. The Committee are focused on ensuring that remuneration aligns executive reward with; the delivery of key business goals and objectives; and with returns to securityholders, and are confident that the current approach achieves this aim.

##### 13.1 Performance and resulting remuneration outcomes for the 2012 year

The impact of Internalisation which came into effect on 4 June 2012, is that no short term incentive (STI) payments are payable by Ingenia Communities Group to executives in respect of the 2012 year. Any STI remuneration received by executives during 2012 was paid by ING Management Limited or its related parties, which was the employing entity prior to Internalisation.

Long term incentives in the form of performance rights were granted as part of Internalisation 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' rights is Total Securityholder Returns. The measurement period for the 'at risk' rights will be 3 years from 1 July 2012 to 30 June 2015.

##### 13.2 Remuneration changes

As part of the Internalisation process, the Chairman of the Board engaged external consultants to provide independent recommendations in relation to executive remuneration. These recommendations provided market benchmarking of executive remuneration and recommendations on base salary packages together with short term and long term incentive plans.

Details of the remuneration packages of executives were outlined in the Meeting Booklet provided to securityholders as part of Internalisation. At the extraordinary meeting held on 31 May 2012, securityholders approved the remuneration package of the managing director.

##### 13.3 Executive changes

Prior to Internalisation the executive team was employed by the responsible entity of the Fund, being ING Management Limited or its related parties. Following Internalisation, the executive team is now employed by Ingenia Communities Group and are disclosed within this report.

##### 13.4 Non-executive director remuneration

The remuneration of non-executive directors consists only of director fees. The maximum aggregate fee pool available to directors has not yet been established or approved due to the recent Internalisation. It is the intention that an amount will be put to securityholders for approval at the next Annual General Meeting ("AGM").

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

**Ingenia Communities Holdings Limited**  
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Yours faithfully

A handwritten signature in black ink, appearing to read "P. Marcus Clark". The signature is written in a cursive, flowing style.

Philip Marcus Clark AM

Chairman – Remuneration and Nomination Committee

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## Directors' Report

### Year ended 30 June 2012

#### 14. REMUNERATION REPORT (AUDITED)

##### 14.1 DETAILS OF KEY MANAGEMENT PERSONNEL

This Remuneration Report which forms part of the Directors' Report sets out information about the remuneration of the Group's key management personnel (KMP) for the year ended 30 June 2012. The KMP 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 non-executive director (NED) of the Group.

Prior to the Internalisation of the Group on 4 June 2012, the management of the Fund was conducted by ING Management Limited (IML) being the previous responsible entity. As such, there are no comparative figures or details for the KMP for the prior year. In addition, some KMP are identified as commencing with the Group on 4 June 2012, which is the effective date of Internalisation. Prior to this date, they were employed by IML.

The KMP that have been appointed as part of the Internalisation of the Group are:

	Position	
<b>Non-executive directors</b>		
Jim Hazel	Chairman	Appointed: 1 March 2012
Amanda Heyworth	Director Chairman of the Audit and Risk Committee	Appointed: 16 April 2012
Philip Clark AM	Director Chairman of the Remuneration and Nomination Committee	Appointed: 4 June 2012
<b>Executive directors</b>		
Simon Owen	Managing Director	Director appointment date: 24 November 2011 MD commenced: 4 June 2012
Greg Inkson	Director (prior to Internalisation)	Appointed: 25 November 2011, Resigned 24 April 2012
Peter Day	Director (prior to Internalisation)	Appointed: 25 November 2011, Resigned 24 April 2012
<b>Other executives</b>		
Tania Betts	Chief Financial Officer	Commenced: 14 May 2012
Nicole Fisher	Chief Operating Officer	Commenced : 4 June 2012

Prior to Internalisation, Simon Owen and Nicole Fisher were employed by IML.

There have been no changes to the KMP after the reporting date and before the date of signing this Directors' Report.

##### 14.2 REMUNERATION GOVERNANCE

###### (a) Remuneration Committee

The Board has established the Remuneration and Nomination Committee (the "Committee"), which is directly responsible for reviewing and recommending remuneration arrangements for directors, the managing director and senior executives who are direct reports of the managing director.



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#### Year ended 30 June 2012

The Committee was established on 5 June 2012 and comprises:

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

As a consequence of the Board size, the members of the Committee are the same as the non-executive directors of the Board.

The Committee 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 Committee 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 Committee also reviews and makes recommendations to the Board on incentive schemes.

The Committee 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 recommendations from the Committee. The Board also sets the aggregate remuneration of NEDs, which is then subject to securityholder approval.

#### **(b) External remuneration advisers**

During the year, the Board engaged Godfrey Remuneration Group Pty Ltd ("GRG") to provide independent recommendations in relation to remuneration of the executive roles within the Group as it transitioned from being an externally managed real estate investment trust ("REIT") to an independent ASX listed entity.

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 managing director.

For the provision of this advice and recommendations the advisers were commissioned by, engaged with, and addressed reports directly to the Chairman of the Board. 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. A declaration of independence from GRG was received by the Board prior to their engagement.

The remuneration consultants were paid \$49,000 for their assignment.

### **14.3 REMUNERATION OF KMP (EXCLUDING NON-EXECUTIVE DIRECTORS)**

#### **(a) Remuneration policy**

The Groups' 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.

## Ingenia Communities Holdings Limited

### Directors' Report

#### Year ended 30 June 2012

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 Group 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.

<b>Remuneration component</b>	<b>Link to Group performance</b>
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.  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.  Retention quantum rights (RQRs) – are aimed at incentivising key executives to remain with the business during the important transitional phase of Internalisation.  Performance quantum rights (PQRs) – are aimed at aligning executive and securityholder goals.

The tables below sets out summary information about the Group's earnings and movement in securityholder wealth for the five years to 30 June 2012:

	<b>30 June 2012</b>	<b>30 June 2011</b>	<b>30 June 2010</b>	<b>30 June 2009</b>	<b>30 June 2008</b>
Operating Income (\$000)	7,434	6,889	18,260	26,210	46,567
Profit from continuing operations (\$000)	1,448	(5,603)	(50,508)	(284,176)	(38,803)
EPS from continuing operations (cents)	0.3	(1.3)	(11.5)	(37.9)	(8.9)
NAV per security (cents)	34.3	25.9	24.9	40.0	94.0
Security price 30 June (cents)	19.5	11.5	5.0	5.0	45.0

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### Directors' Report

#### Year ended 30 June 2012

#### (c) Target mix of remuneration components

Executive remuneration packages include a mix of fixed remuneration, bonuses and equity-based remuneration. 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 ("TEC") of KMP around the 50<sup>th</sup> percentile range of direct 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, 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 (%)	
Managing Director	43.5%	13.1%	21.7%	21.7%	100.0%
Chief Financial Officer	57.1%	14.3%	14.3%	14.3%	100.0%
Chief Operating Officer	57.1%	14.3%	14.3%	14.3%	100.0%

#### (d) Total fixed remuneration

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 Committee reviews and makes recommendations to the Board in relation to fixed remuneration levels on an annual basis.

The table below details the current TFR for each of the executives:

Executive	Position	Total fixed remuneration (p.a.)
Simon Owen	Managing Director	\$400,000
Tania Betts	Chief Financial Officer	\$280,000
Nicole Fisher	Chief Operating Officer	\$280,000

In line with the recommendations from the remuneration consultants appointed to inform the Board, the fixed remuneration of Simon Owen is 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 may become entitled.

Further information on executive employment contracts is available in section 14.3(h).

#### (e) Short-term incentive scheme (STI)

The short-term incentive 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 ends on 30 June 2013 (Scheme Year), and where not expressly withdrawn the scheme will apply each financial year.

## Ingenia Communities Holdings Limited

### Directors' Report

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Initial participation in the scheme is completely at the discretion of the Board or its delegate from time to time, on behalf of the employer.

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 KPI's against which the employee's performance will be assessed during the year;
- The percentage weighting for each KPI;
- The measurement period for the KPIs;
- The KPI outcome measures that align with achieving each of the following:
  - Threshold performance;
  - On target performance; and
  - Stretch performance; and
  - 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 granted an STI opportunity to the executive KMP in relation to the year ending 30 June 2013. The maximum amount of this opportunity for each executive KMP is as follows:

- Simon Owen - \$120,000, being 30% of TFR
- Tania Betts - \$70,000, being 25% of TFR
- Nicole Fisher - \$70,000, being 25% of TFR

The quantum of the STI opportunity was determined based upon recommendations from the remuneration consultants.

The Board will structure the KPIs around both financial metrics, such as Operating Income, Earnings per Security and Operating Cashflows, and non-financial metrics around business performance, people and stakeholders. Full disclosure of the KPIs and executive performance against them will be provided as part of the FY13 Remuneration Report.

#### **(f) STI – termination of employment**

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

<b>Termination circumstance</b>	<b>STI awards</b>
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.

#### **(g) Long-term incentive scheme (LTI)**

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.

## Ingenia Communities Holdings Limited

### Directors' Report

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The scheme comprises two types of security rights, Retention Quantum Rights (RQRs) and Performance Quantum Rights (PQRs).

It is the Board's intention to use 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 maximum number of Quantum Rights that may be granted in the Scheme Year are 7,066,667. The initial Scheme Year commenced on 1 July 2012 and ends 30 June 2013, and thereafter on 30 June of each financial year.

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 Long-Term Incentive components of Simon Owen's remuneration were approved by securityholders at the Extraordinary General Meeting held on 31 May 2012.

#### (i) *Retention Quantum Rights (RQR)*

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 have been 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.

	<b>Grant date</b>	<b>Retention period</b>	<b>Vesting date</b>	<b>Vesting conditions</b>	<b>Value of RQRs</b>	<b>Number of RQRs</b>
Simon Owen	31 May 2012	2 years	31 May 2014	Remaining employed at vesting date	50% of annual remuneration in year 1, \$200,000	1,070,000
Tania Betts	14 May 2012	2 years	14 May 2014	Remaining employed at vesting date	25% of annual remuneration in year 1, \$70,000	374,000
Nicole Fisher	4 June 2012	2 years	4 June 2014	Remaining employed at vesting date	25% of annual remuneration in year 1, \$70,000	374,000

There are no circumstances where deferred quantum rights will be vested to these executives prior to the end of the retention period.

#### (ii) *Performance Quantum Rights (PQR)*

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 Total Securityholder Returns, ("TSR")). TSR is calculated as the percentage gain from an investment in Ingenia Communities securities over the vesting period, assuming that distributions are reinvested.

## Ingenia Communities Holdings Limited

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#### Year ended 30 June 2012

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:

<b>Where Group's actual TSR over the vesting period is:</b>	<b>Percentage of employee's PQRs that may vest in respect of the scheme year:</b>
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%

Vesting Period: 3 years from the commencement of the Scheme Year.

Vesting Conditions: Based on Group performance over the vesting period as measured by the TSR.

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

The value and number of PQRs granted to executives during the year ended 30 June 2012 were:

	<b>Value of PQRs</b>	<b>Number of PQRs</b>	<b>Vesting Date</b>
Simon Owen	50% of annual remuneration in year 1, \$200,000	2,260,000	30 June 2015
Tania Betts	25% of annual remuneration in year 1, \$70,000	791,000	30 June 2015
Nicole Fisher	25% of annual remuneration in year 1, \$70,000	791,000	30 June 2015

## Ingenia Communities Holdings Limited

### Directors' Report

#### Year ended 30 June 2012

#### (iii) LTI – termination of employment

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

<b>Termination circumstance</b>	<b>Unvested Quantum Rights</b>
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.

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.

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:

RQR – the Rights will lapse and an amount up to their value will be paid in cash.

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.

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:

RQR – the Rights will vest.

PQR – the Rights will be tested for vesting in accordance with the terms of Rights.

#### (h) 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	STI: eligible for an on-target annual bonus of up to 30% of the executive's total cost fixed annual remuneration. LTI: eligible for an on-target annual bonus of up to 50% of the executive's total cost of fixed annual remuneration, and a one-off retention bonus of up to 50% of the executive's total cost fixed annual remuneration.
Non-compete period	12 months.
Non-solicitation period	12 months.
Notice by Ingenia	12 months.
Notice by executive	12 months.
Treatment on termination	Payment in lieu of notice: Payment may be made in lieu of notice, which would include pro rata fixed remuneration and statutory entitlements. Treatment of Incentives: As per the outline provided in section 14.3(f) and 14.3(g).

## Ingenia Communities Holdings Limited

### Directors' Report

#### Year ended 30 June 2012

#### **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	STI: eligible for an on-target annual bonus of up to 25% of the executive's total cost fixed annual remuneration. LTI: eligible for an on-target annual bonus of up to 25% of the executive's total cost of fixed annual remuneration, and a one-off retention bonus of up to 25% of the executive's total cost fixed annual remuneration.
Non-compete period	12 months.
Non-solicitation period	12 months.
Notice by Ingenia	6 months.
Notice by executive	6 months.
Treatment on termination	Payment in lieu of notice: Payment may be made in lieu of notice, which would include pro rata fixed remuneration and statutory entitlements. Treatment of Incentives: As per the outline provided in section 14.3(f) and 14.3(g).

#### **Chief Operations Officer - Nicole Fisher**

Contract duration	Commenced 4 June 2012, open-ended.
Fixed remuneration	Total remuneration package includes fixed remuneration and superannuation.
Variable remuneration eligibility	STI: eligible for an on-target annual bonus of up to 25% of the executive's total cost fixed annual remuneration. LTI: eligible for an on-target annual bonus of up to 25% of the executive's total cost of fixed annual remuneration, and a one-off retention bonus of up to 25% of the executive's total cost fixed annual remuneration.
Non-compete period	12 months.
Non-solicitation period	12 months.
Notice by Ingenia	6 months.
Notice by executive	6 months.
Treatment on termination	Payment in lieu of notice: Payment may be made in lieu of notice, which would include pro rata fixed remuneration and statutory entitlements. Treatment of Incentives: As per the outline provided in section 14.3(f) and 14.3(g).

#### **14.4 REMUNERATION TABLES**

The following table outlines the remuneration provided to KMP excluding non-executive directors for the year ended 30 June 2012.

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



**Ingenia Communities Holdings Limited**  
**Directors' report**  
**Year ended 30 June 2012**

**REMUNERATION REPORT (AUDITED) (CONTINUED)**

<b>Key Management Personnel – Executive Remuneration</b>														
	Short-term						Other long-term	LTI <sup>(4)</sup>				Performance related		
	Salary	Non-monetary benefits	Other payments	Super-annuation benefits	STI <sup>(3)</sup>	Total Short-term	Long service leave	Performance quantum rights	Retention quantum rights	Termination benefits	Total	STI+LTI Percent of total	LTI Percent of total	
<b>Executive director</b>	\$	\$	\$	\$	\$	\$	\$	\$		\$	\$	%	%	
Simon Owen <sup>(1)</sup> <b>Senior executives</b>	Managing Director	22,562	-	-	2,031	-	24,593	-		8,157	-	32,750	25	25
Tania Betts <sup>(2)</sup>	Chief Financial Officer	31,786	-	-	2,861	-	34,647	-		4,108	-	38,755	11	11
Nicole Fisher <sup>(1)</sup>	Chief Operating Officer	15,722	-	-	1,415	-	17,137	-		2,471	-	19,608	13	13
<b>Total executive KMP</b>		<b>70,070</b>	<b>-</b>	<b>-</b>	<b>6,307</b>	<b>-</b>	<b>76,377</b>	<b>-</b>		<b>14,736</b>	<b>-</b>	<b>91,113</b>	<b>16</b>	<b>16</b>

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 current financial year.
4. No rights vested or lapsed during the year and no rights have vested since the end of the financial year.

# Ingenia Communities Holdings Limited

## Directors' report

### Year ended 30 June 2012

#### 14.5 NON-EXECUTIVE DIRECTORS REMUNERATION

##### (a) Directors' fees

The maximum aggregate fee pool available to NEDs has not yet been established or approved by securityholders. It is the intention that an amount will be put to securityholders for approval at the next AGM. Directors of the Group currently receive remuneration of \$70,000 per year and the Chairman of the Board receives \$150,000 per year.

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 other way other than cash benefits.

##### (b) Performance-based remuneration

NEDs do not receive any performance-based remuneration.

##### (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 non-executive directors for the year ended 30 June 2012.

Non-executive directors	Directors fees	Other	Total
Jim Hazel <sup>(1)</sup>	12,500	37,500	50,000
Amanda Heyworth <sup>(2)</sup>	5,833	8,750	14,583
Philip Clark <sup>(3)</sup>	5,833	-	5,833
Greg Inkson <sup>(4)</sup>	-	-	-
Peter Day <sup>(5)</sup>	-	-	-
Total non-executive KMP	24,166	46,250	70,416

- (1) Jim Hazel was appointed as director on 1 March 2012. During the year 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 non-executive director.
- (2) Amanda Heyworth was appointed as director on 16 April 2012. During the year, 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 non-executive director.
- (3) Philip Clark was appointed as director on 4 June 2012.
- (4) Greg Inkson was appointed as director on 25 November 2011 and resigned 24 April 2012. No fees were paid over this period.
- (5) Peter Day was appointed as director on 25 November 2011 and resigned 24 April 2012. No fees were paid over this period.

**Ingenia Communities Holdings Limited**  
**Directors' report**  
**Year ended 30 June 2012**


Signed in accordance with a resolution of the directors.

A handwritten signature in black ink, appearing to read 'J. Hazel', with a stylized flourish at the end.

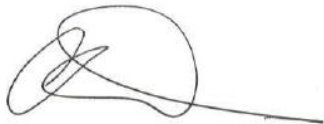
Jim Hazel  
Chairman  
Sydney  
29 August 2012

## **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 2012, 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  
29 August 2012

**Ingenia Communities Holdings Limited**  
**Consolidated Income Statement**  
**Year ended 30 June 2012**

	<b>Note</b>	<b>2012</b>	<b>2011</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>Revenue</b>			
Rental income		17,901	19,283
Accrued deferred management fee income		4,453	4,256
Other property income		2,991	2,908
Interest income		861	468
		<u>26,206</u>	<u>26,915</u>
<b>Other income</b>			
Net foreign exchange loss		(225)	(448)
Net gain/(loss) on disposal of investment properties		(35)	2,256
Net gain/(loss) on change in fair value of:			
Investment properties		2,399	(2,189)
Derivatives		111	(2,149)
Retirement village resident loans		(284)	182
Gain on internalisation	4	2,758	-
<b>Expenses</b>			
Property expenses		(17,474)	(19,154)
Finance expense	5	(8,538)	(9,398)
Responsible Entity fees	26	(2,006)	(1,836)
Amortisation of intangible assets	14	(215)	-
Other		(1,287)	(1,157)
		<u>1,410</u>	<u>(6,978)</u>
<b>Profit/(loss) from continuing operations before income tax</b>			
Income tax benefit	6	38	1,375
		<u>1,448</u>	<u>(5,603)</u>
<b>Profit/(loss) from continuing operations</b>			
Profit from discontinued operations	7	32,179	18,654
		<u>33,627</u>	<u>13,051</u>
<b>Net profit for the year</b>			
Attributable to securityholders of:			
Ingenia Communities Holdings Limited		(19,190)	-
Ingenia Communities Fund		44,083	3,197
Ingenia Communities Management Trust		8,735	9,854
		<u>33,627</u>	<u>13,051</u>

**Ingenia Communities Holdings Limited**  
**Consolidated Income Statement**  
**Year ended 30 June 2012**

	<b>Note</b>	<b>2012 Cents</b>	<b>2011 Cents</b>
Distributions per security		-	-
Basic earnings from continuing operations	3		
Per security		0.3	(1.3)
Per Company share		(4.4)	-
Basic earnings	3		
Per security		7.6	3.0
Per Company share		(4.3)	-
Diluted earnings from continuing operations	3		
Per security		0.3	(1.3)
Per Company share		(4.3)	-
Diluted earnings	3		
Per security		7.6	3.0
Per Company share		(4.3)	-

**Ingenia Communities Holdings Limited**  
**Consolidated Statement of Comprehensive Income**  
**Year ended 30 June 2012**

	<b>Note</b>	<b>2012</b>	<b>2011</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>Net profit for the year</b>		33,627	13,051
<b>Other comprehensive income/(expense):</b>			
Foreign currency translation differences arising during the year	19	3,216	(8,759)
Share-based payment transactions	19	15	-
<b>Total comprehensive income for the year net of tax</b>		<u>36,858</u>	<u>4,292</u>
Total comprehensive income for the year is attributable to:			
Ingenia Communities Holdings Limited		31,305	-
Ingenia Communities Fund		5,553	(7,399)
Ingenia Communities Management Trust		-	11,691
		<u>36,858</u>	<u>4,292</u>

**Ingenia Communities Holdings Limited**  
**Consolidated Balance Sheet**  
**As at 30 June 2012**

	Note	2012 \$'000	2011 \$'000
<b>Current assets</b>			
Cash and cash equivalents	8	29,561	14,855
Trade and other receivables	9	2,577	4,252
Derivatives	10	1,659	-
Assets of discontinued operations	7	95,324	10,047
		<u>129,121</u>	<u>29,154</u>
<b>Non-current assets</b>			
Trade and other receivables	9	354	1,297
Investment properties	11	327,632	344,490
Plant and equipment		769	309
Equity accounted investments	13	-	45,407
Intangible assets	14	585	-
		<u>329,340</u>	<u>391,503</u>
<b>Total assets</b>		<u>458,461</u>	<u>420,657</u>
<b>Current liabilities</b>			
Trade and other payables	15	8,241	19,597
Retirement village residents loans	1(s)	162,603	150,761
Borrowings	16	81,739	266
Derivatives	10	970	213
Liabilities of discontinued operations	7	45,698	5,675
		<u>299,251</u>	<u>176,512</u>
<b>Non-current liabilities</b>			
Trade and other payables	15	117	-
Borrowings	16	-	121,515
Derivatives	10	-	269
Deferred tax liabilities	17	7,921	8,047
		<u>8,038</u>	<u>129,831</u>
<b>Total liabilities</b>		<u>307,289</u>	<u>306,343</u>
<b>Net assets</b>		<u>151,172</u>	<u>114,314</u>
<b>Equity</b>			
Issued securities	18	490,044	490,044
Reserves	19	(17,009)	(20,240)
Accumulated losses	20	(321,863)	(355,490)
<b>Total equity</b>		<u>151,172</u>	<u>114,314</u>
<b>Attributable to securityholders of:</b>			
Ingenia Communities Holdings Limited			
Issued securities	18	6,000	-
Reserves	19	(17,009)	-
Accumulated losses	20	(19,190)	-
		<u>(30,199)</u>	<u>-</u>
Ingenia Communities Fund		172,611	114,848
Ingenia Communities Management Trust		8,761	(534)
		<u>151,172</u>	<u>114,314</u>
Net asset value per security		\$0.34	\$0.26



**Ingenia Communities Holdings Limited**  
**Consolidated Cash Flow Statement**  
**Year ended 30 June 2012**

	<b>Note</b>	<b>2012</b>	<b>2011</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>Cash flows from operating activities</b>	30		
Rental and other property income		26,619	30,270
Payment of management fees (including arrears)		(10,019)	(1,209)
Property and other expenses		(20,060)	(26,544)
Proceeds from resident loans		20,885	11,622
Repayment of resident loans		(5,977)	(2,951)
Distributions received from equity accounted investments		3,118	3,801
Interest received		862	471
Borrowing costs paid		(10,223)	(6,912)
Income taxes paid		(60)	-
Goods and services taxes recovered from investing and financing activities		7	85
		<u>5,152</u>	<u>8,633</u>
<b>Cash flows from investing activities</b>			
Purchase and additions of plant and equipment		(299)	-
Additions to investment properties		(2,106)	(7,759)
Proceeds/(costs) from sale of investment properties		(35)	12,738
Acquisition of subsidiary net of cash acquired	28b	2,268	-
Proceeds from sale of equity accounted investments	28b	29,940	-
Purchase of equity accounted investments		(702)	-
Return of capital from equity accounted investments		-	766
		<u>29,066</u>	<u>5,745</u>
<b>Cash flows from financing activities</b>			
Payments for derivatives		(1,060)	-
Payments for Internalisation		(1,228)	-
Termination of derivatives		-	(16,020)
Proceeds from borrowings		3,246	19,870
Repayment of borrowings		(17,951)	(22,806)
		<u>(16,993)</u>	<u>(18,956)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		17,225	(4,578)
Cash and cash equivalents at the beginning of the year		15,041	20,246
Effects of exchange rate fluctuations on cash held		546	(627)
Cash and cash equivalents at the end of the year	8	<u>32,812</u>	<u>15,041</u>

**Ingenia Communities Holdings Limited**  
**Statement of Changes in Equity**  
**Year ended 30 June 2012**

	Attributable to security holders					Total Equity \$'000
	Ingenia Communities Holdings Limited			Fund & ICMT \$'000	Total \$'000	
	Issued Capital \$'000	Reserves \$'000	Retained earnings \$'000			
<b>Carrying amounts at 1 July 2010</b>	-	-	-	-	110,022	110,022
Net profit for the year	-	-	-	-	13,051	13,051
Other comprehensive income	-	-	-	-	(8,759)	(8,759)
<b>Total comprehensive income for the year</b>	-	-	-	-	4,292	4,292
<b>Carrying amounts at 30 June 2011</b>	-	-	-	-	114,314	114,314
Net profit/(loss) for the year	-	-	(19,190)	(19,190)	52,817	33,627
Other comprehensive income	-	(17,009)	-	(17,009)	2,609	(14,400)
<b>Total comprehensive income for the year</b>	-	(17,009)	(19,190)	(36,199)	55,426	19,227
Transactions with equity holders in their capacity as equity holders						
Issue of securities	18	6,000	-	-	6,000	6,000
Capital distribution	18	-	-	-	(6,000)	(6,000)
		6,000	-	-	6,000	(6,000)
<b>Carrying amounts at 30 June 2012</b>		6,000	(17,009)	(19,190)	(30,199)	163,740
					163,740	133,541

# Ingenia Communities Holdings Limited

## Notes to the Financial Statements

### Year ended 30 June 2012

#### 1. Summary of significant accounting policies

##### (a) The Group

The Financial Report of Ingenia Communities Holdings Limited (the "Company") comprises the consolidated financial report of the Company and its controlled entities, including Ingenia Communities Fund ("ICF" or the "Fund") and Ingenia Communities Management Trust ("ICMT") (collectively, the "Trusts"). Both the Company and the Trusts are domiciled in Australia

The Fund 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 Stock Exchange, the number of shares in the Company and of 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:

- (a) the Company 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 the Company or either of the Trusts.

The Financial Report as at and for the year ended 30 June 2012 was authorised for issue by the directors on 29 August 2012.

##### (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 Trusts 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.

# Ingenia Communities Holdings Limited

## Notes to the Financial Statements

### Year ended 30 June 2012

#### 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 and this is its first financial report. In accordance with Accounting Standard AASB 3 *Business Combinations*, the stapling of the Company and the Trusts is regarded as a business combination. Under AASB 3, the stapling is accounted for as a reverse acquisition with the Fund "acquiring" the Company and the Company has subsequently been 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 for the period from incorporation to 30 June 2012 and the results of the Trusts from 1 July 2011. Comparative data reflects the results and financial position of the Trusts for the year ended 30 June 2011 and as at that date respectively.

##### (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.

# Ingenia Communities Holdings Limited

## Notes to the Financial Statements

### Year ended 30 June 2012

#### 1. Summary of significant accounting policies (continued)

##### (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 7.

##### (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.

# Ingenia Communities Holdings Limited

## Notes to the Financial Statements

### Year ended 30 June 2012

#### 1. Summary of significant accounting policies (continued)

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

Leases where the lessor retains substantially all the risk and benefits of ownership are classified as operating leases. For operating leases for which the Group is 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 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 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.

# Ingenia Communities Holdings Limited

## Notes to the Financial Statements

### Year ended 30 June 2012

#### 1. Summary of significant accounting policies (continued)

##### (n) 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.

For hedge accounting, hedges are classified as fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability; cash flow hedges where they hedge exposure to variability in cash flows that is attributable either to a particular risk associated with a recognised asset or liability or to a forecast transaction; or hedges of a net investment in a foreign operation.

Any gain or loss arising from measuring fair value hedges that meets the conditions for hedge accounting is recognised in the income statement. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the relevant financial instrument.

Any gain or loss arising on cash flow hedges, which hedge firm commitments and which qualify for hedge accounting, is recognised directly in equity. Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss.

Any gain or loss arising on hedges of a net investment in a foreign operation that qualify for hedge accounting is recognised directly in equity in foreign currency translation reserve. On disposal of the foreign operation, the cumulative amount of any such gains and losses is transferred to profit or loss.

For derivatives that do not meet the documentation requirements to qualify for hedge accounting and for the ineffective portion of qualifying hedges, any gains or losses arising from changes in fair value are recognised in the income statement.

Hedge accounting is discontinued when the hedge instrument expires, is sold, exercised, terminated or no longer deemed effective. Any cumulative gains or losses relating to the hedge that were previously recognised in equity are transferred to the income statement.

##### (o) 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 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.

# Ingenia Communities Holdings Limited

## Notes to the Financial Statements

### Year ended 30 June 2012

#### 1. Summary of significant accounting policies (continued)

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.

##### (p) 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 are recognised in the Company's income statement and reduce the carrying value of the investment in the consolidated financial statements.

##### (q) 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 is the period from Internalisation to 25 August 2012. The useful life of rental support is the period from Internalisation to 30 June 2013.

##### (r) Payables

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



# Ingenia Communities Holdings Limited

## Notes to the Financial Statements

### Year ended 30 June 2012

#### 1. Summary of significant accounting policies (continued)

##### (s) Retirement village residents' 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.

##### (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 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.

##### (u) 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.

##### (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.

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

##### (w) 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.

# Ingenia Communities Holdings Limited

## Notes to the Financial Statements

### Year ended 30 June 2012

#### 1. Summary of significant accounting policies (continued)

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 other 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.

#### **(x) Income tax**

##### **(i) Current income tax**

Under the current tax legislation, the Fund 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 foreign tax (including withholding tax) expected to be payable or recoverable by foreign 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.

# Ingenia Communities Holdings Limited

## Notes to the Financial Statements

### Year ended 30 June 2012

#### 1. Summary of significant accounting policies (continued)

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

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

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

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

##### (z) Pending Accounting Standards

AASB 9 *Financial Instruments* is applicable to annual reporting periods beginning on or after 1 January 2013. The Group has not early adopted this standard. It includes requirements for the classification and measurement of financial assets resulting from Phase 1 of the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement* (AASB 139 *Financial Instruments: Recognition and Measurement*). These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. It also requires that a portion of any change in fair value relating to the entity's own credit risk for financial liabilities measured at fair value utilising the fair value option to be separately presented in other comprehensive income, except when that would create an accounting mismatch. The Group is currently evaluating the impact of this standard.

AASB 12 *Disclosure of Interests in Other Entities* is applicable to annual reporting periods beginning on or after 1 January 2013. The Group has not early adopted this standard. It includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.

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 Company's financial report in future reporting periods.

# Ingenia Communities Holdings Limited

## Notes to the Financial Statements

### Year ended 30 June 2012

## 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 \$327,632,000 (2011:\$344,490,000) (refer note 11), and retirement village residents' loans with a carrying amount of \$162,603,000 (2011: \$150,761,000), which together represent the estimated fair value of the Group's interest in retirement villages. In addition, the carrying amount of the Fund's equity accounted investments of \$Nil (2011: Fund \$45,407,000 (refer note 13) also reflects investment properties carried at fair value. These carrying amounts reflect certain assumptions about expected future rentals, rent-free periods, operating costs and appropriate discount and capitalisation 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) 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.

#### (iii) 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 22 for assumptions used in determining the fair value.

#### (iv) 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.

#### (v) Valuation of assets acquired in business combinations

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

**Ingenia Communities Holdings Limited**  
**Notes to the Financial Statements**  
**Year ended 30 June 2012**

**2. Accounting estimates and judgements (continued)**

**(vi) Valuation of retirement village resident loans**

The fair value of the retirement village resident loans is calculated by reference to the initial loan amount plus the resident's share of any capital gains in accordance with their contracts less any deferred management fee income earned 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.

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

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

**3. Earnings per security**

	<b>2012</b>	<b>2011</b>
<b>(a) Per security</b>		
Profit/(loss) from continuing operations (\$'000)	1,448	(5,603)
Profit from discontinued operations (\$'000)	32,179	18,654
Weighted average number of securities outstanding (thousands):		
Issued securities	441,029	441,029
Dilutive securities:		
Performance quantum rights	354	-
Retention quantum rights	167	-
Weighted average number of issued and dilutive potential securities outstanding - thousands	<u>441,550</u>	<u>441,029</u>
Basic earnings per security from continuing operations (cents)	0.3	(1.3)
Basic earnings per security from discontinued operations (cents)	7.3	4.2
Basic earnings per security (cents)	7.6	3.0
Diluted earnings per security from continuing operations (cents)	0.3	(1.3)
Diluted earnings per security from discontinuing operations (cents)	7.3	4.2
Diluted earnings per stapled security (cents)	7.6	3.0
<b>(b) Per Company share</b>		
Loss attributable to securityholders (\$'000)	(19,190)	-
Weighted average number of securities outstanding (thousands):		
Issued securities	441,029	-
Dilutive securities:		
Performance quantum rights	354	-
Retention quantum rights	167	-
Weighted average number of issued and dilutive potential securities outstanding - thousands	<u>441,550</u>	<u>-</u>
Basic earnings per share (cents)	(4.4)	-
Diluted earnings per share (cents)	(4.3)	-

**Ingenia Communities Holdings Limited**  
**Notes to the Financial Statements**  
**Year ended 30 June 2012**

**4. Gain 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 the Fund 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:

	<b>Note</b>	<b>2012</b>	<b>2011</b>
		<b>\$'000</b>	<b>\$'000</b>
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)	(1,840)	-
		<u>2,758</u>	<u>-</u>

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

(b) ING Groep NV transferred its 10% equity (and 100% voting power) in the New Zealand Students portfolio to ICMT for no consideration. Refer note 28(b).

(c) ING Groep NV provided transitional services to the Group for the period from Internalisation to 25 August 2012. Refer note 14.

(d) ING Groep NV will provide office facilities to the Group for the period from Internalisation to 30 June 2013. Refer note 14.

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

**5. Finance expense**

	<b>2012</b>	<b>2011</b>
	<b>\$'000</b>	<b>\$'000</b>
Interest paid or payable	8,538	9,578
Less interest capitalised	-	(180)
	<u>8,538</u>	<u>9,398</u>

**Ingenia Communities Holdings Limited**  
**Notes to the Financial Statements**  
**Year ended 30 June 2012**

**6. Income tax expense**

	<b>Note</b>	<b>2012</b>	<b>2011</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>(a) Income tax benefit</b>			
Current tax		(4)	14
Decrease in deferred tax liabilities	17	(34)	(1,389)
		<u>(38)</u>	<u>(1,375)</u>
<b>(b) Reconciliation between tax expense and pre-tax net profit</b>			
Profit/(loss) before income tax		1,410	(6,978)
Income tax at the Australian tax rate of 30% (2011: 30%)		423	(2,093)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:			
Australian income		(461)	718
Income tax benefit		<u>(38)</u>	<u>(1,375)</u>

**7. Discontinued operations**

**(a) Details of discontinued operations**

On 23 November 2009, the ICF announced that it would cease to provide financial support to its 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.

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 provide student accommodation under a minimum rental guarantee to Victoria University of Wellington. Prior to Internalisation the Fund held a 90% interest in this investment.

The Group's investment in the United States Seniors Living portfolio (the Bristals) was classified as a discontinued operation at 31 December 2011. This investment comprises a 50% interest in five seniors living communities and a 100% interest in one community (Lynbrook), all located on Long Island, New York. On 23 May 2012, the Trusts announced that they had entered into a conditional contract for the sale of this portfolio for approximately US\$173.3 million. Settlement is conditional upon receiving all necessary United States regulatory and property level debt approvals, which are anticipated to be received in late 2012.

AASB5 (Non-current Assets Held for Sale and Discontinued Operations) requires, when a component of an entity is classified as a discontinued operation, comparative financial data to be restated in the Income Statements. Balance sheets and cash flow statements are not restated. Accordingly, comparative Income Statements and associated notes have been restated to reflect the United States Seniors Living portfolio being a discontinued operation.

**Ingenia Communities Holdings Limited**  
**Notes to the Financial Statements**  
**Year ended 30 June 2012**

**7. Discontinued operations (continued)**

**(b) Financial performance**

The financial performance of components of the Group disposed of or classified as discontinued operations at 30 June 2012 was:

	<b>Note</b>	<b>2012</b>	<b>2011</b>
		<b>\$'000</b>	<b>\$'000</b>
Revenue		3,748	6,626
Net gain on change in fair value of:			
- Borrowings		6,427	27,778
- Investment properties		725	(21,677)
Other income		1,235	206
Expenses		(3,608)	(4,837)
Share of net profit of equity accounted investments		28,300	10,622
<b>Profit from operating activities before income tax</b>		<b>36,828</b>	<b>18,718</b>
Income tax expense		(202)	(64)
<b>Profit from operating activities</b>		<b>36,626</b>	<b>18,654</b>
<b>Loss on sale of discontinued operations</b>		<b>(4,447)</b>	<b>-</b>
<b>Profit from discontinued operations for the year</b>		<b>32,179</b>	<b>18,654</b>

**(c) Cash flows**

The cash flows of components of the Group disposed of or classified as discontinued operations at 30 June 2012 were:

	<b>2012</b>	<b>2011</b>
	<b>\$'000</b>	<b>\$'000</b>
Net cash flow from operating activities	3,444	85
Net cash flows from investing activities:		
Proceeds on sale of discontinued operations	(20)	-
Acquisition of subsidiary net of cash acquired	2,268	-
Other	(702)	(340)
Net cash flow from financing activities	(150)	-
<b>Net cash flows from discontinued operations</b>	<b>4,840</b>	<b>(255)</b>



**Ingenia Communities Holdings Limited**  
**Notes to the Financial Statements**  
**Year ended 30 June 2012**

**7. Discontinued operations (continued)**

**(d) Assets and liabilities**

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

		<b>2012</b>	<b>2011</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>Assets</b>			
Cash and cash equivalents	8	3,251	186
Trade and other receivables		7,073	662
Investment properties		48,017	5,325
Equity accounted investments		36,983	3,874
<b>Total assets</b>		<b>95,324</b>	<b>10,047</b>
<b>Liabilities</b>			
Payables		2,509	114
Borrowings		42,962	5,561
Deferred tax liabilities		227	-
		<b>45,698</b>	<b>5,675</b>
<b>Net assets of disposal groups</b>		<b>49,626</b>	<b>4,372</b>

**(e) Details of disposals**

The Group disposed of investment properties within three US Student LLCs during the period for no consideration which had investment property carried at US\$6,672,000 and interest bearing liabilities of US\$6,672,000.

The Group also disposed a 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 and leaves the Group with a 100% interest in Lynbrook and 50% in 5 other properties located on Long Island, New York. 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.

**8. Cash and cash equivalents**

	<b>Note</b>	<b>2012</b>	<b>2011</b>
		<b>\$'000</b>	<b>\$'000</b>
Cash at bank and in hand	24	5,210	8,398
Short term deposits	24	24,351	6,457
		<b>29,561</b>	<b>14,855</b>
<b>Reconciliation to statements of cash flows</b>			
Cash and cash equivalents attributable to:			
Continuing operations		29,561	14,855
Discontinued operations		3,251	186
Cash at end of the year as per cash flow statement		<b>32,812</b>	<b>15,041</b>

**Ingenia Communities Holdings Limited**  
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**9. Trade and other receivables**

<b>Ingenia Communities Holdings Limited</b>		
<b>Note</b>	<b>2012</b>	<b>2011</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Current</b>		
Rental and other amounts due	24 106	116
Accrued income, prepayments and deposits	2,471	4,136
	<u>2,577</u>	<u>4,252</u>
<b>Non-current</b>		
Accrued income, prepayments and deposits	24 354	1,297

Rental and other amounts due are receivable within 30 days.

**10. Derivatives**

<b>Note</b>	<b>2012</b>	<b>2011</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Current assets</b>		
Foreign exchange options	24 1,659	-
<b>Current liabilities</b>		
Interest rate swap contracts	24 970	213
<b>Non-current liabilities</b>		
Interest rate swap contracts	24 -	269

**11. Investment properties**

**(a) Summary of carrying amounts**

	<b>2012</b>	<b>2011</b>
	<b>\$'000</b>	<b>\$'000</b>
Completed properties	325,962	342,820
Properties under construction	1,670	1,670
	<u>327,632</u>	<u>344,490</u>

**Ingenia Communities Holdings Limited**  
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**11. Investment properties (continued)**

**(b) Individual valuations and carrying amounts**

Property	Date of purchase	Cost to date \$'000	Latest external valuation		Carrying amount		Capitalisation rate	
			Date	Valuation \$'000	2012 \$'000	2011 \$'000	2012 %	2011 %
<b>Completed properties</b>								
<b><i>Garden Villages</i></b>								
Yakamia Gardens	Jun 04	5,403	Jun 11	3,870	3,100	3,870	10.0%	10.0%
Mardross Gardens	Jun 04	5,563	Jun 12	2,200	2,200	2,830	8.5%	10.3%
Seville Grove Gardens	Jun 04	4,475	Dec 10	3,100	3,560	3,410	10.0%	10.0%
Hertford Gardens	Jun 04	4,042	Jun 12	2,650	2,650	2,140	10.0%	10.0%
Carey Park Gardens	Jun 04	4,866	Jun 11	3,840	3,510	3,840	10.0%	10.0%
Jefferis Gardens	Jun 04	4,940	Dec 11	2,450	2,420	2,669	10.0%	10.0%
Cessnock Gardens	Jun 04	5,802	Dec 09	4,570	2,930	3,290	10.0%	10.0%
Claremont Gardens	Jun 04	4,258	Dec 11	3,690	3,520	3,520	10.0%	10.0%
Taloumbi Gardens	Jun 04	5,005	Dec 10	3,730	4,220	4,160	10.8%	10.3%
Devonport Gardens	Jun 04	4,002	Dec 09	2,350	2,940	3,220	10.0%	10.0%
Wheelers Gardens	Jun 04	4,328	Dec 11	3,520	3,740	2,768	10.0%	10.3%
Elphinwood Gardens	Jun 04	4,353	Dec 10	3,600	3,110	3,840	10.0%	10.0%
Glenorchy Gardens	Jun 05	4,141	Dec 11	3,130	3,239	3,350	10.0%	10.0%
Chatsbury Gardens	Jun 04	4,744	Dec 11	2,970	2,890	3,212	10.0%	10.0%
Grovedale Gardens	Jun 05	4,912	Dec 10	3,400	3,290	3,200	10.3%	10.3%
Horsham Gardens	Jun 04	4,432	Jun 12	3,100	3,100	3,280	9.8%	10.0%
Lovely Banks Gardens	Jun 05	5,594	Dec 09	3,750	2,830	2,649	9.8%	10.0%
Sea Scape Gardens	Jun 04	4,476	Jun 11	4,060	4,180	4,060	10.8%	10.0%
Marsden Gardens	Jun 05	10,308	Dec 10	7,300	8,000	8,680	10.5%	10.0%
Coburns Gardens	Jun 04	4,282	Dec 09	2,350	2,560	2,380	10.0%	10.0%
Brooklyn Gardens	Jun 04	4,143	Dec 09	2,500	2,150	1,680	8.5%	10.5%
Oxley Gardens	Jun 04	4,385	Jun 11	2,720	2,630	2,720	10.0%	10.0%

**Ingenia Communities Holdings Limited**  
**Notes to the Financial Statements**  
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**11. Investment properties (continued)**

Property	Date of purchase	Cost to date \$'000	Latest external valuation		Carrying amount		Capitalisation rate	
			Date	Valuation \$'000	2012 \$'000	2011 \$'000	2012 %	2011 %
Townsend Gardens	Jun 04	4,735	Jun 12	3,250	3,250	2,830	9.8%	10.0%
St Albans Park Gardens	Jun 04	5,042	Jun 12	3,400	3,400	2,840	9.8%	10.0%
Swan View Gardens	Jan 06	7,813	Dec 10	6,130	5,480	6,210	10.6%	10.0%
Taree Gardens	Dec 04	4,600	Jun 11	2,990	2,230	2,768	10.0%	10.0%
<b>US Seniors</b>								
Lynbrook, New York	Dec 07	27,773	Dec 09	23,667	-	21,130	7.5%	7.3%
<b>Garden Villages DMF Conversions</b>								
Forest Lake Gardens	Nov 05	13,506	Jun 11	10,124	11,346	10,124	16.8%	16.6%
South Gladstone Gardens	Nov 05	7,955	Jun 11	9,344	11,707	9,044	11.8%	22.9%
Rockhampton Gardens	Nov 05	10,311	Dec 11	10,929	11,826	10,770	14.9%	15.1%
<b>Settlers</b>								
Lakeside	Apr 07	69,707	Jun 11	79,099	79,255	79,099	13.0%	13.5%
Noyea Park	Apr 07	2,471	Dec 10	741	991	741	14.0%	14.0%
Meadow Springs	Apr 07	20,895	Jun 11	17,472	17,899	17,472	14.0%	14.0%
Ridgewood	Apr 07	85,231	Jun 11	105,024	105,809	105,024	13.0%	13.3%
<b>Total completed properties</b>		<u>368,493</u>		<u>347,020</u>	<u>325,962</u>	<u>342,820</u>		
<b>Property under construction</b>								
<b>Garden Villages</b>								
Lovely Banks Gardens - land	Jun 05	862	Dec 09	310	310	310		
<b>Settlers</b>								
Meadow Springs	Apr 07	2,470	Dec 10	1,500	1,360	1,360		
<b>Total properties under construction</b>		<u>3,332</u>		<u>1,810</u>	<u>1,670</u>	<u>1,670</u>		
<b>Total all investment properties</b>		<u>371,825</u>		<u>348,830</u>	<u>327,632</u>	<u>344,490</u>		

**Ingenia Communities Holdings Limited**  
**Notes to the Financial Statements**  
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**11. 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(o). 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 reporting date.

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

The Garden Villages Deferred Management Fee ("DMF") Conversion villages started converting from a rental to a deferred management fee model from January 2011. The discount rate reflects a combination of development risk on vacant units and DMF from both occupied and vacant units. Over time, the Garden Villages DMF Conversion properties' discount rate will likely revert towards Settlers' discount rates as project risk diminishes.

Lynbrook has been reclassified as a discontinued operation with the rest of the United States Seniors segment from 31 December 2011.

**(c) Movements in carrying amounts**

	<b>2012</b>	<b>2011</b>
	<b>\$'000</b>	<b>\$'000</b>
Carrying amount at beginning of year	344,490	352,823
Exchange rate fluctuations	-	(5,309)
Additions to existing property	1,873	7,340
Disposals	-	(10,482)
Transferred to discontinued operations	(21,130)	-
Net change in fair value	2,399	118
Carrying amount at end of year	<u>327,632</u>	<u>344,490</u>

**12. Plant and equipment**

	<b>2012</b>	<b>2011</b>
	<b>\$'000</b>	<b>\$'000</b>
Plant and equipment	1,330	989
Less: Accumulated depreciation	(561)	(680)
	<u>769</u>	<u>309</u>

**Movements in carrying amount**

Carrying amount at beginning of year	309	228
Additions	343	204
Depreciation	117	(123)
Carrying amount at end of year	<u>769</u>	<u>309</u>

**Ingenia Communities Holdings Limited**  
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**13. Equity accounted investments**

**(a) Details of investments**

Name	Principal activity	Ownership interest	
		2012	2011
CSH - INGRE LLC (1)	Real estate investment	-	50%
INA NZ Subsidiary Trust No 1	Real estate investment	-	-

(1) This investment is now classified as a discontinued operation. The Group's shares of its assets and liabilities are not included in the figures below from the date of its reclassification, being 31 December 2011. The Group's share of its results is not included in the figures below for both 2012 and 2011 which have been restated as required by AASB5 (Non-current Assets Held for Sale and Discontinued Operations). Refer note 7.

	2012	2011
	\$'000	\$'000
<b>(b) Share of assets and liabilities</b>		
Total assets	-	272,783
Total liabilities	-	(227,376)
Net assets	-	45,407

**14. Intangible assets**

	2012	2011
	\$'000	\$'000
<b>Transitional services</b>		
At initial cost, being fair value	600	-
Accumulated amortisation	(200)	-
	400	-
<b>Rental support</b>		
At initial cost, being fair value	200	-
Accumulated amortisation	(15)	-
	185	-
<b>Total intangible assets</b>	585	-

These intangible assets form 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 require their recognition at their fair value at the date of Internalisation. Refer note 4.

**15. Trade and other payables**

	2012	2011
	\$'000	\$'000
<b>Current liabilities</b>		
Trade and other payables	7,849	19,238
Employee liabilities	392	359
	8,241	19,597
<b>Non-current liabilities</b>		
Employee liabilities	117	-

**Ingenia Communities Holdings Limited**  
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**16. Borrowings**

	<b>Note</b>	<b>2012</b>	<b>2011</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>Current liabilities</b>			
	24		
Bank debt	(a)	81,739	-
Bonds	(b)	-	266
		<u>81,739</u>	<u>266</u>
<b>Non-current liabilities</b>			
Bank debt	(a)	-	96,161
Bonds	(b)	-	25,354
		<u>-</u>	<u>121,515</u>

**(a) Bank debt**

The Australian dollar denominated bank debt of \$81,739,000 (2011: \$96,161,000) is a variable rate facility expiring in March 2013. The main financial covenants to be maintained include:

- ◆ Loan to value ratios of 65% for completed rental villages and 50% for deferred management fee villages and properties under construction;
- ◆ Total leverage ratio (calculated on a look-through basis) of less than 85%, reducing to 80% from 1 January 2012; and
- ◆ Interest cover ratio of net income from mortgaged properties (including distributions from foreign assets) to facility interest expense of at least 1.4.
- ◆ The Group may not make distributions without prior consent of the bank (unless pursuant to a distribution reinvestment plan approved by the bank) until:
  - Following a capital raising, the loan to value ratio is not more than 50% and the interest cover ratio is at least 1.75; or
  - Without a capital raising and the loan to value ratio is not more than 40% and the interest cover ratio is at least 1.75.

The carrying value of investment property net of resident liabilities at reporting date for the Group's Australian properties pledged as security is \$165,029,000 (2011: \$172,599,000).

After reporting date, this finance facility has been refinanced. Refer note 31.

**(b) Bonds**

This comprises two bonds whose terms exceed five years. The bonds are secured against a United States property with a carrying value of \$27,966,000 (2011: \$21,130,000).

**Ingenia Communities Holdings Limited**  
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**17. Deferred tax liabilities**

	<b>2012</b>	<b>2011</b>
	<b>\$'000</b>	<b>\$'000</b>
The balance comprises temporary differences attributable to:		
Investment properties	7,921	8,047
Deferred tax benefit recognised in the income statement in respect of deferred tax liabilities is attributable to temporary differences arising from:		
Investment properties	(34)	(1,389)
Deductible temporary differences for which no deferred tax asset has been recognised	98,536	117,383

**18. Issued securities**

**(a) Carrying values**

	<b>2012</b>	<b>2011</b>
	<b>\$'000</b>	<b>\$'000</b>
At beginning of year	490,044	490,044
Issued during the year:		
On Internalisation	6,000	-
Capital distribution on Internalisation	(6,000)	-
At end of year	490,044	490,044
The closing balance is attributable to the securityholders of:		
Ingenia Communities Holdings Limited	6,000	-
Ingenia Communities Fund	480,693	486,693
Ingenia Communities Management Trust	3,351	3,351
	490,044	490,044

**(b) Number of issued securities**

	<b>2012</b>	<b>2011</b>
	<b>thousands</b>	<b>thousands</b>
At beginning of year	441,029	441,029
At end of year	441,029	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.



**Ingenia Communities Holdings Limited**  
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**19. Reserves**

	<b>2012</b>	<b>2011</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Foreign currency translation reserve</b>		
Balance at beginning of year	(20,240)	(11,481)
Translation differences arising during the year	3,216	(8,759)
Balance at end of year	<u>(17,024)</u>	<u>(20,240)</u>
<b>Share-based payment reserve</b>		
Balance at beginning of year	-	-
Share-based payment transactions	15	-
Balance at end of year	<u>15</u>	<u>-</u>
<b>Total reserves at end of year</b>	<u>(17,009)</u>	<u>(20,240)</u>
The closing balance is attributable to the securityholders of:		
Ingenia Communities Holdings Limited	(17,009)	-
Ingenia Communities Fund	-	(19,680)
Ingenia Communities Management Trust	-	(560)
	<u>(17,009)</u>	<u>(20,240)</u>

The foreign currency translation reserve records exchange differences arising from the translation of the financial statements of foreign subsidiaries. It is also used to record the effect of hedging net investments in foreign operations.

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 22.

**20. Retained earnings**

	<b>2012</b>	<b>2011</b>
	<b>\$'000</b>	<b>\$'000</b>
Balance at beginning of year	(355,490)	(368,541)
Net profit for the year	33,627	13,051
Balance at end of year	<u>(321,863)</u>	<u>(355,490)</u>
The closing balance is attributable to the securityholders of:		
Ingenia Communities Holdings Limited	(19,190)	-
Ingenia Communities Fund	(308,082)	(352,165)
Ingenia Communities Management Trust	5,410	(3,325)
	<u>(321,863)</u>	<u>(355,490)</u>

**Ingenia Communities Holdings Limited**  
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**21. Commitments**

Commitments for capital expenditure on investment property contracted but not provided for at reporting date amounted to \$455,500 (2011: nil), all payable within one year.

The Group has entered into a non-cancellable operating lease for its Brisbane office. The lease has a remaining life of 2 years.

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

	<b>2012</b>	<b>2011</b>
	<b>\$'000</b>	<b>\$'000</b>
Within one year	95	-
Later than one year but not later than five years	95	-
	<u>190</u>	<u>-</u>

**22. 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:

	<b>2012</b>	<b>2011</b>
	<b>thousands</b>	<b>thousands</b>
<b>PQRs</b>		
Outstanding at beginning at year	-	-
Granted during the year	3,842	-
Outstanding at end of year	<u>3,842</u>	<u>-</u>
Exerciseable at end of year	-	-
Weighted average remaining contractual life of outstanding rights (years)	<u>3.0</u>	<u>-</u>
<b>RQRs</b>		
Outstanding at beginning at year	-	-
Granted during the year	1,818	-
Outstanding at end of year	<u>1,818</u>	<u>-</u>
Exerciseable at end of year	-	-
Weighted average remaining contractual life of outstanding rights (years)	<u>1.9</u>	<u>-</u>

## Ingenia Communities Holdings Limited

### Notes to the Financial Statements

#### Year ended 30 June 2012

### 22. Share-based payment transactions (continued)

The fair values of the rights granted during the current year have been 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
<b>PQRs</b>			
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
<b>RQRs</b>			
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	2	2	2
Fair value of each right	\$0.171	\$0.186	\$0.186

In determining the volatility factor, reference has been 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 \$14,736 (2011: nil).

### 23. 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.

**Ingenia Communities Holdings Limited**  
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**23. Capital management (continued)**

The actual capital structure at a point in time is the product of a number of factors, many of which are market driven and to various degrees outside of the control of the Group, particularly the impact of revaluations 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 2012, the Leverage Ratio was 72.8%, compared to 82.4% at 30 June 2011, calculated as follows:

	<b>2012</b>	<b>2011</b>
	<b>\$'000</b>	<b>\$'000</b>
Total consolidated liabilities	307,289	306,343
Plus share of liabilities of equity accounted investments	99,784	227,376
Total look-through liabilities	407,073	533,719
Total consolidated assets	458,461	420,657
Less equity accounted investments	(36,983)	(45,407)
Plus share of assets of equity accounted investments	137,314	272,783
Total look-through assets	558,792	648,033
Leverage ratio	72.8%	82.4%

In addition, the Group monitors the ratio of debt to total assets ("Gearing Ratio"), calculated on a look-through basis. At 30 June 2012, the Gearing Ratio was 52.0%, compared to 69.3% at 30 June 2011, calculated as follows:

	<b>2012</b>	<b>2011</b>
	<b>\$'000</b>	<b>\$'000</b>
Total consolidated borrowings	124,701	127,342
Less cash & cash equivalents (including associates)	(34,300)	(20,180)
Net consolidated debt	90,401	107,162
Plus share of debt of equity accounted investments	97,725	235,035
Total look-through debt	188,126	342,197
Total consolidated assets	458,461	420,657
Less cash & cash equivalents	(32,812)	(15,041)
Less retirements village residents loans	(162,603)	(150,761)
Less equity accounted investments	(36,983)	(49,281)
Plus share of assets of equity accounted investments	137,314	293,425
Less cash and cash equivalents of equity accounted investments	(1,488)	(5,139)
Total look-through assets	361,889	493,860
Gearing ratio	52.0%	69.3%

# Ingenia Communities Holdings Limited

## Notes to the Financial Statements

### Year ended 30 June 2012

#### 24. 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 2012, after taking into account the effect of interest rate swaps, approximately 70% of the Group's borrowings are at a fixed rate of interest (30 June 2011: ).

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

**Ingenia Communities Holdings Limited**  
**Notes to the Financial Statements**  
**Year ended 30 June 2012**

**24. Financial instruments (continued)**

**(c) Interest rate risk exposure**

The Group's exposure to interest rate risk at reporting date was:

<b>30 June 2012</b>	<b>Floating interest rate</b>	<b>Fixed interest maturing in:</b>			<b>Total</b>
		<b>Less than 1 year</b>	<b>1 to 5 years</b>	<b>More than 5 years</b>	
<b>Principal amounts \$'000</b>					
<b><i>Financial assets</i></b>					
Cash at bank	5,210	-	-	-	5,210
Short term deposits	24,351	-	-	-	24,351
<b><i>Financial liabilities</i></b>					
Bank debt denominated in AUD	81,739	-	-	-	81,739
Bank debt denominated in NZD	16,287	-	-	-	16,287
Other external debt denominated in USD	-			26,675	26,675
Interest rate swaps:					
- denominated in AUD; Fund pays fixed rate	(60,000)	60,000	-	-	-

The Group's exposure to interest rate risk and the effective interest rates on financial instruments at the end of the previous financial year was:

<b>30 June 2011</b>	<b>Floating interest rate</b>	<b>Fixed interest maturing in:</b>			<b>Total</b>
		<b>Less than 1 year</b>	<b>1 to 5 years</b>	<b>More than 5 years</b>	
<b>Principal amounts \$'000</b>					
<b><i>Financial assets</i></b>					
Cash at bank	8,398	-	-	-	8,398
Short term deposits	6,457	-	-	-	6,457
<b><i>Financial liabilities</i></b>					
Bank debt denominated in AUD	96,161	-	-	-	96,161
Bonds denominated in USD	-	266	1,250	24,104	25,620
Interest rate swaps:					
- denominated in AUD; Fund 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.

**(d) Interest rate sensitivity analysis**

The impact of an increase or decrease in average interest rates of 1% (100 basis points) at reporting date, with all other variables held constant, is illustrated in the tables below. This analysis is based on the interest rate risk exposures in existence at balance sheet date. As the 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).

**Ingenia Communities Holdings Limited**  
**Notes to the Financial Statements**  
**Year ended 30 June 2012**

**24. Financial instruments (continued)**

**(i) Increase in average interest rates of 1%**

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

	Effect on profit after tax Higher/(lower)	
	2012	2011
	\$'000	\$'000
Variable interest rate instruments denominated in:		
Australian dollars	(1,247)	(1,273)

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

	Effect on profit after tax Higher/(lower)	
	2012	2011
	\$'000	\$'000
Fixed interest rate instruments denominated in:		
Australian dollars	293	973

**(ii) Decrease in average interest rates of 1%**

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

	Effect on profit after tax Higher/(lower)	
	2012	2011
	\$'000	\$'000
Variable interest rate instruments denominated in:		
Australian dollars	1,247	1,273

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

	Effect on profit after tax Higher/(lower)	
	2012	2011
	\$'000	\$'000
Fixed interest rate instruments denominated in:		
Australian dollars	(298)	(979)

**(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.

**Ingenia Communities Holdings Limited**  
**Notes to the Financial Statements**  
**Year ended 30 June 2012**

**24. Financial instruments (continued)**

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 the Group's United States subsidiaries and equity accounted investments, whose functional currency is not the Australian dollar.

	<b>Net foreign currency asset/(liability)</b>	
	<b>2012</b>	<b>2011</b>
	<b>\$'000</b>	<b>\$'000</b>
United States dollars	2,310	4,065
New Zealand dollars	8	3
	2,318	4,068

**(g) Foreign exchange sensitivity analysis**

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

**(i) Effect of appreciation in Australian dollar of 10%:**

	<b>Effect on profit after tax Higher/(lower)</b>	
	<b>2012</b>	<b>2011</b>
	<b>\$'000</b>	<b>\$'000</b>
Foreign exchange risk exposures denominated in:		
United States dollars	(231)	(407)

**(ii) Effect of depreciation in Australian dollar of 10%:**

	<b>Effect on profit after tax Higher/(lower)</b>	
	<b>2012</b>	<b>2011</b>
	<b>\$'000</b>	<b>\$'000</b>
Foreign exchange risk exposures denominated in:		
United States dollars	231	407

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.



## **Ingenia Communities Holdings Limited**

### **Notes to the Financial Statements**

#### **Year ended 30 June 2012**

#### **24. Financial instruments (continued)**

##### **(h) Foreign exchange derivatives held**

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

At balance sheet 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 gain for the year ended was \$111,000 (2011: loss 2,149,000).

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 result in a higher profit after tax of \$3.5m and a depreciation of 10% would result in a lower profit after tax of \$2.3m.

The Group did not hold any foreign exchange derivatives at 30 June 2011.

##### **(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.

**Ingenia Communities Holdings Limited**  
**Notes to the Financial Statements**  
**Year ended 30 June 2012**

**24. Financial instruments (continued)**

**(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 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 residents' loans are classified as current liabilities, as required by Accounting Standards, because the Group does not have an unconditional right to defer settlement to more than twelve months after reporting date.

	<b>2012</b>			<b>Total</b>
	<b>Less than 1 year \$'000</b>	<b>1 to 5 years \$'000</b>	<b>More than 5 years \$'000</b>	
Trade & other payables	8,241	-	-	8,241
Retirement village residents loans	162,603	-	-	162,603
Borrowings	98,026	-	26,675	124,701
	<u>268,870</u>	<u>-</u>	<u>26,675</u>	<u>295,545</u>
		<b>2011</b>		
Trade & other payables	19,597	-	-	19,597
Retirement village residents loans	150,761	-	-	150,761
Borrowings	10,607	110,194	31,526	152,327
	<u>180,965</u>	<u>110,194</u>	<u>31,526</u>	<u>322,685</u>

**Ingenia Communities Holdings Limited**  
**Notes to the Financial Statements**  
**Year ended 30 June 2012**

**24. Financial instruments (continued)**

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.

	2012			Total \$'000
	Less than 1 year \$'000	1 to 5 years \$'000	More than 5 years \$'000	
<b>Liabilities</b>				
Derivative liabilities - net settled	970	-	-	970

The contractual maturities of the Group's derivative financial liabilities at 30 June 2011, on the same basis, were:

	2011			Total \$'000
	Less than 1 year \$'000	1 to 5 years \$'000	More than 5 years \$'000	
<b>Liabilities</b>				
Derivative liabilities - net settled	261	112	-	373

**(k) Other financial instrument risk**

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

	Effect on profit after tax Higher/(lower)	
	2012 \$'000	2011 \$'000
Increase in market prices of investment properties of 10%	(16,000)	(14,700)
Decrease in market prices of investment properties of 10%	16,000	14,700

These effects are largely offset by corresponding changes in the fair value of the Group's investment properties.

The effect on equity would be the same as the effect on profit.

**Ingenia Communities Holdings Limited**  
**Notes to the Financial Statements**  
**Year ended 30 June 2012**

**24. Financial instruments (continued)**

**(I) 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 residents' 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.

	2012			Total \$'000
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	
<b>Financial assets</b>				
Derivatives	-	1,659	-	1,659
<b>Financial liabilities</b>				
Retirement village residents' loans	-	-	162,603	162,603
Derivatives	-	970	-	970
	-	970	162,603	163,573

The following tables present the Group's financial instruments that were measured and recognised at fair value at 30 June 2011.

	2011			Total \$'000
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	
<b>Financial liabilities</b>				
Retirement village residents' loans	-	-	150,761	150,761
Derivatives	-	482	-	482
	-	482	150,761	151,243

**Ingenia Communities Holdings Limited**  
**Notes to the Financial Statements**  
**Year ended 30 June 2012**

**24. Financial instruments (continued)**

The following table presents the changes in the Group's level 3 instruments for both the current and previous financial year.

	<b>2012</b>	<b>2011</b>
	<b>Retirement</b>	<b>Retirement</b>
	<b>village</b>	<b>village</b>
	<b>residents'</b>	<b>residents'</b>
	<b>loans</b>	<b>loans</b>
	<b>Liabilities</b>	<b>Liabilities</b>
	<b>\$'000</b>	<b>\$'000</b>
Opening balance	150,761	140,945
Net (gain)/loss on change in fair value of resident loans	284	(182)
Accrued deferred management fee income, net of cash collected	(3,654)	(3,074)
Proceeds from resident loans	20,885	15,178
Repayment of resident loans	(5,977)	(2,106)
Other	304	-
Closing balance	<u>162,603</u>	<u>150,761</u>

The current market value of the independent living units is an input to the valuation of retirement village residents' loans. Changing the value used for this input by an increase of 10% would increase the fair value of these loans by \$16,000,000 (2011: \$14,700,000).

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.

**25. Auditor's remuneration**

	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
Amounts received or receivable by Ernst & Young for:		
Audit or review of the Financial Reports	406,603	332,220
Other audit related services	33,020	6,338
	<u>439,623</u>	<u>338,558</u>

**26. 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.

**Ingenia Communities Holdings Limited**  
**Notes to the Financial Statements**  
**Year ended 30 June 2012**

**26. Related parties (continued)**

**(b) Fees of the responsible entity and its related parties**

	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
ING Management Limited:		
Asset management fees	2,006,044	1,836,014
Fees waived	(2,499,536)	-
	<u>(493,492)</u>	<u>1,836,014</u>

Fees paid to ICRE have been eliminated on consolidation.

The responsible entity 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:

	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
Current trade payables	-	10,513,449

These are included in current trade payables in the balance sheet.

**(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 4.

**(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)	Appointed 27 March 2012
Philip Clark AM	Appointed 4 June 2012
Amanda Heyworth	Appointed 16 April 2012
Simon Owen (Managing Director)	Appointed 25 November 2011
Greg Inkson	Appointed 24 November 2011; resigned 24 April 2012
Peter Day	Appointed 24 November 2011; resigned 24 April 2012

The names of the directors of IML, and their dates of appointment or resignation if they were not directors for all of the period from 1 July 2011 to 4 June 2012, are:

Michael Coleman (Chairman)	Appointed 1 July 2011
Hein Brand	
Philip Clark AM	Resigned 4 June 2012
Michael Easson AM	
Scott MacDonald	Resigned 13 July 2011

**Ingenia Communities Holdings Limited**  
**Notes to the Financial Statements**  
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**26. Related parties (continued)**

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	
Nicole Fisher	Chief Operating Officer
Tania Betts	Chief Financial Officer; appointed 14 May 2012
Denis Hickey	IML Chief Executive Officer; resigned 31 August 2011
Danny Agnoletto	IML Chief Financial Officer; resigned 31 August 2011
Greg Inkson	IML Chief Executive Officer; appointed 1 September 2011
Peter Day	IML Chief Financial Officer; appointed 1 September 2011
Sarah Wiesener	IML Group General Counsel; appointed 1 September 2011

Remuneration of key management personnel was:

	Note	2012 \$	2011 \$
Directors fees		70,416	-
Salaries and other short-term benefits		70,070	-
Short-term incentives		-	-
Superannuation benefits		6,306	-
Long service leave		-	-
Long term incentives	22	14,736	-
		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:

	2012	2011
Jim Hazel		
Held at the beginning of the financial year	-	-
Acquisitions	500,000	-
Held at the end of the financial year	500,000	-
Philip Clark		
Held at the beginning of the financial year	90,151	90,151
Acquisitions	-	-
Held at the end of the financial year	90,151	90,151
Amanda Heyworth		
Held at the beginning of the financial year	-	-
Acquisitions	200,000	-
Held at the end of the financial year	200,000	-
Simon Owen		
Held at the beginning of the financial year	367,600	367,600
Acquisitions	1,073,150	-
Held at the end of the financial year	1,440,750	367,600

There were no distributions received or receivable from the Group by any key management person in either financial year.

**Ingenia Communities Holdings Limited**  
**Notes to the Financial Statements**  
**Year ended 30 June 2012**

**26. Related parties (continued)**

Performance quantum rights held by each key management person were:

	<u>2012</u>	<u>2011</u>
Simon Owen		
Held at the beginning of the financial year	-	-
Granted	2,260,000	-
Held at the end of the financial year	<u>2,260,000</u>	-
Nicole Fisher		
Held at the beginning of the financial year	-	-
Granted	791,000	-
Held at the end of the financial year	<u>791,000</u>	-
Tania Betts		
Held at the beginning of the financial year	-	-
Granted	791,000	-
Held at the end of the financial year	<u>791,000</u>	-

Retention quantum rights held by each key management person were:

	<u>2012</u>	<u>2011</u>
Simon Owen		
Held at the beginning of the financial year	-	-
Granted	1,070,000	-
Held at the end of the financial year	<u>1,070,000</u>	-
Nicole Fisher		
Held at the beginning of the financial year	-	-
Granted	374,000	-
Held at the end of the financial year	<u>374,000</u>	-
Tania Betts		
Held at the beginning of the financial year	-	-
Granted	374,000	-
Held at the end of the financial year	<u>374,000</u>	-



**Ingenia Communities Holdings Limited**  
**Notes to the Financial Statements**  
**Year ended 30 June 2012**

**27. Company financial information**

Summary financial information about the Company is:

	<b>2012</b>
	<b>\$'000</b>
Current assets	50
Total assets	6,635
Current liabilities	30
Total liabilities	30
Shareholders' equity:	
Issued securities	6,000
Reserves	15
Retained earnings	590
Total shareholders' equity	<u>6,605</u>
Profit from continuing operations	590
Profit from discontinued operations	-
Net profit attributable to shareholders	590
Total comprehensive income	605

As this is the Company's first financial report, there is no comparative data. The Company's results 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 \$81,739,000 at 30 June 2012.

**Ingenia Communities Holdings Limited**  
**Notes to the Financial Statements**  
**Year ended 30 June 2012**

**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):

Name	Country of residence	Ownership interest	
		2012 %	2011 %
Bridge Street Trust	Australia	100	100
Browns Plains Road Trust	Australia	100	100
Casuarina Road Trust	Australia	100	100
Edinburgh Drive Trust	Australia	100	100
Garden Villages Management Trust	Australia	100	100
INA CC Holdings Pty Ltd	Australia	100	-
INA CC Pty Ltd	Australia	100	-
INA Community Living Lynbrook Trust	Australia	100	100
INA Community Living Oak Tree Subsidiary Trust No.1	Australia	100	100
INA Community Living Oak Tree Subsidiary Trust No.2	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	-
INA Kiwi Communities Pty Ltd	Australia	100	-
INA Kiwi Communities Subsidiary Trust No. 1	Australia	100	100
INA Management Pty Ltd	Australia	100	-
INA Real Estate CC Trust No. 1	Australia	100	-
INA Regency Co Pty Ltd	Australia	100	-
INA Settlers Co Pty Ltd	Australia	100	-
INA Sunny Communities Pty Ltd	Australia	100	-
INA Sunny Trust	Australia	100	100
Ingenia Communities RE Limited	Australia	100	-
Jefferis Street Trust	Australia	100	100
Lovett Street Trust	Australia	100	100
Regency Operations Trust	Australia	100	100
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
Taylor Street (1) Trust	Australia	100	100
Taylor Street (2) Trust	Australia	100	100
IGC NZ Student Holdings Ltd	New Zealand	100	-
INA NZ Subsidiary Trust No 1 <sup>(1)</sup>	New Zealand	100	-

**Ingenia Communities Holdings Limited**  
**Notes to the Financial Statements**  
**Year ended 30 June 2012**

**28. Subsidiaries (continued)**

Name	Country of residence	Ownership interest	
		2012 %	2011 %
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	100
ING Community Living II LLC	United States of America	100	100
ING Community Living LLC	United States of America	100	100
ING US Students No. 1, LLC	United States of America	100	100
ING US Students No. 2, LLC	United States of America	100	100
ING US Students No. 3, LLC	United States of America	100	100
ING US Students No. 4, LLC	United States of America	100	100
ING US Students No. 5, LLC	United States of America	100	100
ING US Students No. 6, LLC	United States of America	100	100
ING US Students No. 7, LLC	United States of America	100	100
ING US Students No. 8, LLC	United States of America	100	100
ING US Students No. 9, LLC	United States of America	100	100
ING US Students No. 10, LLC	United States of America	100	100
ING US Students No. 11, LLC	United States of America	100	100
ING US Students No. 12, LLC	United States of America	100	100
ING US Students No. 13, LLC	United States of America	100	100
ING US Students No. 14, 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 ICF has a 90% economic interest. Refer note 13(a).

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

**(b) Acquisition of subsidiary**

As noted above, 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

**Ingenia Communities Holdings Limited**  
**Notes to the Financial Statements**  
**Year ended 30 June 2012**

**28. Subsidiaries (continued)**

The purchase consideration compares to net assets acquired as follows:

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

The net inflow of cash resulting from the acquisition was:

	<b>\$'000</b>
Purchase consideration:	
Cash paid	-
Cash included in net assets	<u>2,268</u>
Inflow of cash	<u>2,268</u>

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 Groups 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 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.

**29. 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 rental villages that are moving to a deferred management fee structure comprise the DMF Conversion segment; and the deferred management fee properties comprise the Settlers 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".

**Ingenia Communities Holdings Limited**  
**Notes to the Financial Statements**  
**Year ended 30 June 2012**

**29. Segment information (continued)**

	<b>2012</b>	<b>2011</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>(b) Segment revenue</b>		
Revenues from external customers:		
Garden Villages	19,023	21,643
DMF Conversion	1,325	-
Settlers	4,996	4,804
Total segment revenue	<u>25,344</u>	<u>26,447</u>
Interest income	861	468
Total revenue	<u>26,205</u>	<u>26,915</u>
<b>(c) Segment result</b>		
Garden Villages	7,000	7,214
DMF Conversion	3,927	-
Settlers	1,603	2,822
Total segment result	<u>12,530</u>	<u>10,036</u>
Interest income	861	468
Net foreign exchange loss	(249)	(448)
Net gain/(loss) on disposal of investment properties	(35)	2,256
Net gain/(loss) on change in fair value of:		
Investment properties	2,399	(2,189)
Derivatives	111	(2,149)
Retirement village residents' loans	(284)	182
Gain on internalisation	2,758	-
Finance costs	(8,538)	(9,398)
Responsible entity's fees and expenses	(2,006)	(1,836)
Other expenses	(814)	(1,157)
Loss on revaluation of newly constructed retirement villages	(5,124)	(2,743)
Income tax benefit	38	1,375
Other	16	-
Profit/(loss) from continuing operations	<u>1,448</u>	<u>(5,603)</u>
<b>(d) Segment assets</b>		
Garden Villages	128,610	124,270
DMF Conversion	3,234	-
Settlers	224,639	205,015
Total segment assets	<u>356,483</u>	<u>329,285</u>
Discontinued operations	95,325	79,681
Unallocated	6,653	11,691
	<u>458,461</u>	<u>420,657</u>

**Ingenia Communities Holdings Limited**  
**Notes to the Financial Statements**  
**Year ended 30 June 2012**

**29. Segment information (continued)**

	<b>2012</b>	<b>2011</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>(e) Other information</b>		
Net gain on change in fair value of investment property:		
Garden Villages	1,136	(50)
DMF Conversion	(2,706)	-
Settlers	(829)	(2,139)
	<u>(2,399)</u>	<u>(2,189)</u>
Additions to investment properties and equity accounted investments:		
Garden Villages	1,501	1,669
DMF Conversion	-	-
Settlers	372	5,671
	<u>1,873</u>	<u>7,340</u>

**30. Notes to the cash flow statement**

**(a) Reconciliation of profit to net cash flow from operating activities**

	<b>2012</b>	<b>2011</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Net profit for the year</b>	<u>33,627</u>	<u>13,051</u>
Adjustments for:		
Unrealised foreign exchange loss	225	653
Net (gain)/loss on disposal of investment properties	35	(2,256)
Loss on disposal of equity accounted investments	3,969	-
Net (gain)/loss on change in fair value of:		
Investment properties - continuing	(2,399)	(612)
Investment properties - discontinued	(246)	(1,673)
Derivatives	(111)	2,149
Borrowings -discontinued	(6,922)	-
Retirement village residents' loans	284	(182)
Excess of distributions received from equity accounted investments over share of profits		
Continuing	-	(11,342)
Discontinued	(26,089)	4,105
Deferred income tax expense		
Continuing	34	(1,389)
Discontinued	70	-
Gain on internalisation	(2,758)	-
Amortisation of intangibles	215	-
Share based payments expense	15	-
Other non-cash items	706	-
Operating profit for the year before changes in working capital	<u>655</u>	<u>2,504</u>
Changes in working capital:		
Increase in receivables	(735)	(1,956)
Increase in retirement village residents' loans	11,557	8,675
Decrease in other payables	(6,324)	(590)
<b>Net cash provided by operating activities</b>	<u>5,153</u>	<u>8,633</u>

**Ingenia Communities Holdings Limited**  
**Notes to the Financial Statements**  
**Year ended 30 June 2012**

**30. Notes to the cash flow statement (continued)**

**(a) Non-cash financing and investing activities**

As described in note 4, a capital distribution by the Fund was applied towards the issue of shares in the Company to unitholders of the Trusts (other than foreign resident unitholders).

**31. Subsequent events**

On 13 July 2012, Ingenia Communities acquired Ridge Estate Village, a partially developed deferred management fee retirement village, in Gillieston Heights, NSW. The purchase price was \$2,025,000 and was funded from cash reserves.

On 28 August 2012, the Group refinanced its variable rate Australian dollar denominated bank debt facility, which was due to expire in March 2013. The new facility is a market competitive variable rate revolving debt facility of \$82.0m with Commonwealth Bank of Australia expiring 30 September 2015.

On 13 August 2012, the expiry date of the Bank of New Zealand debt facility, which funds the NZ Students portfolio, was extended by six months to 31 March 2013. All other terms and conditions remain unchanged.

**Ingenia Communities Holdings Limited**  
**Directors' Declaration**  
**Year ended 30 June 2012**

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 2012 are in accordance with the *Corporations Act 2001*, including:
    - (i) giving a true and fair view of its financial position as at 30 June 2012 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, 29 August 2012



## **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 2012, the consolidated income statement, consolidated statement of comprehensive income, the statement of changes in equity and the consolidated cash flow statement for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

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

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

### ***Auditor's responsibility***

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

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

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

## **Independence**

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

## **Opinion**

In our opinion:

- a. the financial report of Ingenia Communities Holdings Limited is in accordance with the Corporations Act 2001, including:
  - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 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 20 to 31 of the directors' report for the year ended 30 June 2012. 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 2012, complies with section 300A of the Corporations Act 2001.



Ernst & Young



Chris Lawton  
Partner  
Sydney  
29 August 2012



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

**ANNUAL REPORT  
YEAR ENDED 30 JUNE 2012**

[www.ingeniacommunities.com.au](http://www.ingeniacommunities.com.au)

Registered Office: Level 6, 345 George Street, Sydney NSW 2000

**Ingenia Communities Fund & Ingenia Communities Management Trust**  
**Financial & Associated Reports**  
Year ended 30 June 2012

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

## Ingenia Communities Fund & Ingenia Communities Management Trust Directors' Report Year ended 30 June 2012

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 the Fund was identified as the parent for preparing consolidated financial reports. 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.

From 4 June 2012 Ingenia Communities RE Limited ("ICRE"), a wholly owned subsidiary of Ingenia Holdings Limited (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
Simon Owen (Managing Director)	Appointed 25 November 2011
Greg Inkson	Appointed 25 November 2011; resigned 24 April 2012
Peter Day	Appointed 25 November 2011; resigned 24 April 2012

### Principal activity

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

### Operating and financial review

A summary of the Trusts' result for the financial year is:

	Ingenia Communities Fund		Ingenia Communities Management Trust	
	2012	2011	2012	2011
Net profit for the year (\$'000)	29,124	13,051	8,736	9,854
Distributions per unit (cents)	-	-	-	-
Basic and diluted earnings from continuing operations per unit (cents)	(0.6)	(1.3)	0.4	1.5
Basic and diluted earnings per unit (cents)	6.6	3.0	2.0	2.2

## **Ingenia Communities Fund & Ingenia Communities Management Trust Directors' Report Year ended 30 June 2012**

### **Significant changes in the state of affairs**

On 4 June 2012, management of the Trusts was internalised and the stapled entity known as Ingenia Communities Group (consisting of ICH and both 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 the Fund which was applied towards the issue of shares in ICH to unitholders of the Trusts (other than foreign resident unitholders);
- ◆ the change of the responsible entity of both Trusts from ING Management Limited to ICRE; and
- ◆ the stapling of each share in ICH to each unit in each Trust to form the new stapled securities of Ingenia Communities Group.

Previously, the Trusts operated as a stapled entity known as ING Real Estate Community Living Group.

### **Events subsequent to reporting date**

On 13 July 2012, Ingenia Communities acquired Ridge Estate Village, a partially developed deferred management fee retirement village, in Gillieston Heights, NSW. The purchase price was \$2,025,000 and was funded from cash reserves.

On 28 August 2012, ICF refinanced its variable rate Australian dollar denominated bank debt facility, which was due to expire in March 2013. The new facility is a market competitive variable rate revolving debt facility of \$82.0m with Commonwealth Bank of Australia expiring 30 September 2015.

On 13 August 2012, the expiry date of the Bank of New Zealand debt facility, which funds the NZ Students portfolio, was extended by six months to February 2013. All other terms remained unchanged.

### **Likely developments**

Management are continuing to explore options to unlock value within the New Zealand Student portfolio, whilst the settlement of the United States Seniors sale remains on schedule for settlement in late 2012.

Overall, the Trusts will continue to pursue strategies aimed at growing its Australian seniors living communities business through acquisitions and development whilst maintaining discipline around capital management and allocation to drive security holder returns via improved profitability, earnings per share and share price.

### **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.

**Ingenia Communities Fund & Ingenia Communities Management Trust**  
**Directors' Report**  
 Year ended 30 June 2012

**Interests of directors of the responsible entity**

Units in each Trust held by directors of the responsible entity as at 30 June 2012 were:

	<b>Number of units</b>	<b>Performance quantum rights</b>	<b>Retention quantum rights</b>
Simon Richard Owen	1,440,750	2,260,000	1,070,000
Amanda Elizabeth Heyworth	200,000	-	-
Jim Hazel	500,000	-	-
Philip Clark AM	90,151	-	-

**Other information**

Fees paid to the responsible entity and its associates, and the number of units in each Trust held by the responsible entity and its associates as at the end of the financial year; are set out in note 24 in the financial report.

**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 4.

**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  
 29 August 2012

## **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 2012, 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.

A stylized, handwritten signature of the Ernst & Young firm.

Ernst & Young

A handwritten signature of Chris Lawton, consisting of a large, stylized initial 'C' followed by a horizontal line.

Chris Lawton  
Partner  
29 August 2012



**Ingenia Communities Fund & Ingenia Communities Management Trust**  
**Consolidated Income Statements**  
Year ended 30 June 2012

	Note	Ingenia Communities Fund		Ingenia Communities Management Trust	
		2012	2011	2012	2011
		\$'000	\$'000	\$'000	\$'000
<b>Revenue</b>					
Rental income		17,015	19,283	17,901	19,283
Deferred management fee		4,045	4,256	4,453	4,256
Other property income		2,748	2,908	2,980	2,908
Interest income		1,244	468	85	79
		<u>25,052</u>	<u>26,915</u>	<u>25,419</u>	<u>26,526</u>
<b>Other income</b>					
Other Income		234	-	8	-
Net foreign exchange gain/(loss)		(225)	(448)	(123)	81
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		(35)	2,256	-	-
Net gain/(loss) on change in fair value of:					
Investment properties		2,636	(2,189)	4,948	11,327
Derivatives		111	(2,149)	-	-
Retirement village residents' loans		(322)	182	(284)	182
Gain on internalisation	4	439	-	786	-
<b>Expenses</b>					
Property expenses		(15,876)	(19,154)	(25,948)	(30,150)
Finance costs	5	(8,521)	(9,398)	(4,897)	(2,047)
Responsible entity's fees and expenses	24	(1,888)	(1,836)	(572)	(379)
Other		(1,439)	(1,157)	(428)	(161)
<b>Profit/(loss) from continuing operations before income tax</b>					
		(2,841)	(6,978)	1,843	5,379
Income tax benefit	6	158	1,375	38	1,389
<b>Profit/(loss) from continuing operations</b>					
		(2,683)	(5,603)	1,881	6,768
Profit from discontinued operations	7	31,807	18,654	6,855	3,086
<b>Net profit for the year</b>					
		<u>29,124</u>	<u>13,051</u>	<u>8,736</u>	<u>9,854</u>
Attributable to unit holders of:					
Ingenia Communities Fund		23,571	3,197	-	-
Ingenia Communities Management Trust		5,553	9,854	8,736	9,854
		<u>29,124</u>	<u>13,051</u>	<u>8,736</u>	<u>9,854</u>

**Ingenia Communities Fund & Ingenia Communities Management Trust**  
**Consolidated Income Statements**  
Year ended 30 June 2012

	Note	Ingenia Communities Fund		Ingenia Communities Management Trust	
		2012 Cents	2011 Cents	2012 Cents	2011 Cents
Distributions per unit		-	-	-	-
Basic and diluted earnings per unit from continuing operations	3	(0.6)	(1.3)	0.4	1.5
Basic and diluted earnings per unit	3	6.6	3.0	2.0	2.2

**Ingenia Communities Fund & Ingenia Communities Management Trust**  
**Consolidated Statements of Comprehensive Income**  
Year ended 30 June 2012

	Note	Ingenia Communities Fund		Ingenia Communities Management Trust	
		2012	2011	2012	2011
		\$'000	\$'000	\$'000	\$'000
<b>Net profit for the year</b>		29,124	13,051	8,736	9,854
<b>Other comprehensive income:</b>					
Exchange differences on translation of foreign operations	17	2,663	(8,759)	(54)	1,837
<b>Total comprehensive income for the year</b>		31,787	4,292	8,682	11,691
Total comprehensive income for the year is attributable to:					
Ingenia Communities Fund		26,234	(17,253)	-	-
Ingenia Communities Management Trust		5,553	11,691	8,682	11,691
		31,787	4,292	8,682	11,691

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

**Ingenia Communities Fund & Ingenia Communities Management Trust**  
**Consolidated Balance Sheets**  
As at 30 June 2012

	Note	Ingenia Communities Fund		Ingenia Communities Management Trust	
		2012	2011	2012	2011
		\$'000	\$'000	\$'000	\$'000
<b>Current assets</b>					
Cash and cash equivalents	8	20,677	14,855	2,878	3,105
Trade and other receivables	9	3,271	4,252	2,326	3,709
Receivable from related party		16,854	-	-	-
Derivatives	10	1,659	-	-	-
Assets of discontinued operations	7	43,414	10,047	55,785	-
		<u>85,875</u>	<u>29,154</u>	<u>60,989</u>	<u>6,814</u>
<b>Non-current assets</b>					
Trade and other receivables	9	34,607	1,297	2,187	4,810
Investment properties	11	100,967	344,490	226,665	241,845
Plant and equipment		342	309	427	309
Equity accounted investments	12	-	45,407	-	913
		<u>135,916</u>	<u>391,503</u>	<u>229,279</u>	<u>247,877</u>
<b>Total assets</b>		<u>221,791</u>	<u>420,657</u>	<u>290,268</u>	<u>254,691</u>
<b>Current liabilities</b>					
Trade and other payables	13	1,513	19,597	6,810	8,808
Retirement village residents loans	1(r)	-	150,761	162,602	150,761
Borrowings	14	81,739	266	3,003	27,521
Derivatives	10	970	213	-	-
Payable to related party		-	-	16,899	-
Liabilities of discontinued operations	7	515	5,675	45,184	-
		<u>84,737</u>	<u>176,512</u>	<u>234,498</u>	<u>187,090</u>
<b>Non-current liabilities</b>					
Payables	13	1,851	-	-	-
Borrowings	14	-	121,515	34,607	60,088
Derivatives	10	-	269	-	-
Deferred tax liabilities	15	-	8,047	7,921	8,047
		<u>1,851</u>	<u>129,831</u>	<u>42,528</u>	<u>68,135</u>
<b>Total liabilities</b>		<u>86,588</u>	<u>306,343</u>	<u>277,026</u>	<u>255,225</u>
<b>Net assets</b>		<u>135,203</u>	<u>114,314</u>	<u>13,242</u>	<u>(534)</u>
<b>Equity</b>					
Issued units	16	480,693	490,044	3,351	3,351
Reserves	17	(16,896)	(20,240)	(614)	(560)
Retained earnings/(accumulated losses)	18	(328,594)	(355,490)	5,411	(3,325)
<b>Unitholders' interest</b>		<u>135,203</u>	<u>114,314</u>	<u>8,148</u>	<u>(534)</u>
Non-controlling interest		-	-	5,094	-
<b>Total equity</b>		<u>135,203</u>	<u>114,314</u>	<u>13,242</u>	<u>(534)</u>
<b>Attributable to unit holders of:</b>					
Ingenia Communities Fund					
Issued units	16	480,693	486,693	-	-
Reserves	17	(16,896)	(19,680)	-	-
Accumulated losses	18	(328,594)	(352,165)	-	-
		<u>135,203</u>	<u>114,848</u>	<u>-</u>	<u>-</u>
Ingenia Communities Management Trust					
Non-controlling interest		-	(534)	8,148	(534)
		<u>135,203</u>	<u>114,314</u>	<u>13,242</u>	<u>(534)</u>

**Ingenia Communities Fund & Ingenia Communities Management Trust**  
**Consolidated Cash Flow Statements**  
Year ended 30 June 2012

	Note	Ingenia Communities Fund		Ingenia Communities Management Trust	
		2012	2011	2012	2011
		\$'000	\$'000	\$'000	\$'000
<b>Cash flows from operating activities</b>	28				
Rental and other property income		28,053	30,270	25,372	30,121
Payment of management fees (including arrears)		(8,670)	(1,075)	(439)	(134)
Property and other expenses		(12,186)	(26,678)	(35,143)	(29,833)
Proceeds from residents' loans		-	11,622	20,885	11,622
Repayment of residents' loans		-	(2,951)	(5,977)	(2,951)
Distributions received from equity accounted investments		3,118	3,801	58	17
Interest received		1,243	471	87	80
Borrowing costs paid		(8,270)	(6,912)	(2,134)	(1,834)
Income taxes received/(paid)		235	-	(40)	-
Goods and services taxes recovered from investing and financing activities		7	85	-	-
		<u>3,530</u>	<u>8,633</u>	<u>2,669</u>	<u>7,088</u>
<b>Cash flows from investing activities</b>					
Additions to investment properties		(814)	(7,759)	(1,549)	(6,915)
Proceeds from sale of investment properties		-	12,738	-	-
Costs from sale of investment properties		(35)	-	-	-
Net inflow on acquisition of subsidiary	26	-	-	2,268	-
Purchase of equity accounted investments		(702)	-	(702)	-
Proceeds of equity accounted investments		29,940	-	473	-
Return of capital from equity accounted investments		-	766	-	-
		<u>28,389</u>	<u>5,745</u>	<u>491</u>	<u>(6,915)</u>
<b>Cash flows from financing activities</b>					
Internalisation costs		(1,228)	-	-	-
Distributions to unitholders	na	(6,000)	-	-	-
Termination of derivatives		(1,060)	(16,020)	-	-
Proceeds from borrowings		3,246	19,870	134	-
Repayment of borrowings		(17,668)	(22,806)	(284)	(267)
		<u>(22,710)</u>	<u>(18,956)</u>	<u>(150)</u>	<u>(267)</u>
<b>Net increase/(decrease) in cash</b>		9,209	(4,578)	3,011	(94)
Cash at the beginning of the year		15,041	20,246	3,105	3,230
Outflow of cash on deconsolidation of ILMT		(3,105)	-	-	-
Effects of exchange rate changes on cash		(368)	(627)	(87)	(31)
Cash at the end of the year		<u>20,777</u>	<u>15,041</u>	<u>6,029</u>	<u>3,105</u>

**Ingenia Communities Fund & Ingenia Communities Management Trust**  
**Statements of Changes in Unitholders' Interest**  
Year ended 30 June 2012

	Note	Ingenia Communities Fund					Total equity \$'000
		Attributable to unitholders			Total \$'000	Non- controlling interest \$'000	
		Issued capital \$'000	Reserves \$'000	Retained earnings \$'000			
<b>Carrying amounts at 1 July 2010</b>		490,044	(11,481)	(368,541)	110,022	-	110,022
Net profit for the year		-	-	3,197	3,197	9,854	13,051
Other comprehensive income		-	(8,759)	-	(8,759)	-	(8,759)
<b>Total comprehensive income for the year</b>		-	(8,759)	3,197	(5,562)	9,854	4,292
<b>Carrying amounts at 30 June 2011</b>		490,044	(20,240)	(365,344)	104,460	9,854	114,314
Net profit for the year		-	-	23,571	23,571	5,553	29,124
Other comprehensive income		-	2,663	-	2,663	-	2,663
<b>Total comprehensive income for the year</b>		-	2,663	23,571	26,234	5,553	31,787
Transactions with unitholders in their capacity as unitholders							
Deconsolidation of ICMT		(3,351)	681	3,325	655	(5,553)	(4,898)
Capital distribution	16	(6,000)	-	-	(6,000)	-	(6,000)
<b>Carrying amounts at 30 June 2012</b>		480,693	(16,896)	(338,448)	125,349	9,854	135,203

**Ingenia Communities Fund & Ingenia Communities Management Trust**  
**Statements of Changes in Unitholders' Interest**  
Year ended 30 June 2012

	<b>Ingenia Communities Management Trust</b>					<b>Total equity</b>
	<b>Attributable to unitholders</b>				<b>Non- controlling interest</b>	
	<b>Issued capital</b>	<b>Reserves</b>	<b>Retained earnings</b>	<b>Total</b>		
<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	
<b>Carrying amounts at 1 July 2010</b>	3,351	(2,397)	(13,179)	(12,225)	-	(12,225)
Net profit for the year	-	-	9,854	9,854	-	9,854
Other comprehensive income	-	1,837	-	1,837	-	1,837
<b>Total comprehensive income for the year</b>	-	1,837	9,854	11,691	-	11,691
<b>Carrying amounts at 30 June 2011</b>	3,351	(560)	(3,325)	(534)	-	(534)
Net profit for the year	-	-	8,736	8,736	-	8,736
Other comprehensive income	-	(54)	-	(54)	-	(54)
<b>Total comprehensive income for the year</b>	-	(54)	8,736	8,682	-	8,682
<b>Carrying amounts at 30 June 2012</b>	3,351	(614)	5,411	8,148	5,094	13,242

**Ingenia Communities Fund & Ingenia Communities Management Trust**  
**Notes to the Financial Statements**  
Year ended 30 June 2012

**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 Stock 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 the Fund 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 Trust 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 residents' 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.



**Ingenia Communities Fund & Ingenia Communities Management Trust**  
**Notes to the Financial Statements**  
Year ended 30 June 2012

**1. Summary of significant accounting policies (continued)**

**(d) Principles of consolidation**

The Fund'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 the Fund 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.

**(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.

**Ingenia Communities Fund & Ingenia Communities Management Trust**  
**Notes to the Financial Statements**  
Year ended 30 June 2012

**1. Summary of significant accounting policies (continued)**

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 7.

**(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.

**Ingenia Communities Fund & Ingenia Communities Management Trust**  
**Notes to the Financial Statements**  
Year ended 30 June 2012

**1. Summary of significant accounting policies (continued)**

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 [other than goodwill] that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

**(l) Cash and cash equivalents**

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

**(m) Trade and other receivables**

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

**(n) 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.

**Ingenia Communities Fund & Ingenia Communities Management Trust**  
**Notes to the Financial Statements**  
Year ended 30 June 2012

**1. Summary of significant accounting policies (continued)**

For hedge accounting, hedges are classified as fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability; cash flow hedges where they hedge exposure to variability in cash flows that is attributable either to a particular risk associated with a recognised asset or liability or to a forecast transaction; or hedges of a net investment in a foreign operation.

Any gain or loss arising from measuring fair value hedges that meets the conditions for hedge accounting is recognised in the income statement. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the relevant financial instrument.

Any gain or loss arising on cash flow hedges, which hedge firm commitments and which qualify for hedge accounting, is recognised directly in equity. Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss.

Any gain or loss arising on hedges of a net investment in a foreign operation that qualify for hedge accounting is recognised directly in equity in foreign currency translation reserve. On disposal of the foreign operation, the cumulative amount of any such gains and losses is transferred to profit or loss.

For derivatives that do not meet the documentation requirements to qualify for hedge accounting and for the ineffective portion of qualifying hedges, any gains or losses arising from changes in fair value are recognised in the income statement.

Hedge accounting is discontinued when the hedge instrument expires, is sold, exercised, terminated or no longer deemed effective. Any cumulative gains or losses relating to the hedge that were previously recognised in equity are transferred to the income statement.

**(o) 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 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.

**Ingenia Communities Fund & Ingenia Communities Management Trust**  
**Notes to the Financial Statements**  
Year ended 30 June 2012

**1. Summary of significant accounting policies (continued)**

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.

**(p) 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 are recognised in the Trusts' income statements and reduce the carrying value of the investment in their consolidated financial statements.

**(q) 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.

**(r) Retirement village residents' 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.

**(s) Borrowings**

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

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

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

**Ingenia Communities Fund & Ingenia Communities Management Trust**  
**Notes to the Financial Statements**  
Year ended 30 June 2012

**1. Summary of significant accounting policies (continued)**

**(t) 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.

**(u) 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 residents ingoing loan, allocated pro-rata over the resident's expected tenure, together with any share of capital appreciation that has occurred at reporting date.

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

**(v) Income tax**

**(i) Current income tax**

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

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

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.

**(w) 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.

**Ingenia Communities Fund & Ingenia Communities Management Trust**  
**Notes to the Financial Statements**  
Year ended 30 June 2012

**1. Summary of significant accounting policies (continued)**

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.

**(x) Pending Accounting Standards**

AASB 9 *Financial Instruments* is applicable to annual reporting periods beginning on or after 1 January 2013. The Trusts have not early adopted this standard. It includes requirements for the classification and measurement of financial assets resulting from Phase 1 of the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement* (AASB 139 *Financial Instruments: Recognition and Measurement*). These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. It also requires that portion of a change of fair value relating to the entity's own credit risk for financial liabilities measured at fair value utilising the fair value option to be separately presented in other comprehensive income, except when that would create an accounting mismatch. The Trusts are currently evaluating the impact of this standard.

AASB 12 *Disclosure of Interests in Other Entities* is applicable to annual reporting periods beginning on or after 1 January 2013. The Trusts have not early adopted this standard. It includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.

Other new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for the current reporting period. These are not expected to have any material impact on the Trusts' financial reports 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 carrying amount of \$327,632,000 (2011:\$344,490,000) (refer note 11), and retirement village residents' loans with a carrying amount of \$162,602,000 (2011: \$150,761,000), which together represent the estimated fair value of the Trusts interest in retirement villages. In addition, the carrying amount of the Fund's equity accounted investments of \$Nil (2011: Fund \$45,407,000 (refer note 12) also reflects investment properties carried at fair value. These carrying amounts reflect certain assumptions about expected future rentals, rent-free periods, operating costs and appropriate discount and capitalisation 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.

**Ingenia Communities Fund & Ingenia Communities Management Trust**  
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**2. Accounting estimates and judgements (continued)**

**(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 entity's accounting policies**

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

**3. Earnings per unit**

	Ingenia Communities Fund		Ingenia Communities Management Trust	
	2012	2011	2012	2011
<b>Earnings per unit</b>				
Profit/(loss) from continuing operations	(2,683)	(5,603)	1,881	6,768
Profit from discontinued operations (\$'000)	31,807	18,654	6,855	3,086
Net profit for the year (\$'000)	29,124	13,051	8,736	9,854
Weighted average number of units outstanding (thousands)	441,029	441,029	441,029	441,029
Basic and diluted earnings per unit from continuing operations (cents)	(0.6)	(1.3)	0.4	1.5
Basic and diluted earnings per unit from discontinued operations (cents)	7.2	4.2	1.6	0.7
Basic and diluted earnings per unit (cents)	6.6	3.0	2.0	2.2



**Ingenia Communities Fund & Ingenia Communities Management Trust**  
**Notes to the Financial Statements**  
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**4. Gain 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 the Fund 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:

	Note	Ingenia Communities Fund		Ingenia Communities Management Trust	
		2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Waiver of accrued management fees	(1)	2,279	-	220	-
Gain on acquisition of 10% interest in New Zealand Students	(2)	-	-	566	-
Transaction costs	(3)	(1,840)	-	-	-
		<u>439</u>	<u>-</u>	<u>786</u>	<u>-</u>

- (1) ING Groep NV waived accrued management fees of \$2,500,000.
- (2) ING Groep NV transferred its 10% equity (and 100% voting power) in the New Zealand Students portfolio to ICMT for no consideration. Further details on this gain are given in note 26(b).
- (3) The Trusts incurred transaction costs in relation to Internalisation.

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

**5. Finance expense**

	Ingenia Communities Fund		Ingenia Communities Management Trust	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Interest paid or payable	8,521	9,578	4,897	2,174
Less interest capitalised	-	(180)	-	(127)
	<u>8,521</u>	<u>9,398</u>	<u>4,897</u>	<u>2,047</u>

**Ingenia Communities Fund & Ingenia Communities Management Trust**  
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**6. Income tax expense**

	Note	Ingenia Communities Fund		Ingenia Communities Management Trust	
		2012	2011	2012	2011
		\$'000	\$'000	\$'000	\$'000
<b>(a) Income tax benefit</b>					
Current tax		-	14	(4)	-
Decrease in deferred tax liabilities	15	(158)	(1,389)	(34)	(1,389)
		<u>(158)</u>	<u>(1,375)</u>	<u>(38)</u>	<u>(1,389)</u>
<b>(b) Reconciliation between tax expense and pre-tax net profit</b>					
Profit/(loss) before income tax		<u>(2,841)</u>	<u>(6,978)</u>	<u>1,843</u>	<u>5,379</u>
Income tax at the Australian tax rate of 30% (2011: 30%)		(852)	(2,093)	553	1,614
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:					
Australian income		694	718	(591)	(3,003)
Income tax benefit		<u>(158)</u>	<u>(1,375)</u>	<u>(38)</u>	<u>(1,389)</u>

**7. Discontinued operations**

**(a) Details of discontinued operations**

On 23 November 2009, the Trusts announced that it would cease to provide financial support to its 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.

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 provide student accommodation under a minimum rental guarantee to Victoria University of Wellington. Prior to Internalisation the Fund held a 90% interest in this investment.

The Trusts investment in the United States Seniors Living portfolio (the Bristals) was classified as a discontinued operation at 31 December 2011. This investment comprises a 50% interest in five seniors living communities and a 100% interest in one community (Lynbrook), all located on Long Island, New York. On 23 May 2012, the Trusts announced that they had entered into a conditional contract for the sale of this portfolio for approximately US\$173.3 million. Settlement is conditional upon receiving all necessary United States regulatory and property level debt approvals, which are anticipated to be received in late 2012.

AASB5 *Non-current Assets Held for Sale and Discontinued Operations* requires, when a component of an entity is classified as a discontinued operation, comparative financial data to be restated in the income statements. Balance sheets and cash flow statements are not restated. Accordingly, comparative income statements and associated notes have been restated to reflect the United States Seniors Living portfolio being a discontinued operation.

**Ingenia Communities Fund & Ingenia Communities Management Trust**  
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**7. Discontinued operations (continued)**

**(b) Financial performance**

The financial performance of components of the Trusts disposed of or classified as discontinued operations at 30 June 2012 were:

	Ingenia Communities Fund		Ingenia Communities Management Trust	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Revenue	4,046	6,626	2,869	1,943
Net gain on change in fair value of investment properties	740	6,101	5,765	2,800
Other income	6,536	206	-	-
Expenses	(3,127)	(4,837)	(2,074)	(1,927)
Share of net profit of equity accounted investments	27,751	10,622	549	271
<b>Profit from operating activities before income tax</b>	<b>35,946</b>	<b>18,718</b>	<b>7,109</b>	<b>3,087</b>
Income tax benefit/(expense)	235	(64)	(181)	(1)
<b>Profit from operating activities</b>	<b>36,181</b>	<b>18,654</b>	<b>6,928</b>	<b>3,086</b>
Loss on sale of discontinued operations before income tax	(4,374)	-	(73)	-
Income tax expense thereon	-	-	-	-
<b>Loss on sale of discontinued operations</b>	<b>(4,374)</b>	<b>-</b>	<b>(73)</b>	<b>-</b>
<b>Net profit for the year</b>	<b>31,807</b>	<b>18,654</b>	<b>6,855</b>	<b>3,086</b>

**(c) Cash flows**

The cash flows of components of the Trusts disposed of or classified as discontinued operations at 30 June 2012 were:

	Ingenia Communities Fund		Ingenia Communities Management Trust	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Net cash flow from operating activities	3,185	85	781	-
Net cash flows from investing activities:				
Proceeds on sale of discontinued operations	29,898	-	598	-
Other	(712)	(340)	1,556	-
Net cash flow from financing activities	-	-	(150)	-
<b>Net cash flows from discontinued operations</b>	<b>32,371</b>	<b>(255)</b>	<b>2,785</b>	<b>-</b>

**Ingenia Communities Fund & Ingenia Communities Management Trust**  
**Notes to the Financial Statements**  
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**7. Discontinued operations (continued)**

**(d) 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	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>Assets</b>				
Cash and cash equivalents	100	186	3,151	-
Trade and other receivables	3,140	662	3,934	-
Investment properties	43	5,325	46,533	-
Plant and equipment	-	-	1,440	-
Equity accounted investments	40,131	3,874	727	-
<b>Total assets</b>	<b>43,414</b>	<b>10,047</b>	<b>55,785</b>	<b>-</b>
<b>Liabilities</b>				
Payables	515	114	1,995	-
Borrowings	-	5,561	42,962	-
Deferred tax liabilities	-	-	227	-
<b>Total liabilities</b>	<b>515</b>	<b>5,675</b>	<b>45,184</b>	<b>-</b>
<b>Net assets of disposal groups</b>	<b>42,899</b>	<b>4,372</b>	<b>10,601</b>	<b>-</b>

**(e) Details of disposals**

The Trusts disposed of investment properties within three US Student LLCs during the period for no consideration which had investment property carried at US\$6,672,000 and interest bearing liabilities of US\$6,672,000.

The Trusts also disposed a 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<sup>th</sup> November 2011 and leaves the Trusts with a 100% interest in Lynbrook and 50% in 5 other properties located on Long Island, New York. This transaction was completed at a \$4,447,000 loss including selling costs (ICF:\$4,374,000, ICMT:\$73,000) and resulted in cash proceeds of \$29,898,000 which were commercially hedged by foreign currency forward contracts.

**Ingenia Communities Fund & Ingenia Communities Management Trust**  
**Notes to the Financial Statements**  
Year ended 30 June 2012

**8. Cash and cash equivalents**

	Note	Ingenia Communities Fund		Ingenia Communities Management Trust	
		2012	2011	2012	2011
		\$'000	\$'000	\$'000	\$'000
Cash at bank and in hand	21	2,331	8,398	2,878	3,095
Short term deposits	21	18,346	6,457	-	10
		<u>20,678</u>	<u>14,855</u>	<u>2,878</u>	<u>3,105</u>

**Reconciliation to statements of cash flows**

Cash and cash equivalents attributable to:					
Continuing operations		20,678	14,855	2,878	3,105
Discontinued operations		100	186	3,151	-
		<u>20,778</u>	<u>15,041</u>	<u>6,029</u>	<u>3,105</u>
Cash at end of the year as per cash flow statement		20,778	15,041	6,029	3,105

**9. Trade and other receivables**

	Note	Ingenia Communities Fund		Ingenia Communities Management Trust	
		2012	2011	2012	2011
		\$'000	\$'000	\$'000	\$'000
<b>Current</b>					
Rental and other amounts due		24	116	106	116
Finance lease receivable from stapled entity	21	3,003	-	-	-
Accrued income, prepayments and deposits		244	4,136	2,220	3,593
		<u>3,271</u>	<u>4,252</u>	<u>2,326</u>	<u>3,709</u>
<b>Non-current</b>					
Finance lease receivable from stapled entity	21	34,607	-	-	-
Amount receivable from stapled entity		-	-	-	2,320
Accrued income, prepayments and deposits			1,297	2,187	2,490
		<u>34,607</u>	<u>1,297</u>	<u>2,187</u>	<u>4,810</u>

Rental and other amounts due are receivable within 30 days.

**Ingenia Communities Fund & Ingenia Communities Management Trust**  
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**9. Trade and other receivables (continued)**

The Fund has leased certain of its properties to ICMT under a lease that is a finance lease. The remaining term of each agreement varies between 94 and 98 years. There are no purchase options. Minimum payments under the agreements and their present values are:

	Ingenia Communities Fund		Ingenia Communities Management Trust	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Minimum lease payments receivable:				
Not later than one year	3,003	-	-	-
Later than one year and not later than five years	12,011	-	-	-
Later than five years	275,616	-	-	-
	290,630	-	-	-
Unearned finance income	(253,020)	-	-	-
Net present value of minimum lease payments	37,610	-	-	-
Net present value of minimum lease payments receivable:				
Not later than one year	3,003	-	-	-
Later than one year and not later than five years	9,461	-	-	-
Later than five years	25,146	-	-	-
	37,610	-	-	-
Finance income recognised and included in interest income in the income statement	385	-	-	-

Information about the related finance lease payable by ICMT is given in note 14.

**10. Derivatives**

	Note	Ingenia Communities Fund		Ingenia Communities Management Trust	
		2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>Current assets</b>					
Foreign exchange options	21	1,659	-	-	-
<b>Current liabilities</b>					
Interest rate swap contracts	21	970	213	-	-
<b>Non-current liabilities</b>					
Interest rate swap contracts	21	-	269	-	-

**Ingenia Communities Fund & Ingenia Communities Management Trust**  
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**11. Investment properties**

**(a) Summary of carrying amounts**

	Ingenia Communities Fund		Ingenia Communities Management Trust	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Completed properties	97,093	342,820	223,083	241,545
Properties under construction	3,874	1,670	3,582	300
	<u>100,967</u>	<u>344,490</u>	<u>226,665</u>	<u>241,845</u>

**(b) Movements in carrying amounts**

	Ingenia Communities Fund		Ingenia Communities Management Trust	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>Completed investment property</b>				
Carrying amount at beginning of year	342,820	346,163	241,545	203,152
Exchange rate fluctuations	1,056	(5,309)	1,056	(5,309)
Additions to existing property	814	1,640	1,188	21,160
Transferred from property under construction	94	8,605	94	6,782
Disposals	(22,789)	(10,482)	(26,457)	-
Deconsolidation of ICMT on internalisation	(227,938)	-	-	-
Net change in fair value	3,036	2,203	5,657	15,760
Carrying amount at end of year	<u>97,093</u>	<u>342,820</u>	<u>223,083</u>	<u>241,545</u>
<b>Property under construction</b>				
Carrying amount at beginning of year	1,670	6,660	300	3,560
Additions	2,698	5,700	4,086	5,647
Net change in fair value	(400)	(2,085)	(710)	(2,125)
Transferred to investment property	(94)	(8,605)	(94)	(6,782)
Carrying amount at end of year	<u>3,874</u>	<u>1,670</u>	<u>3,582</u>	<u>300</u>

**12. Equity accounted investments**

**(a) Details of investments**

Name	Principal activity	Ownership interest	
		2012	2011
<b>Ingenia Communities Fund</b>			
CSH - INGRE LLC <sup>(1)</sup>	Real estate investment	-	49%
<b>Ingenia Communities Management Trust</b>			
CSH - INGRE LLC <sup>(1)</sup>	Real estate investment	-	1%

- (1) This investment is now classified as a discontinued operation. The Trusts shares of its assets and liabilities are not included in the figures below from the date of its reclassification, being 31 December 2011. The Trust's share of its results is not included in the figures below for both 2012 and 2011 which have been restated as required by AASB5 (Non-current Assets Held for Sale and Discontinued Operations). Refer note 7.

**Ingenia Communities Fund & Ingenia Communities Management Trust**  
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**12. Equity accounted investments (continued)**

	Ingenia Communities Fund		Ingenia Communities Management Trust	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>(b) Share of assets and liabilities</b>				
Total assets	-	272,783	-	5,456
Total liabilities	-	(227,376)	-	(4,543)
Net assets	-	45,407	-	913

**13. Payables**

	Ingenia Communities Fund		Ingenia Communities Management Trust	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>Current liabilities</b>				
Trade and other payables	1,513	19,597	6,810	8,808
<b>Non-current liabilities</b>				
Other payables	1,851	-	-	-

**14. Borrowings**

	Note	Ingenia Communities Fund		Ingenia Communities Management Trust	
		2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>Current liabilities</b>	21				
Bank debt	(a)	81,739	-	-	-
Bonds	(b)	-	266	-	266
Finance leases	(c)	-	-	3,003	2,876
Loans from stapled entity	(d)	-	-	-	24,379
		81,739	266	3,003	27,521
<b>Non-current liabilities</b>					
Bank debt	(a)	-	96,161	-	-
Bonds	(b)	-	25,354	-	25,354
Finance leases	(c)	-	-	34,607	34,734
Loans from stapled entity	(d)	-	-	-	-
		-	121,515	34,607	60,088



**Ingenia Communities Fund & Ingenia Communities Management Trust**  
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**14. Borrowings (continued)**

**(a) Bank debt**

The Australian dollar denominated bank debt of \$81,739,000 (2011: \$96,161,000) is a variable rate facility expiring in February 2013. The main financial covenants to be maintained include:

- ◆ loan to value ratios of 65% for completed rental villages and 50% for deferred management fee villages and properties under construction;
- ◆ a total leverage ratio (calculated on a look-through basis) of less than 85%, reducing to 80% from 1 January 2012; and
- ◆ an interest cover ratio of net income from mortgaged properties (including distributions from foreign assets) to facility interest expense of at least 1.4.

The Trusts may not make distributions without prior consent of the bank (unless pursuant to a distribution reinvestment plan approved by the bank) until:

- ◆ following a capital raising and the loan to value ratio is not more than 50% and the interest cover ratio is at least 1.75; or
- ◆ without a capital raising and the loan to value ratio is not more than 40% and the interest cover ratio is at least 1.75.

The carrying value net of resident liabilities at reporting date of the Fund's Australian properties pledged as security is \$165,029,000 (2011: \$172,599,000) (ILMT \$64,063,000; 2011: \$69,954,000).

After reporting date, this borrowing was refinanced. Details are given in note 29.

**(b) Bonds**

This comprises two bonds whose terms exceed five years. The bonds are secured against a United States property with a carrying value of \$27,966,000 (2011: \$21,130,000).

**(c) Finance leases**

Subsidiaries of ILMT have entered into agreements with subsidiaries of the Fund. The subject of each agreement is to lease a retirement village. The remaining term of each agreement varies between 94 and 98 years. There are no purchase options. Minimum payments under the agreements and their present values are:

	Ingenia Communities Fund		Ingenia Communities Management Trust	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>Minimum lease payments:</b>				
Within one year	-	-	3,003	3,003
Later than one year but not later than five years	-	-	12,011	12,011
Later than five years	-	-	275,616	275,616
Total minimum lease payments	-	-	290,630	290,630
Future finance charges	-	-	(253,020)	(253,020)
Present value of minimum lease payments	-	-	37,610	37,610
<b>Present value of minimum lease payments:</b>				
Within one year	-	-	3,003	2,876
Later than one year but not later than five years	-	-	9,461	9,461
Later than five years	-	-	25,146	25,273
	-	-	37,610	37,610

**(d) Loan from stapled entity**

ICMT has an outstanding borrowing from the Fund. The loan is unsecured and repayable on demand.

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**15. Deferred tax liabilities**

	Ingenia Communities Fund		Ingenia Communities Management Trust	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
The balance comprises temporary differences attributable to:				
Investment properties	-	8,047	7,921	8,047
Deferred tax benefit recognised in the income statement in respect of deferred tax liabilities is attributable to temporary differences arising from:				
Investment properties	(158)	(1,389)	(34)	(1,389)

**16. Issued units**

**(a) Carrying amounts**

	Note	Ingenia Communities Fund		Ingenia Communities Management Trust	
		2012	2011	2012	2011
		\$'000	\$'000	\$'000	\$'000
At beginning of year		486,693	490,044	3,351	3,351
Capital distribution	(1)	(6,000)	-	-	-
At end of year		480,693	490,044	3,351	3,351
The closing balance is attributable to the unitholders of:					
Ingenia Communities Fund		480,693	486,693	-	-
Ingenia Communities Management		-	3,351	3,351	3,351
		480,693	490,044	3,351	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	
	2012	2011	2012	2011
	thousands	thousands	thousands	thousands
At beginning and end of year	441,029	441,029	441,029	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.

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**17. Reserves**

	Ingenia Communities Fund		Ingenia Communities Management Trust	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>Foreign currency translation reserve</b>				
Balance at beginning of year	(20,240)	(11,481)	(560)	(2,397)
Translation differences arising during the year	2,663	(8,759)	(54)	1,837
Deconsolidation of ICMT	681	-	-	-
Balance at end of year	(16,896)	(20,240)	(614)	(560)

The closing balance is attributable to the unitholders of:

Ingenia Communities Fund	(16,896)	(19,680)	-	-
Ingenia Communities Management Trust	-	(560)	(614)	(560)
	(16,896)	(20,240)	(614)	(560)

The foreign currency translation reserve records exchange differences arising from the translation of the financial statements of foreign subsidiaries. It is also used to record the effect of hedging net investments in foreign operations.

**18. Retained earnings**

	Ingenia Communities Fund		Ingenia Communities Management Trust	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Balance at beginning of year	(352,165)	(368,541)	(3,325)	(13,179)
Net profit for the year	23,571	13,051	8,736	9,854
Balance at end of year	(328,594)	(355,490)	5,411	(3,325)

**Ingenia Communities Fund & Ingenia Communities Management Trust**  
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Year ended 30 June 2012

## 19. Commitments

Commitments for capital expenditure on investment property contracted but not provided for at reporting date amounted to \$455,500 (2011: nil), 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 2 years.

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

	Ingenia Communities Fund		Ingenia Communities Management Trust	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Within one year	-	-	95,000	-
Later than one year but not later than five years	-	-	95,000	-
Later than five years	-	-	-	-
	-	-	190,000	-

## 20. 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 Trusts monitor the ratio of debt to total assets ("Gearing Ratio"), calculated on a look-through basis.

**Ingenia Communities Fund & Ingenia Communities Management Trust**  
**Notes to the Financial Statements**  
Year ended 30 June 2012

## **21. 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 Trusts ability to raise capital through the issue of units or sale of properties.

The main risks arising from ICMT's financial instruments are interest rate risk, foreign exchange risk, credit risk and liquidity risk. These risks are not separately managed. Management of these risks for the Fund may result in consequential changes for ICMT.

### **(b) Interest rate risk**

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

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

At 30 June 2012, after taking into account the effect of interest rate swaps, approximately 70% of the Trusts borrowings are at a fixed rate of interest (30 June 2011: 70%) (ICMT:100%; 30 June 2011: 100%).

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

**Ingenia Communities Fund & Ingenia Communities Management Trust**  
**Notes to the Financial Statements**  
Year ended 30 June 2012

**21. Financial instruments (continued)**

**(c) Interest rate risk exposure**

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

30 June 2012	Floating interest rate	Ingenia Communities Fund Fixed interest maturing in:			Total
		Less than 1 year	1 to 5 years	More than 5 years	
<b>Principal amounts \$'000</b>					
<b>Financial assets</b>					
Cash at bank	2,331	-	-	-	2,331
Short term deposits	18,346	-	-	-	18,346
<b>Financial liabilities</b>					
Bank debt denominated in AUD	81,739	-	-	-	81,739
Interest rate swaps:					
- denominated in AUD; Fund pays fixed rate	(60,000)	60,000	-	-	-

The Fund's exposure to interest rate risk and the effective interest rates on financial instruments at the end of the previous financial year was:

30 June 2011	Floating interest rate	Ingenia Communities Fund Fixed interest maturing in:			Total
		Less than 1 year	1 to 5 years	More than 5 years	
<b>Principal amounts \$'000</b>					
<b>Financial assets</b>					
Cash at bank	8,398	-	-	-	8,398
Short term deposits	6,457	-	-	-	6,457
<b>Financial liabilities</b>					
Bank debt denominated in AUD	96,161	-	-	-	96,161
Bonds denominated in USD	-	266	1,250	24,104	25,620
Interest rate swaps:					
- denominated in AUD; Fund pays fixed rate	(60,000)	60,000	-	-	-

**Ingenia Communities Fund & Ingenia Communities Management Trust**  
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**21. Financial instruments (continued)**

ICMT's exposure to interest rate risk and the effective interest rates on financial instruments at reporting date were:

30 June 2012	Ingenia Communities Management Trust				Total
	Floating interest rate	Fixed interest Less than 1 year	Fixed interest maturing in: 1 to 5 years	Fixed interest maturing in: More than 5 years	
<b>Principal amounts \$'000</b>					
<b>Financial assets</b>					
Cash at bank	2,878	-	-	-	2,878
<b>Financial liabilities</b>					
Bank debt denominated in NZD	16,287	-	-	-	16,287
Finance leases	-	3,003	9,461	25,146	37,610
Bonds denominated in USD	-	-	-	26,675	26,675

ICMT's exposure to interest rate risk and the effective interest rates on financial instruments at the end of the previous financial year were:

30 June 2011	Ingenia Communities Management Trust				Total
	Floating interest rate	Fixed interest Less than 1 year	Fixed interest maturing in: 1 to 5 years	Fixed interest maturing in: More than 5 years	
<b>Principal amounts \$'000</b>					
<b>Financial assets</b>					
Cash at bank	3,095	-	-	-	3,095
Short term deposits	10	-	-	-	10
<b>Financial liabilities</b>					
Finance leases	-	2,876	9,461	25,273	37,610
Bonds denominated in USD	-	266	1,250	24,104	25,620

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

**(d) Interest rate sensitivity analysis**

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

**Ingenia Communities Fund & Ingenia Communities Management Trust**  
**Notes to the Financial Statements**  
Year ended 30 June 2012

**21. Financial instruments (continued)**

**(i) Increase in average interest rates of 1%**

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

	Effect on profit after tax			
	Ingenia Communities Fund		Ingenia Communities Management Trust	
	Higher/(lower)		Higher/(lower)	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Variable interest rate instruments denominated in:				
Australian dollars	(817)	(1,273)	(430)	-

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

	Effect on profit after tax			
	Ingenia Communities Fund		Ingenia Communities Management Trust	
	Higher/(lower)		Higher/(lower)	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Fixed interest rate instruments denominated in:				
Australian dollars	293	973	-	-

**(ii) Decrease in average interest rates of 1%**

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

	Effect on profit after tax			
	Ingenia Communities Fund		Ingenia Communities Management Trust	
	Higher/(lower)		Higher/(lower)	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Variable interest rate instruments denominated in:				
Australian dollars	(817)	(1,273)	(430)	-

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

	Effect on profit after tax			
	Ingenia Communities Fund		Ingenia Communities Management Trust	
	Higher/(lower)		Higher/(lower)	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Variable interest rate instruments denominated in:				
Australian dollars	(298)	(979)	-	-



**Ingenia Communities Fund & Ingenia Communities Management Trust**  
**Notes to the Financial Statements**  
Year ended 30 June 2012

**21. Financial instruments (continued)**

**(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	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
United States dollars	2,310	4,065	-	-
New Zealand dollars	8	3	-	-
	<u>2,318</u>	<u>4,068</u>	<u>-</u>	<u>-</u>

**(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 balance sheet date. In these tables, the effect on unitholders' interest excludes the effect on profit after tax.

**(i) Effect of appreciation in Australian dollar of 10%:**

	Effect on profit after tax			
	Ingenia Communities Fund		Ingenia Communities Management Trust	
	Higher/(lower)	Higher/(lower)	Higher/(lower)	Higher/(lower)
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Foreign exchange risk exposures denominated in:				
United States dollars	(231)	(407)	-	-

**Ingenia Communities Fund & Ingenia Communities Management Trust**  
**Notes to the Financial Statements**  
Year ended 30 June 2012

**21. Financial instruments (continued)**

**(ii) Effect of depreciation in Australian dollar of 10%:**

	Effect on profit after tax			
	Ingenia Communities Fund		Ingenia Communities Management Trust	
	Higher/(lower)		Higher/(lower)	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Foreign exchange risk exposures denominated in:				
United States dollars	231	407	-	-

**(g) Foreign exchange derivatives held**

The following tables detail the forward exchange contracts, options and foreign exchange swaps outstanding at reporting date. These have been taken out to mitigate the effect of foreign exchange movements on the financial statements.

At balance sheet 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 gain for the year ended was \$111,000 (2011: loss 2,149,000).

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.

**Ingenia Communities Fund & Ingenia Communities Management Trust**  
**Notes to the Financial Statements**  
Year ended 30 June 2012

**21. Financial instruments (continued)**

**(i) Liquidity risk**

The main objective of liquidity risk management is to reduce the risk that the Trusts do not have the resources available to meet their financial obligations and working capital and committed capital expenditure requirements. The Trust's 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 residents' loans are classified as current liabilities, as required by Accounting Standards, because the Trusts do not have an unconditional right to defer settlement to more than twelve months after reporting date.

The contractual maturities of ICF's non-derivative financial liabilities at reporting date, on the same basis, were:

	<b>Ingenia Communities Fund</b>			
	<b>2012</b>			
	<b>Less than 1 year \$'000</b>	<b>1 to 5 years \$'000</b>	<b>More than 5 years \$'000</b>	<b>Total \$'000</b>
Trade & other payables	1,515	-	-	1,515
Borrowings	81,739	-	-	81,739
	<u>83,254</u>	<u>-</u>	<u>-</u>	<u>83,254</u>
	<b>2011</b>			
Trade & other payables	19,597	-	-	19,597
Retirement village residents loans	150,761	-	-	150,761
Borrowings	10,607	110,194	31,526	152,327
	<u>180,965</u>	<u>110,194</u>	<u>31,526</u>	<u>322,685</u>

**Ingenia Communities Fund & Ingenia Communities Management Trust**  
**Notes to the Financial Statements**  
Year ended 30 June 2012

**21. Financial instruments (continued)**

The contractual maturities of ICMT's non-derivative financial liabilities at reporting date, on the same basis, were:

<b>Ingenia Communities Management Trust</b>				
<b>2012</b>				
	<b>Less than 1 year \$'000</b>	<b>1 to 5 years \$'000</b>	<b>More than 5 years \$'000</b>	<b>Total \$'000</b>
Trade & other payables	6,812	-	-	6,812
Retirement village residents loans	162,602	-	-	162,602
Borrowings	3,003	-	34,607	37,610
	<u>172,417</u>	<u>-</u>	<u>34,607</u>	<u>207,024</u>
<b>2011</b>				
Trade & other payables	8,808	-	-	8,808
Retirement village residents loans	150,761	-	-	150,761
Borrowings	1,937	7,717	31,526	41,180
	<u>161,506</u>	<u>7,717</u>	<u>31,526</u>	<u>200,749</u>

The contractual maturities of the Fund'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.

<b>Ingenia Communities Fund</b>				
<b>2012</b>				
	<b>Less than 1 year \$'000</b>	<b>1 to 5 years \$'000</b>	<b>More than 5 years \$'000</b>	<b>Total \$'000</b>
<b>Liabilities</b>				
Derivative liabilities - net settled	970	-	-	970

The contractual maturities of the Fund's derivative financial liabilities at 30 June 2011, on the same basis, were:

<b>Ingenia Communities Fund</b>				
<b>2011</b>				
	<b>Less than 1 year \$'000</b>	<b>1 to 5 years \$'000</b>	<b>More than 5 years \$'000</b>	<b>Total \$'000</b>
<b>Liabilities</b>				
Derivative liabilities - net settled	213	269	-	482

ICMT did not have any derivative financial liabilities at either 30 June 2012 or 30 June 2011.

**Ingenia Communities Fund & Ingenia Communities Management Trust**  
**Notes to the Financial Statements**  
Year ended 30 June 2012

**21. Financial instruments (continued)**

**(j) Other financial instrument risk**

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

	<b>Effect on profit after tax</b>			
	<b>Ingenia Communities Fund</b>		<b>Ingenia Communities Management Trust</b>	
	<b>Higher/(lower)</b>		<b>Higher/(lower)</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Increase in market prices of investment properties of 10%	-	(14,700)	(16,000)	(14,700)
Decrease in market prices of investment properties of 10%	-	14,700	16,000	14,700

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 residents' 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.

**Ingenia Communities Fund & Ingenia Communities Management Trust**  
**Notes to the Financial Statements**  
Year ended 30 June 2012

**21. Financial instruments (continued)**

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

<b>Ingenia Communities Fund</b>				
<b>2012</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Financial assets</b>				
Derivatives	-	1,659	-	1,659
<b>Financial liabilities</b>				
Derivatives	-	970	-	970
<b>Ingenia Communities Management Trust</b>				
<b>2012</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Financial liabilities</b>				
Retirement village residents' loans	-	-	162,602	162,602

The following tables present the Trust's financial instruments that were measured and recognised at fair value at 30 June 2011.

<b>Ingenia Communities Fund</b>				
<b>2011</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Financial liabilities</b>				
Retirement village residents' loans	-	-	150,761	150,761
Derivatives	-	482	-	482
	-	482	150,761	151,243
<b>Ingenia Communities Management Trust</b>				
<b>2011</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Financial liabilities</b>				
Retirement village residents' loans	-	-	150,761	150,761

**Ingenia Communities Fund & Ingenia Communities Management Trust**  
**Notes to the Financial Statements**  
Year ended 30 June 2012

**21. Financial instruments (continued)**

The following table presents the changes in ICMT's level 3 instruments for the financial year.

	<b>Ingenia Communities Management Trust Retirement village residents' loans</b>	
	<b>2012</b>	<b>2011</b>
	<b>\$'000</b>	<b>\$'000</b>
Opening balance	150,761	140,945
Net (gain)/loss on change in fair value of resident loans	284	(182)
Accrued deferred management fee income, net of cash collected	(3,654)	(3,074)
Proceeds from resident loans	20,885	15,178
Repayment of resident loans	(5,977)	(2,106)
Other	304	-
Closing balance	<u>162,303</u>	<u>150,761</u>

The current market value of the independent living units is an input to the valuation of retirement village residents' loans. Changing the value used for this input by an increase of 10% would increase the fair value of these loans by \$16,000,000 (2011: \$14,700,000).

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.

**22. Auditor's remuneration**

	<b>Ingenia Communities Fund</b>		<b>Ingenia Communities Management Trust</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Amounts received or receivable by Ernst & Young for:				
Audit or review of financial reports of the Fund and any other entity in the consolidated entity	406,603	332,220	-	-
Other services - assurance related	33,020	6,338	-	-
	<u>439,623</u>	<u>338,558</u>	-	-

**23. Contingencies**

There are no contingent liabilities noted by the Trusts.

**Ingenia Communities Fund & Ingenia Communities Management Trust**  
**Notes to the Financial Statements**  
Year ended 30 June 2012

**24. 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**

	Note	Ingenia Communities Fund		Ingenia Communities Management Trust	
		2012	2011	2012	2011
		\$	\$	\$	\$
ING Management Limited:					
Asset management fees		1,830,036	1,836,014	477,646	379,000
Ingenia Communities RE Limited:					
Asset management fees		57,564	-	94,744	-
		1,887,600	1,836,014	572,390	379,000
ING Management Limited:					
Fees waived	4	(2,279,213)	-	(220,324)	-
		(391,613)	1,836,014	924,456	379,000

The Responsible Entity 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	
	2012	2011	2012	2011
	\$	\$	\$	\$
Current trade payables	57,564	10,513,449	94,744	913,791

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 2012.

Holdings of those parties as at 30 June 2011 were:

Name	Number of units held
ING Real Estate International Investments III BV	28,285,706

There were no distributions received or receivable for either financial year by those parties.

**(d) 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 4.



**Ingenia Communities Fund & Ingenia Communities Management Trust**  
**Notes to the Financial Statements**  
Year ended 30 June 2012

**24. Related parties (continued)**

**(e) Key management personnel**

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director of the responsible entity.

The names of the directors of ICRE, and their dates of appointment or resignation if they were not directors for all of the financial year, are:

Jim Hazel (Chairman)	Appointed 27 March 2012
Philip Clark AM	Appointed 4 June 2012
Amanda Heyworth	Appointed 16 April 2012
Simon Owen (Managing Director)	Appointed 25 November 2011
Greg Inkson	Appointed 25 November 2011; resigned 24 April 2012
Peter Day	Appointed 25 November 2011; resigned 24 April 2012

The names of the directors of IML, and their dates of appointment or resignation if they were not directors for all of the period from 1 July 2011 to 4 June 2012, are:

Michael Coleman (Chairman)	Appointed 1 July 2011
Hein Brand	
Philip Clark AM	Resigned 4 June 2012
Michael Easson AM	
Scott MacDonald	Resigned 13 July 2011

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; appointed 14 May 2012
Denis Hickey	IML Chief Executive Officer; resigned 31 August 2011
Danny Agnoletto	IML Chief Financial Officer; resigned 31 August 2011
Greg Inkson	IML Chief Executive Officer; appointed 1 September 2011
Peter Day	IML Chief Financial Officer; appointed 1 September 2011
Sarah Wiesener	IML General Counsel; appointed 1 September 2011

Key management personnel do not receive any remuneration directly from the Trusts. They receive remuneration from the Responsible Entity or its related parties in their capacity as Directors or employees of the Responsible Entity or its related parties. Consequently, the Trusts do not pay any compensation as defined in Accounting Standard AASB 124 *Related Parties* to its key management personnel.

**Ingenia Communities Fund & Ingenia Communities Management Trust**  
**Notes to the Financial Statements**  
Year ended 30 June 2012

**24. Related parties (continued)**

Units in the Fund and ICMT held directly, indirectly or beneficially by each key management person, including their related parties, were:

<b><i>Stapled securities</i></b>	<b>2012</b>	<b>2011</b>
	<b>000s</b>	<b>000s</b>
Jim Hazel		
Held at the beginning of the financial year	-	-
Acquisitions	500,000	-
Held at the end of the financial year	500,000	-
Philip Clark AM		
Held at the beginning of the financial year	90,151	90,151
Acquisitions	-	-
Disposals	-	-
Held at the end of the financial year	90,151	90,151
Amanda Heyworth		
Held at the beginning of the financial year	-	-
Acquisitions	200,000	-
Held at the end of the financial year	200,000	-
Simon Owen		
Held at the beginning of the financial year	367,600	367,600
Acquisitions	1,073,150	-
Held at the end of the financial year	1,440,750	367,600

There were no distributions received or receivable from the Trusts by any key management person in either financial year.

Performance quantum rights held by key management personnel were:

<b><i>Performance quantum rights</i></b>	<b>2012</b>	<b>2011</b>
	<b>000s</b>	<b>000s</b>
Simon Owen		
Held at the beginning of the financial year	-	-
Granted	2,260,000	-
Held at the end of the financial year	2,260,000	-
Nicole Fisher		
Held at the beginning of the financial year	-	-
Granted	791,000	-
Held at the end of the financial year	791,000	-
Tania Betts		
Held at the beginning of the financial year	-	-
Granted	791,000	-
Held at the end of the financial year	791,000	-

**Ingenia Communities Fund & Ingenia Communities Management Trust**  
**Notes to the Financial Statements**  
Year ended 30 June 2012

**24. Related parties (continued)**

Retention quantum rights held by key management personnel were:

<i>Retention quantum rights</i>	<b>2012</b> <b>000s</b>	<b>2011</b> <b>000s</b>
Simon Owen		
Held at the beginning of the financial year	-	-
Granted	1,070,000	-
Held at the end of the financial year	1,070,000	-
Nicole Fisher		
Held at the beginning of the financial year	-	-
Granted	374,000	-
Held at the end of the financial year	374,000	-
Tania Betts		
Held at the beginning of the financial year	-	-
Granted	374,000	-
Held at the end of the financial year	374,000	-

**25. Parent financial information**

Summary financial information about the Parent of each Trust is:

	<b>Ingenia Communities Fund</b>		<b>Ingenia Communities Management Trust</b>	
	<b>2012</b> <b>\$'000</b>	<b>2011</b> <b>\$'000</b>	<b>2012</b> <b>\$'000</b>	<b>2011</b> <b>\$'000</b>
Current assets	29,101	24,974	65	8,269
Total assets	202,597	207,802	3,628	9,178
Current liabilities	33,865	10,861	3,083	1,734
Total liabilities	114,914	109,822	3,310	9,713
Unitholders equity:				
Issued units	480,694	486,694	3,351	3,351
Foreign currency translation reserve	1	-	(33)	-
Accumulated losses	(393,013)	(388,814)	(2,999)	(3,886)
Total unitholders' equity	87,682	97,880	319	(535)
Loss from continuing operations	(1,968)	(9,032)	(1,821)	(155)
Net loss attributable to unitholders of each Trust	(1,968)	(9,032)	(1,821)	(155)
Total comprehensive income	(1,968)	(9,032)	(1,853)	(155)

**Ingenia Communities Fund & Ingenia Communities Management Trust**  
**Notes to the Financial Statements**  
Year ended 30 June 2012

**26. 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	
		2012 %	2011 %
<b><i>Subsidiaries of Ingenia Communities Fund</i></b>			
Bridge Street Trust	Australia	100	100
Browns Plains Road Trust	Australia	100	100
Casuarina Road Trust	Australia	100	100
Edinburgh Drive Trust	Australia	100	100
INA Community Living Subsidiary Trust No. 2	Australia	100	100
INA Community Living Oak Tree Subsidiary Trust No.1	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
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
Taylor Street (1) Trust	Australia	100	100
Taylor Street (2) Trust	Australia	100	100
ING Community Living Fund Inc	United States of America	100	100
ING Community Living LLC	United States of America	100	100
ING US Students No. 1, LLC	United States of America	100	100
ING US Students No. 10, LLC	United States of America	100	100
ING US Students No. 11, LLC	United States of America	100	100
ING US Students No. 12, LLC	United States of America	100	100
ING US Students No. 13, LLC	United States of America	100	100
ING US Students No. 14, LLC	United States of America	100	100
ING US Students No. 2, LLC	United States of America	100	100
ING US Students No. 3, LLC	United States of America	100	100
ING US Students No. 4, LLC	United States of America	100	100
ING US Students No. 5, LLC	United States of America	100	100
ING US Students No. 6, LLC	United States of America	100	100
ING US Students No. 7, LLC	United States of America	100	100
ING US Students No. 8, LLC	United States of America	100	100
ING US Students No. 9, LLC	United States of America	100	100

**Ingenia Communities Fund & Ingenia Communities Management Trust**  
**Notes to the Financial Statements**  
Year ended 30 June 2012

**26. Subsidiaries (continued)**

Name	Country of residence	Ownership interest	
		2012 %	2011 %
<b>Subsidiaries of Ingenia Communities Management Trust</b>			
Garden Villages Management Trust	Australia	100	100
INA Community Living Lynbrook Trust	Australia	100	100
INA Community Living Oak Tree Subsidiary Trust No.2	Australia	100	100
INA Real Estate CC Trust No. 1	Australia	100	-
Regency Operations Trust	Australia	100	100
Settlers Operations Trust	Australia	100	100
INA NZ Subsidiary Trust No 1 <sup>(1)</sup>	New Zealand	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

The purchase consideration compares to net assets acquired as follows:

	\$'000
Purchase Price	-
ICMT share of net assets acquired	566
Gain on acquisition	566

**Ingenia Communities Fund & Ingenia Communities Management Trust**  
**Notes to the Financial Statements**  
Year ended 30 June 2012

**26. Subsidiaries (continued)**

The net inflow of cash resulting from the acquisition was:

	<b>\$'000</b>
Cash paid	-
Cash included in net assets	2,268
Inflow of cash	<u>2,268</u>

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 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.

**27. Segment information**

**(a) Description of segments**

The Trusts invest in seniors accommodation properties located in Australia. The rental villages in Australia comprise the Garden Villages segment, the rental villages that are moving to a deferred management fee structure comprise the DMF Conversion segment and the deferred management fee properties comprise the Settlers segment. The Trusts have identified the 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>Ingenia Communities Fund</b>		<b>Ingenia Communities Management Trust</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>(b) Segment revenue</b>				
Revenues from external customers:				
Garden Villages	18,032	21,643	19,012	21,643
DMF Conversion	1,204	-	1,325	-
Settlers	4,572	4,804	4,997	4,804
Total segment revenue	<u>23,808</u>	<u>26,447</u>	<u>25,334</u>	<u>26,447</u>
Interest income	1,244	468	85	79
Total revenue	<u>25,052</u>	<u>26,915</u>	<u>25,419</u>	<u>26,526</u>

**Ingenia Communities Fund & Ingenia Communities Management Trust**  
**Notes to the Financial Statements**  
Year ended 30 June 2012

**27. Segment information (continued)**

	Ingenia Communities Fund		Ingenia Communities Management Trust	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>(c) Segment result</b>				
Garden Villages	5,327	7,214	346	(5,146)
DMF Conversion	1,121	-	(2,229)	-
Settlers	1,084	2,822	866	3,515
Total segment result	7,532	10,036	(1,017)	(1,631)
Interest income	1,244	468	85	79
Net foreign exchange loss	(225)	(448)	(123)	81
Net gain on disposal of investment properties	(109)	2,256	-	-
Gain/ (loss) on acquisition	(2,934)		2,934	
Net gain on change in fair value of:				
Investment properties	2,636	(2,189)	4,948	11,327
Derivatives	111	(2,149)	-	-
Retirement village residents' loans	(322)	182	(284)	182
Gain on internalisation	439	-	786	-
Finance costs	(8,521)	(9,398)	(4,897)	(2,047)
Responsible Entity's fees and expenses	(1,888)	(1,836)	(572)	(379)
Other expenses	(804)	(1,157)	(17)	(161)
Gain on revaluation of newly constructed retirement villages	-	(2,743)	-	(2,072)
Income tax benefit	158	1,375	38	1,389
Profit/(loss) from continuing operations	(2,683)	(5,603)	1,881	6,768
<b>(d) Segment assets</b>				
Garden Villages	113,005	124,270	37,408	34,384
DMF Conversion	-	-	3,234	-
Settlers	48,503	205,015	193,841	192,093
Total segment assets	161,508	329,285	234,483	226,477
Now discontinued	43,414	79,681	55,785	25,019
Unallocated	16,869	11,691	-	3,195
	221,791	420,657	290,268	254,691

**Ingenia Communities Fund & Ingenia Communities Management Trust**  
**Notes to the Financial Statements**  
Year ended 30 June 2012

**28. Notes to the cash flow statements**

**(a) Reconciliation of profit to net cash flows from operations**

	Ingenia Communities Fund		Ingenia Communities Management Trust	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
<b>Net profit for the year</b>	29,124	13,051	8,736	9,854
Adjustments for:				
Gain on internalisation	(439)	-	(786)	-
Unrealised foreign exchange (gain)/loss	225	653	(123)	(46)
Net (gain)/loss on disposal of investment	2,934	(2,256)	(2,934)	-
Net (gain)/loss on change in fair value of:				
Investment properties - continuing	(2,636)	2,189	(4,948)	(11,327)
Investment properties - discontinued	5,562	(4,474)	(2,884)	(2,801)
Derivatives	(111)	2,149	-	-
Retirement village residents' loans	322	(182)	284	(182)
US Students borrowings forgiven	(6,922)			
Excess of distributions received from equity accounted investments over share of profits	(25,539)	(7,237)	(418)	(253)
Deferred tax expense/(benefit)	412	(1,389)	(34)	(1,389)
Other non-cash items	158	-	393	-
Operating profit/(loss) for the year before changes in working capital	3,090	2,504	(2,715)	(6,144)
Changes in working capital:				
(Increase)/decrease in receivables	(376)	(1,956)	(13,710)	1,358
(Increase)/decrease in other assets	(237)	-	(119)	-
Increase in retirement village residents' loans		8,675	14,907	9,150
Increase/(decrease) in other payables	1,053	(590)	4,305	2,724
<b>Net cash provided by operating activities</b>	<b>3,530</b>	<b>8,633</b>	<b>2,669</b>	<b>7,088</b>

**29. Subsequent events**

On 13 July 2012, Ingenia Communities acquired Ridge Estate Village, a partially developed deferred management fee retirement village, in Gillieston Heights, NSW. The purchase price was \$2,025,000 and was funded from cash reserves.

On 28 August 2012, ICF refinanced its variable rate Australian dollar denominated bank debt facility, which was due to expire in March 2013. The new facility is a market competitive variable rate revolving debt facility of \$82.0m with Commonwealth Bank of Australia expiring 30 September 2015.

On 13 August 2012, the expiry date of the Bank of New Zealand debt facility, which funds the NZ Students portfolio, was extended by six months to 31 March 2013. All other terms and conditions remain unchanged.



**Ingenia Communities Fund & Ingenia Communities Management Trust  
Directors' Declaration  
Year ended 30 June 2012**

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 2012 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 2012.

On behalf of the board



Jim Hazel  
Chairman  
Sydney, 29 August 2012

## **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 2012, 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 2012, the consolidated income statement, the consolidated statement of comprehensive income, the statement of changes in unitholders' interest and the consolidated cash flow statement for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of Ingenia Communities Management Trust, comprising Ingenia Communities Management Trust and the entities it controlled at year end or from time to time during the financial year.

### ***Directors' Responsibility for the Financial Report***

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

### ***Auditor's responsibility***

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

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

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

### ***Independence***

In conducting our audit we have complied with the independence requirements of the Corporations Act 2001. We have given to the directors of the company 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 2012 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  
29 August 2012