



Interim Report

for the half year ended 31 December 2022

Lifestyle Communities Ltd
ABN: 11 078 675 153

Lifestyle St Leonards





Artist's impression of Lifestyle Bellarine Clubhouse lounge





Contents

Directors' Report.	1
Auditor's Independence Declaration	6
Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income	9
Condensed Consolidated Statement of Financial Position.	10
Condensed Consolidated Statement of Changes in Equity	11
Condensed Consolidated Statement of Cash Flows	12
Notes to the Condensed Consolidated Financial Statements.	15
The Directors' Declaration	24
Independent auditor's review report	25
Corporate Information	27

Directors' Report

For the half year ended 31 December 2022

The Directors are pleased to present their report together with the condensed financial report of the consolidated entity consisting of Lifestyle Communities Limited and its controlled entities (the Group), for the half-year ended 31 December 2022 and the independent auditor's review report thereon. This financial report has been prepared in accordance with AASB 134 Interim Financial Reporting.

1. Operating and Financial Review

The Company continued to develop and manage its portfolio of affordable lifestyle communities during the first half of the 2023 financial year and we continued to work towards our objective of being the most customer centric and innovative provider of high-quality affordable housing for those looking to downsize in Victoria.

Financial and Operating Highlights

		1HFY23	1HFY22	Change	Change (%)
Revenue	A\$ millions	92.9	93.9	(1.0)	(1.06)%
Earnings before interest and tax	A\$ millions	37.5	40	(2.5)	(6.33)%
Net profit before tax	A\$ millions	36.1	39.3	(3.2)	(8.14)%
Net profit after tax	A\$ millions	25.2	27.5	(2.3)	(8.22)%
Operating cash flow	A\$ millions	(27.8)	(14.5)	(13.3)	(91.44)%
Community cash flow ¹	A\$ millions	14.8	11.7	3.1	26.27%
Earnings per share	A\$ cents	24.3	26.4	(2.1)	(7.95)%
Interim dividend per share	A\$ cents	5.5	4.5	1.0	22.22%
Homes settled	No. of homes	141	166	(25)	(15.06)%
Homes sold	No. of homes	214	168	46	27.38%
Average realised sales price new homes (GST incl)	A\$'000	650	513	137	26.71%
Total number of homes (gross)	No. of homes	3,334	2,958	376	12.71%
Total number of homes (after NCI) ²	No. of homes	3,133	2,757	376	13.64%
Total number of homeowners	No. of homes	4,773	4,245	528	12.44%
Average age of homeowner	Years	75	75	0	0.00%
Number of resales settled ³	No. of homes	72	68	4	5.88%
Average realised sales price resales (GST incl) ⁴	A\$'000	480	416	64	15.38%

1. Community cash flow comprises cash flows received from homeowner rentals and deferred management fees less community operating costs and the net surplus/deficit from providing utilities.
2. Gross number of homes adjusted for share of communities owned by non controlling interests.
3. Includes resales attracting a deferred management fee, there were a further 16 resales settled in 1HFY23 (1HFY22: 5 resales) that did not attract a deferred management fee as the outgoing homeowners sold their home within 12 months of initial settlement in accordance with the Company's Smart Buy Guarantee.

4. Average realised sales price of resales attracting a deferred management fee. The movement year on year is dependent on the product and community mix.

Included in the key data above are several non IFRS measures including earnings before interest and tax, community cash flow, gearing, return on average capital employed and key operational data. These figures have not been subject to audit review but have been provided to give a better understanding of the performance of the Company for the first half of the 2023 financial year.

The team commenced the year with plans to bring seven new projects to market following a steady increase in land acquisitions over the last couple of years. These new projects are a key catalyst to increasing production and will underpin the forward settlement guidance of 1,400 to 1,700 settlements between FY23 and FY25. Four of these projects (Woodlea, Bellarine, St Leonards – The Shores, and Phillip Island) have been successfully launched in the first half with plans for the remaining projects on track for launch in the second half (Riverfield, Merrifield, and Pakenham). Each of these projects has an approved planning permit in place.

Settlements in the first half were lower than the prior period due to the timing of projects. Settlements are expected to increase in the second half at Meridian and St Leonards as those developments progress and housing construction completes. New projects at Bellarine and Woodlea will commence settlements in the fourth quarter. The existing projects at Wollert and Deanside are expected to remain steady contributors to our settlement goals.

The lower comparative settlement numbers in this period are the primary driver of the reduction in net profit after tax from \$27.5 million in the prior period to \$25.2 million in the current period. Annuity revenue increased with higher rental revenue from an increased number of homes under management and higher deferred management fees from an increased number of established home resales and higher resale prices. This was offset by increased sales and marketing costs (these costs are expensed when incurred) to bring the new projects to market, and increases in corporate overheads to support the increased activity levels.

Balance sheet gearing has increased as land settlements have been completed and construction activity has increased at the new projects. During the period we settled \$68 million of land acquisitions for contracts signed in prior periods and spent \$25.1 million on early works and civil construction at new projects which will underpin a step up in settlements in FY24 and FY25.

We were pleased to execute a contract to purchase a new parcel of land in Warragul which is expected to settle in late 2024. Our existing community in Warragul was the company's third project and we are excited to return to this beautiful part of Victoria and increase the supply of high-quality affordable housing in this growing catchment. In November 2022 we executed contracts with our lending syndicate to increase our debt facilities by \$150 million to \$525 million. The additional debt will support the continued growth of the development pipeline over the next 3–5 years. We would like to thank our lending partners NAB, CBA and HSBC for their ongoing support.

214 new home sales were achieved during the period (1H FY21: 168) increasing the number of homes sold but not yet settled to 336 from 267 as at 30 June 2022. With the final phase of the Salesforce project implemented during the period we are starting to see some benefits of the platform as it is further embedded in our day-to-day operations and our team's capability on the system increases. We are excited to further utilise the platform and optimise its use throughout 2023.

Finally, we would like to acknowledge the efforts of our team, and our valued suppliers. The launch of four new projects in a six-month period is a substantial increase in activity levels for the business and the team have embraced the challenge and continued to maintain the high levels of quality and customer centricity that have been core pillars of our success since inception. We recruited 46 new team members in the first half, primarily in front of house roles to support the new projects. The substantial efforts to recruit the right cultural fit and induct and train our new team members see us well placed to maintain our high standards of customer service as we grow.

At the end of the period, the Company had 4,773 people living in its communities (62% women, 38% men) with an average age of 75 years. The total portfolio of home sites increased to 5,599 homes of which 3,334 homes are completed and occupied.

Update on communities

Community	New homes				Resales				Total		
	Settled 1H FY23	Settled 1H FY22	Net sales 1H FY23	Net sales 1H FY22	Settled 1H FY23	Settled 1H FY22	Net sales 1H FY23	Net sales 1H FY22	Sold not settled	Homes settled	Homes in portfolio
Brookfield					13	8	12	6		228	228
Seasons					2	10	3	7		136	136
Warragul					3	2	8	4		182	182
Casey Fields					5	10	2	9		217	217
Shepparton					7	7	9	12		300	300
Chelsea Heights					5	4	5	6		186	186
Hastings					5	5	3	3		141	141
Lyndarum					7	2	1	1		154	154
Geelong						3	2	3		164	164
Officer					6	2	8	1		151	151
Berwick Waters					4	2	4	1		216	216
Bittern					6	7	7	10		209	209
Ocean Grove		1			7	6	6	10		220	220
Mount Duneed	7	27		28	1		1	1		191	191
Kaduna Park	2	42		15	1		7			169	169
Wollert North	24	24	26	5					44	129	246
Deanside	16	29	17	24			1		35	104	266
St Leonards - The Waves	48	43		45			6		33	164	199
St Leonards - The Shores			15						15		159
Meridian	40		41	51					95	69	274
Pakenham East											175
Riverfield											230
Woodlea			16						16		180
Phillip Island			47						47		260
Merrifield											187
Ocean Grove II											190
Bellarine	4		52						51	4	164
Warragul II											205
Total	141	166	214	168	72	68	85	74	336	3,334	5,599

An update on each of the communities in development as at 31 December 2022 is as follows:

- Lifestyle Mount Duneed and Lifestyle Kaduna Park are both fully sold and settled;
- Lifestyle Wollert commenced construction in October 2019 and welcomed first homeowners in November 2020. The construction of the clubhouse and community facilities is complete and was opened in May 2021. Wollert is 70% sold;
- Lifestyle Deanside commenced construction in February 2020 and we welcomed first homeowners

in February 2021. Construction of the clubhouse and community facilities is complete and was opened to homeowners in June 2021. Deanside is 52% sold;

- Lifestyle St Leonards – The Waves was acquired in November 2019 and construction commenced in August 2020. We welcomed first homeowners in June 2021. The community is nearly sold out and will continue to settle as the houses are completed;
- Lifestyle Meridian, was acquired in May 2020 and settled in early July 2021. Civil works are well underway, and construction of the clubhouse has

commenced. The community was launched for sale in September 2021 and is 60% sold. We welcomed first homeowners in May 2022;

- The land for the future community at Woodlea was settled in April 2022. Construction commenced in June 2022 and sales launched in September 2022. Lifestyle Woodlea is 9% sold;
- The contract for Lifestyle Bellarine was signed in May 2022 and settled in September 2022. The community had an existing planning permit in place and had some civil works and clubhouse construction in progress and 4 existing homes settled. Lifestyle has taken over the development including redesign of the site. Settlements are expected to commence in the fourth quarter as well as the launch of our Club Lifestyle short-stay proposition;
- In June 2021 we acquired St Leonards – The Shores (next door to the original St Leonards site). This second site launched for sale in December 2022 and will commence construction in May 2023;
- The contract for the future community on Phillip Island was signed in August 2021 and settled in September 2021. The planning permit has been received and the community was launched for sale in December 22. Construction is expected to commence in March 2023;
- The land for the future community at Riverfield was acquired in June 2020 on 3-year settlement terms. Given the strong performance of Lifestyle Meridian we brought forward the settlement date to October 2022 and have started construction;
- Lifestyle Merrifield is located within the Merrifield estate, one of Melbourne's flagship master-planned communities. Land settlement is expected in approximately twelve months;
- The land for the future Lifestyle Community in Pakenham was acquired in February 2020. Planning approval has been received and construction is expected to commence in the second half of FY23 with first customer homes settlements to follow in FY24;
- A contract of sale to purchase a new site located in Ocean Grove was executed in December 2021. Land settlement is expected in early 2024;
- The contract for the future Lifestyle Community in Warragul was signed in November 2022. Settlement is expected in two years with construction to commence soon after.

Settlement Profile of Communities in Development

Community	FY23				FY24				FY25			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Mount Duneed	●											
Kaduna Park	●											
Wollert	●	●	●	●	●	●	●	●	●			
Deanside	●	●	●	●	●	●	●	●	●			
St Leonards - The Waves	●	●	●	●	●							
St Leonards - The Shores								●	●	●	●	●
Meridian	●	●	●	●	●	●	●	●	●	●	●	●
Woodlea				●	●	●	●	●	●	●	●	●
Bellarine				●	●	●	●	●	●	●	●	●
Pakenham							●	●	●	●	●	●
Riverfield							●	●	●	●	●	●
Phillip Island							●	●	●	●	●	●
Merrifield								●	●	●	●	●
Ocean Grove											●	●
Warragul												●

● Represents typical settlement rate

● Represents tail of development which is often a slower settlement rate

Outlook

We have a focused strategy to service the niche of providing high quality affordable housing to the downsizer market and we continue to focus on Melbourne's growth corridors as well as key Victorian regional centres. We are funded and resourced to acquire up to three new sites per year and we are currently considering a range of opportunities but will remain disciplined in our assessment of these opportunities.

With the land already in the pipeline and the projects currently under construction we maintain our previous guidance of delivering 1,400 to 1,700 new home settlements between FY23 and FY25. We remain on track for FY23 settlements to be at similar levels to FY22 before a step up in FY24 and FY25 as new projects come online and increase the volume of projects delivering settlements. Resale settlements attracting a DMF are anticipated to be in the range of 550 to 750 over the next 3 years.

The Company's balance sheet and debt position is robust. Our debt facility of \$525 million is drawn to \$351 million giving us access to \$174 million undrawn facilities which is sufficient to support the current development pipeline and continued acquisition of new sites. The next refinancing is due in June 2025. Operating cash flow is underpinned by the ongoing rental annuities from our 3,334 homes under management.

With four out of seven planned project launches completed we are excited to see the remaining projects launch in the second half and see these new projects start to take shape. We are also excited for the completion of the clubhouse and the commissioning of our first solar micro-grid and centralised community battery at Lifestyle Meridian.

2. Dividends

The directors have resolved to pay an interim fully franked dividend of 5.5 cents per ordinary share (1H FY22: 4.5 cents).

3. Significant changes in the state of affairs

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

4. Directors

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

Directors	Position	Commencement date
Philippa Kelly	Non-Executive Chair	September 2013
James Kelly	Managing Director	September 2007
The Honourable Nicola Roxon	Non-Executive Director	September 2017
David Blight	Non-Executive Director	June 2018
Mark Blackburn	Non-Executive Director	December 2019
Claire Hatton	Non-Executive Director	May 2022

Company Secretaries	Appointed
Darren Rowland	July 2018
Anita Addorisio	December 2021

Auditor's independence declaration

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

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



Philippa Kelly
Chair
13 February 2023



James Kelly
Managing Director
13 February 2023



Auditor's Independence Declaration

As lead auditor for the review of Lifestyle Communities Limited for the half-year ended 31 December 2022, I declare that to the best of my knowledge and belief, there have been:

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

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

A handwritten signature in blue ink, appearing to read 'Andrew Cronin', written over a light blue horizontal line.

Andrew Cronin
Partner
PricewaterhouseCoopers

Melbourne
13 February 2023

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Artist's impression of Lifestyle Riverfield Clubhouse





Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the half-year ended 31 December 2022

\$000's	Note	31 December 2022	31 December 2021
Development revenue			
Home settlement revenue	2.1	67,219	72,491
Cost of sales	2.1	(52,948)	(56,490)
Gross profit from home settlements		14,271	16,001
Management and other revenue			
Rental revenue	2.2	16,961	14,547
Deferred management fees	2.3	6,255	4,689
Utilities revenue	2.4	2,316	1,996
Finance revenue	2.6	100	5
Other revenue	2.5	–	142
Total management and other revenue		25,632	21,379
Fair value adjustments	3.3	24,886	26,192
Less expenses			
Development expenses (sales, marketing and project management)	2.1	(5,960)	(4,196)
Management rental expenses	2.2	(7,206)	(6,635)
Deferred management fee expenses	2.3	(1,188)	(1,059)
Utilities expenses	2.4	(2,365)	(1,802)
Corporate overheads	2.7	(8,731)	(6,624)
Employee Share Scheme	2.7	(1,869)	(1,451)
Finance costs	2.6	(1,367)	(686)
Other costs		–	(1,832)
Profit before income tax		36,103	39,287
Income tax expense		(10,863)	(11,772)
Profit attributable to members of Lifestyle Communities Limited		25,240	27,515
Earnings per share for profit attributable to the ordinary equity holders of the parent entity:			
Basic earnings per share (cents)		24.3	26.4
Diluted earnings per share (cents)		24.1	26.3

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

Condensed Consolidated Statement of Financial Position

For the half-year ended 31 December 2022

\$000's	Note	31 December 2022	30 June 2022
ASSETS			
Current assets			
Cash and cash equivalents		1,050	1,893
Trade and other receivables		992	963
Inventories	3.1	114,257	86,755
Other current assets		1,962	1,230
Current tax receivable		1,636	–
Assets held for sale	3.2	3,426	–
Total current assets		123,323	90,841
Non current assets			
Inventories	3.1	36,893	48,924
Other assets		1,561	1,275
Property, plant and equipment		17,541	14,610
Right of use assets		209	314
Investment properties	3.3	904,754	850,247
Total non-current assets		960,958	915,370
TOTAL ASSETS		1,084,281	1,006,211
LIABILITIES			
Current liabilities			
Trade and other payables		49,839	104,756
Lease liabilities		273	269
Current tax liabilities		–	1,404
Provisions		1,007	961
Total current liabilities		51,119	107,390
Non current liabilities			
Trade and other payables		53,847	55,148
Bank loan - secured		351,000	245,000
Lease liabilities		–	136
Provisions		422	310
Deferred tax liabilities		153,597	144,770
Total non current liabilities		558,866	445,364
TOTAL LIABILITIES		609,985	552,754
NET ASSETS		474,296	453,457
EQUITY			
Contributed equity	3.5	57,827	57,726
Reserves		7,799	6,028
Retained earnings	3.6	408,670	389,703
TOTAL EQUITY		474,296	453,457

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

Condensed Consolidated Statement of Changes in Equity

For the half-year ended 31 December 2022

2022

\$000's	Note	Contributed equity	Reserves	Retained earnings	Total equity
Balance at 1 July 2022		57,726	6,028	389,703	453,457
Profit for the half year				25,240	25,240
Employee share scheme			1,869		1,869
Treasury shares movement		101	(98)	–	3
Dividends paid or provided for	2.8			(6,273)	(6,273)
Balance at 31 December 2022		57,827	7,799	408,670	474,296

2021

\$000's	Note	Contributed equity	Reserves	Retained earnings	Total equity
Balance at 1 July 2021		63,859	3,472	310,764	378,095
Profit for the half year				27,515	27,515
Employee share scheme			1,430		1,430
Treasury shares movement		240	(240)		–
Treasury shares purchased		(1,537)			(1,537)
Dividends paid or provided for	2.8			(5,230)	(5,230)
Balance at 31 December 2021		62,562	4,662	333,049	400,273

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

Condensed Consolidated Statement of Cash Flows

For the half-year ended 31 December 2022

\$000's	Note	31 December 2022	31 December 2021
Cash flow from operating activities			
Receipts from customers		99,769	101,478
Payments to suppliers and employees		(116,445)	(110,478)
Income taxes paid		(5,076)	(5,109)
Interest received		100	5
Interest paid		(6,107)	(2,609)
Net cash provided by/(used in) operating activities		(27,759)	(16,713)
Cash flow from investing activities			
Purchase of property, plant and equipment		(4,155)	(1,606)
Purchase of investment properties and capitalised costs		(68,519)	(60,561)
Net cash provided by/(used in) investing activities		(72,674)	(62,167)
Cash flow from financing activities			
Principal elements of lease payments		(136)	(134)
Proceeds from external borrowings		106,000	84,000
Purchase of treasury shares		—	(1,537)
Dividends paid		(6,273)	(5,230)
Net cash provided by/(used in) financing activities		99,591	77,099
Net increase/(decrease) in cash and cash equivalents held		(842)	(1,781)
Cash and cash equivalents at the beginning of the half year		1,892	2,300
Cash and cash equivalents at end of financial year		1,050	519

Due to Lifestyle Communities' accounting policies and legal structure, payments to suppliers and employees includes all gross costs of infrastructure construction (i.e. civil works, clubhouse and other facilities). Under some other structures these costs may be classified as investing cash flows. Therefore, cash flows from operations will be negatively impacted when Lifestyle Communities is in the cash-intensive development phase of a community's construction. In 1HFY23 payments to suppliers and employees includes \$22.5m of such costs (1HFY22: \$30.6m).

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

Site of the future community at Lifestyle Phillip Island

Lifestyle Phillip Island





Notes to the Condensed Consolidated Financial Statements

For the half-year ended 31 December 2022

1. How we have prepared this report

1.1 Introduction

The condensed consolidated half-year financial report covers Lifestyle Communities Limited and its controlled entities ('the Group'). Lifestyle Communities Limited is a for-profit Company limited by shares, incorporated and domiciled in Australia.

The financial report was authorised for issue by the Directors on 13 February 2023.

Comparatives are consistent with prior years, unless otherwise stated.

1.2 Basis of preparation

This condensed consolidated half-year financial report for the reporting period ending 31 December 2022 has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standard AASB 134: Interim Financial Reporting.

The half-year financial report is intended to provide users with an update on the latest annual financial statements of Lifestyle Communities Limited and controlled entities (the Group). As such it does not contain information that represents relatively insignificant changes occurring during the half year within the Group. This condensed consolidated financial report does not include all the notes normally included in an annual financial report. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2022, together with any public announcements made during the year.

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial statements unless otherwise stated.

The half-year financial report has been prepared on an accruals basis and is based on historical costs modified, where applicable, by the measurement at fair

value of selected non-current assets, financial assets and financial liabilities.

Significant accounting policies adopted in the preparation of these financial statements are consistent with prior reporting periods.

1.3 Segment information

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

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

1.4 Compliance with IFRS

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

1.5 Historical cost convention

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

1.6 Rounding of amounts

The parent entity and the consolidated entity have applied the relief available under ASIC Corporations (Rounding in Financial / Directors' Reports) Instrument 2016/191 and accordingly, the amounts in the Consolidated Financial Statements and in the Directors' Report have been rounded to the nearest thousand dollars or in certain cases, to the nearest dollar or million.

1.7 Principles of consolidation

The consolidated Financial Statements are those of the consolidated entity, comprising the Financial Statements of the parent entity and of all entities

which the parent entity controls. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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

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

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

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

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

1.8 Significant accounting estimates and judgements

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

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

(a) Significant accounting judgments

(i) Income tax

Deferred tax assets and liabilities are based on the assumption that no adverse change will occur in the income tax legislation and the anticipation that the Group will derive sufficient future assessable

income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

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

(b) Significant accounting estimates and assumptions

(i) Valuation of investment properties

The Group values investment properties at fair value. Fair value is determined by a combination of the discounted annuity streams associated with the completed and settled home units and the fair value of the undeveloped land. Inputs for the fair value of investment properties are derived from independent and Directors' valuations, refer to Note 3.3.

(ii) Share based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

1.9 Joint operations

Under AASB 11 Joint Arrangements investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Group recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated in the financial statements under the appropriate headings.

2. How we have performed this year

The Company achieved a net profit after tax of \$25.3 million for the first half of the 2023 financial year, compared to \$27.5 million in the same period last year. Lower new home settlements (1H FY23: 141 compared to 1H22: 161) due to project timing is the primary driver of the reduction in profit relative to the prior comparative period.

2.1 New home settlements

The Group develops and sells homes including a share of the community infrastructure. Revenue from home settlement is recognised at a point in time with each home purchase agreement treated as a single performance obligation to transfer control of the home and community infrastructure to the homeowner. Revenue is recognised for the amount specified in the home purchase agreement upon receipt of final settlement. The owner has legal title, physical control of the asset, exposure to the majority of the risk and rewards of ownership. Deposits received in advance from customers are recognised as a contract liability until the performance obligation has been met. The construction cost of the homes and infrastructure is capitalised to inventory during development and then classified as costs of goods sold upon settlement.

Development revenue

\$000's	31-Dec 2022	31-Dec 2021
Home settlement revenue	67,219	72,491
Cost of sales	(52,948)	(56,490)
Gross profit from home settlements	14,271	16,001
Gross margin (%)	21.2%	22.1%
Development expenses (sales, marketing and project management)	(5,960)	(4,196)

New home settlements were 141 for the first half compared with 166 for the same period in the prior year and this has translated into lower revenue and gross margin from home settlements. The gross profit margin percentage is lower than the prior period due to the mix of homes being settled. Development expenses increased due to the launch of four new projects in the first half. The sales and marketing costs for these projects are expensed as incurred.

2.2 Community Operations

Rental revenue is derived under the Site Agreement granting the homeowners a right to use the Land for their property. The rent is calculated on a weekly basis per tenant as per the contract. Rental revenue is recognised as it is earned. Rental revenue meets the definition of a lease arrangement and falls outside the scope of AASB 15 and is therefore accounted for in accordance with AASB 16 Leases. Management rental expenses include salaries of onsite community managers and all costs necessary to ensure the efficient operation of the communities.

\$000's	31-Dec 2022	31-Dec 2021
Rental revenue	16,961	14,547
Management rental expenses	(7,206)	(6,635)
Gross profit from Community Operations	9,755	7,912
Gross margin (%)	57.5%	54.4%

Rental revenue and community operating expenses both increased during the period due to an increased number of homes under management as new communities commence operation and homes progressively settle. Rental revenue is contractually fixed to increase by the greater of CPI or 3.5% annually. The 1 July 2022 rental revenue increased by 3.7%.

2.3 Deferred management fee

The deferred management fee is a contribution to the management and maintenance of the community. The deferred management fee is considered highly susceptible to factors outside the Group's influence until realised, including the timing and the amount of consideration received, which is based on a set percentage of the resale value. The resale price is set and agreed by the homeowner. These factors result in a high degree of variability in expected consideration, and as such revenue from deferred management fee is recognised at a point in time upon the resale settlement of the home when the vendor transfers control of the home and community infrastructure to the incoming homeowner. Revenue for deferred management fees are recognised under AASB 15.

For all contracts entered into prior to 1 January 2009, the fee payable is 15% on the resale value of the unit and after a period of occupation of a year and one day.

For all contracts entered into post 1 January 2009, the fee payable is up to 20% (the fee accumulates by 4% per year over 5 years up to 20%) on the resale value of the unit.

\$000's	31-Dec 2022	31-Dec 2021
Deferred management fees	6,255	4,689
Deferred management fee expenses	(1,188)	(1,059)
Gross profit from management fees	5,067	3,630
Gross margin (%)	81.0%	77.4%

88 resale settlements were achieved during the half (1H FY22: 73) of which 72 resales attracted a deferred management fee (1H FY22: 68). The company offers a smart buy guarantee whereby no deferred management fee is payable if a homeowner moves out within the first 12 months. At the end of the half year

there were 32 resale homes available for sale and 30 resale homes sold and awaiting settlement across the communities (26 of these will attract a DMF).

Deferred management fee expenses are expenses incurred to assist with sales and marketing of resale homes. These expenses increased during the period in line with the increased volume of sales.

2.4 Utilities revenue

Lifestyle Communities operates embedded networks for electricity, water and gas (where applicable at each community). Utilities are individually metered, billed to homeowners monthly, and recorded as revenue in the respective month. Lifestyle Communities adjusts its rates to homeowners on a regular basis based on usage and the price Lifestyle Communities pays to the relevant wholesalers.

\$000's	31-Dec 2022	31-Dec 2021
Utilities revenue	2,316	1,996
Utilities expenses	(2,365)	(1,802)

2.5 Other revenue

\$000's	31-Dec 2022	31-Dec 2021
Other revenue	–	142

Other revenue in the prior period relates to the profit on sale of a parcel of land sold in Shepparton in November 2021. The land was originally acquired in 2013 and was not utilised as part of the Shepparton community development and therefore was subsequently disposed in an on-market sale.

2.6 Finance revenue and costs

Interest income is recognised in the income statement as it accrues, using the effective interest method.

\$000's	31-Dec 2022	31-Dec 2021
Finance revenue	100	5

Interest income increased during the period due to an increase in interest rates.

(a) Finance costs expensed

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

\$000's	31-Dec 2022	31-Dec 2021
Interest on secured loans	1,153	522
Amortisation of loan facility fees	214	164
	1,367	686

Finance costs includes facility fees and interest on any non-development debt. Cost have increased this year due to the increased facility size and increased interest rates.

(b) Finance costs capitalised

Finance costs capitalised refers to interest capitalised at the prevailing facility interest rate as part of inventory during development and then classified as costs of goods sold as a pro-rata amount upon settlement of each home:

\$000's	31-Dec 2022	31-Dec 2021
Interest on secured loans	5,559	2,195

(c) Secured loans

In October 2022, the Company extended its contracts with The Commonwealth Bank of Australia, National Australia Bank and HSBC Bank Australia to secure an additional \$150 million of senior debt facilities and extend the tenor. The total facility now comprises \$525 million of senior debt facilities under a common terms deed. The new facilities comprise a \$110 million tranche with a maturity of June 2025, \$265 million tranche with a maturity of August 2026 and a \$150 million tranche with a maturity of October 2027. As at reporting date the Company has drawn \$351 million of the \$525 million facility.

(d) Interest rate swap

In December 2022, the Company entered into an interest rate swap with the National Australia Bank with a maturity of December 2026.

2.7 Corporate overheads

Corporate overheads include the Company's support functions such as the Executive Team, People and Capabilities, Finance, Information Technology and Legal. It also includes regulatory and other compliance costs, the cost of the employee equity incentive plan, and the support office located in South Melbourne.

\$000's	31-Dec 2022	31-Dec 2021
Support Office Costs	8,731	6,624
Employee Share Scheme Costs	1,869	1,451

Support office costs increased compared to the prior period due to recruitment costs to drive the increased headcount together with the computer costs as a result of the Salesforce implementation in the prior year.

The employee share scheme for FY23 has been structured similarly to the FY22 scheme and has been structured to deliver the next phase of growth. The variation in costs in the first half of FY23 relates to a higher volume of options issued and an increase in the share price.

2.8 Dividends

As a general principle, the Directors of Lifestyle Communities intend to declare dividends out of post-tax, operating cash flow generated from community management.

Dividends increased compared to the same period in the prior year due to the increase in the Group's annuity income stream from rent income and deferred management fees.

\$000's	31-Dec 2022	31-Dec 2021
2022 final dividends		
Dividends paid 6.0 cents per share (2022: 5.0 cents per share) fully franked at 30%	6,273	5,230
Interim dividends declared after balance date and not recognised		
Since balance date the directors have declared an Interim dividend of 5.5 cents per share (2022: 4.5 cents per share) fully franked at 30%	5,750	4,705

Franked dividends declared or paid during the year were franked at the tax rate of 30%.

3. Our business assets and equity

3.1 Inventories

Inventories are measured at the lower of cost and net realisable value. Inventories include housing units built but not sold as well as capitalised civils and infrastructure, wages and holding costs. Inventories are classified as either current or non-current assets pursuant to the timing of their anticipated sale.

\$000's	31-Dec 2022	30-Jun 2022
Current		
Housing	76,634	48,561
Civils and infrastructure	37,623	38,194
	114,257	86,755
Non current		
Housing	2,214	4,136
Civils and infrastructure	34,679	44,788
	36,893	48,924
Total	151,150	135,679

3.2 Assets held for sale

Investment property classified as held for sale during the half year was measured at the fair value less costs to sell at the time of the reclassification, resulting in the recognition of a fair value gain of \$1.1m in the statement of profit or loss. The fair value was determined using the prices of comparable properties for the 10 residential lots adjacent to our St Leonards community currently being marketed for sale.

3.3 Investment properties

The Company's investment properties comprise of both the capitalisation of the rental revenue and deferred management fee annuity stream together with the fair value of the undeveloped land. The undeveloped land is converted to a capitalised annuity stream upon settlement of each home.

At 31 December 2022, the fair value has been determined by a combination of the discounted annuity streams associated with completed home units and the fair value of the undeveloped land. The gain arising from the change in the fair value of investment properties has been recognised in the profit or loss.

(a) Fair value gain

\$000's	31-Dec 2022	31-Dec 2021
Fair value adjustments— Investment Properties	24,886	26,192

Fair Value Measurement, Valuation Techniques, and Inputs

The fair value represents the amount at which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction at the date of the valuation, in accordance with Australian Accounting Standards.

In determining fair value, the expected net cash flows applicable to each property have been discounted to their present value using a market determined, risk adjusted, discount rate applicable to the respective asset.

The expected net cash flows applicable to each property comprise of rental revenue and deferred management fee.

Rental revenue is valued using the rent capitalisation approach

Rental capitalisation rates are derived from a combination of independent and Directors' valuations. The Directors have considered the appropriateness of these assumptions as at 31 December 2022 and have reviewed an independent valuation undertaken during the period, and market based transactional evidence of similar properties, to assist in forming their opinion. Discussions have also been held with independent valuation experts. The Directors have not adjusted the rental capitalisation rates from those that were used at 30 June 2022. Weekly rental rates were adjusted to take into account the proportionate effect of the 3.7% rental increase implemented on 1 July 2022.

Deferred management fee revenue is valued using the discounted cash flow approach

Inputs, including discount rates, deferred management fee annuity value, are derived from independent valuations undertaken at 30 June 2022 and these have not been changed during the period. The Directors have considered the appropriateness of these assumptions at 31 December 2022 and have reviewed an independent valuation undertaken during the period, market based transactional evidence of similar properties, and year to date trading and costs, to assist in forming their opinion. Discussions were also held with independent valuation experts.

All rental income and deferred management fee income disclosed in the Statement of Profit or Loss was generated from investment properties. All management expense relates to investment properties that generated rental income.

Investment properties, other than those owned as part of a joint operations, are subject to a first charge, forming in part the security of the Group's loans.

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

The following table shows the valuation assumptions used in measuring the fair value of the investment properties.

	Dec 2022 Adopted	30 June 2022 Per valuation
Weekly rentals (\$)	212.94 – 222.65	209.27 – 218.82
Anticipated % expenses (as a percentage of rental income)	33.0% – 51.3%	33.0% – 51.3%
Rental capitalisation rate (%)	4.9% – 5.25%	4.9% – 5.25%
Rental values per unit (\$)	116,183 – 164,499	114,394 – 161,884
Deferred management fee discount rates (%)	12.0% – 14.0%	12.00% – 13.75%
Deferred management fee values per unit (\$)	36,000 – 92,988	36,000 – 88,172
Valuation of undeveloped land (per hectare) (\$'million)	1.3 – 5.4	1.3 – 5.4

Capitalisation rate

Capitalisation rate refers to the rate at which the annual free cash flow from weekly rental, net of costs, is capitalised to ascertain its present value at a given date. The weekly rental is contracted under the Site Lease Agreement. The capitalisation rate reflects the nature, location and tenancy profile of the property together with current market evidence and sale of comparable properties.

Generally, a change in the assumption made for the adopted capitalisation rate is accompanied by a directionally opposite change in the investment property value. The adopted capitalisation rate forms part of the income capitalisation approach.

Capitalisation approach

When calculating the income capitalisation approach, the weekly rent has a strong interrelationship with the adopted capitalisation rate given the methodology involves assessing the total weekly income receivable from the property and capitalising this in perpetuity to derive a capital value. The below summary shows the impact on valuation of movement in the various key inputs:

- Increase in weekly rent = Increase in valuation
- Decrease in weekly rent = Decrease in valuation
- Increase (softening) of the capitalisation rate = Decrease in valuation
- Decrease (tightening) of the capitalisation rate = Increase in valuation

In theory, it is possible for the effects of movements in these key inputs to add to or offset each other depending on which way the assumptions move.

Deferred Management Fee Discount rate

The discount rate is determined using a number of risk-based assumptions to reflect the risk profile of deferred management fee income stream.

Discounted cash flow approach

The discounted cash flow approach involves formulating a projection of the net cash flow from deferred management fees over a specified time horizon and discounting this cash flow at the end of the projection period at an appropriate rate. The present value of this discounted cash flow represents the fair value of the property.

In assessing the value of the discounted cash flow, a forecast model projects the likely cash flows to be derived from the deferred management fees less expenses using probability factors on the homeowners length of time in the community and also the property market growth rates.

When assessing a discounted cash flow valuation, the adopted discount rate has a strong interrelationship in deriving a fair value given the discount rate will determine the rate in which the deferred management fee is discounted to the present value.

3.4 Fair value measurements

(a) Fair value hierarchy

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

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

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

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

	000's	Level 1	Level 2	Level 3	Total
31-Dec-2022					
Recurring Fair Value Measurements					
Investment properties				904,754	904,754
Total assets measured at fair value				904,754	904,754
30-Jun-2022					
Recurring Fair Value Measurements					
Investment properties				850,247	850,247
Total assets measured at fair value				850,247	850,247

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

(i) Investment properties

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

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

(i) Investment properties

The Company uses rental capitalisation rates, deferred management fee annuities, rental annuities and undeveloped land measured at fair value as its significant unobservable inputs utilised across the portfolio, refer to Note 3.1.

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

(i) Investment properties

The Company obtains independent valuations of each community at least every two years, refer to Note 3.1.

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

(i) Investment properties

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

\$000's	Post Tax Profit Higher/(Lower)		Equity Higher/(Lower)	
	31-Dec 2022	31-Dec 2021	31-Dec 2022	31-Dec 2021
Rental expense rate				
+2%	(10,569)	(8,431)	(10,569)	(8,431)
-2%	10,569	8,431	10,569	8,431
Rental capitalisation rate				
+0.50%	(28,735)	(22,287)	(28,735)	(22,287)
-0.50%	28,735	22,696	28,735	22,696
Deferred management fee per unit				
+5%	6,757	5,779	6,757	5,779
-5%	(6,757)	(5,779)	(6,757)	(5,779)
Land prices (undeveloped land)				
+10%	17,290	15,437	17,290	15,437
-10%	(17,290)	(15,437)	(17,290)	(15,437)
Rent revenue				
+1.75%	7,561	6,098	7,561	6,098
-1.75%	(7,561)	(6,098)	(7,561)	(6,098)

3.5 Contributed equity

\$000's	31-Dec 2022	30-Jun 2022
104,545,131 Ordinary shares (30 June 2022: 104,545,131)		
Ordinary Shares	64,523	64,523
450,386 Treasury shares (30 June 2022: 484,212)	(6,696)	(6,797)
Total	57,827	57,726

3.6 Retained earnings

\$000's	31-Dec 2022	30-Jun 2022
Movements in retained earnings were as follows		
Opening balance	389,703	310,764
Profit for the year	25,240	88,871
Dividends paid	(6,273)	(9,932)
Total	408,670	389,703

4. Information not recognised in the financial statements

4.1 Events Occurring After the Reporting Date

The financial report was authorised for issue on 13 February 2023 by the Board of Directors.

No matters or circumstances have arisen since the end of the financial year which significantly affected or could significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

4.2 Commitments

Commitments for future development costs not recognised in the financial statements at balance date are \$407 million. These commitments include future construction costs committed for Bellarine, Woodlea, Riverfield, Deanside, Wollert, St Leonards and Meridian.

Artist's impression of Lifestyle Bellarine Clubhouse



The Directors' Declaration

The directors of the Company declare that:

1. In the directors' opinion, the financial statements and notes thereto, as set out on pages 2 to 22 are in accordance with the Corporations Act 2001, including:
 - a. complying with Australian Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001; and
 - b. giving a true and fair view of the consolidated group's financial position as at 31 December 2022 and of its performance for the half-year ended on that date.
2. In the directors' opinion, there are reasonable grounds at the date of this declaration, to believe that Lifestyle Communities Limited will be able to pay its debts as and when they become due and payable.

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



Philippa Kelly
Chair



James Kelly
Managing Director

Melbourne, 13 February 2023



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

Report on the half-year financial report

Conclusion

We have reviewed the half-year financial report of Lifestyle Communities Limited (the Company) and the entities it controlled during the half-year (together the Group), which comprises the condensed consolidated statement of financial position as at 31 December 2022, condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, significant accounting policies and explanatory notes and the directors' declaration.

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

1. giving a true and fair view of the Group's financial position as at 31 December 2022 and of its performance for the half-year ended on that date
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410). Our responsibilities are further described in the *Auditor's responsibilities for the review of the half-year financial report* section of our report.

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to the audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Responsibilities of the directors for the half-year financial report

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

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***Auditor's responsibilities for the review of the half-year financial report***

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2022 and of its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

A blue ink signature that reads 'PricewaterhouseCoopers' in a cursive script.

PricewaterhouseCoopers

A blue ink signature that appears to read 'Andrew Cronin' in a cursive script.

Andrew Cronin
Partner

Melbourne
13 February 2023

Corporate Information

Lifestyle Communities Limited		ABN 11 078 675 153
Registered Office	Level 1, 9–17 Raglan Street South Melbourne VIC 3205 Australia Telephone 61 3 9682 2249	
Directors	Philippa Kelly – Non Executive Chair James Kelly – Managing Director The Honourable Nicola Roxon – Non Executive Director David Blight – Non Executive Director Mark Blackburn – Non Executive Director Claire Hatton – Non Executive Director	
Company Secretaries	Darren Rowland Anita Addorisio	
Principal Place of Business	Level 1, 9–17 Raglan Street South Melbourne VIC 3205 Australia	
Share Registry	Computershare Investor Services Pty Limited Yarra Falls 452 Johnston Street, Abbotsford VIC 3067 Telephone 61 3 9415 5000 Fax 61 3 9473 2500 Investor queries (within Australia) 1300 850 505	
Solicitors	Thomson Geer Level 39, 525 Collins Street Melbourne VIC 3000 Australia	
Auditors	PricewaterhouseCoopers 2 Riverside Quay Southbank VIC 3006 Australia	

Artist's impression of Lifestyle Riverfield Clubhouse and indoor pool







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