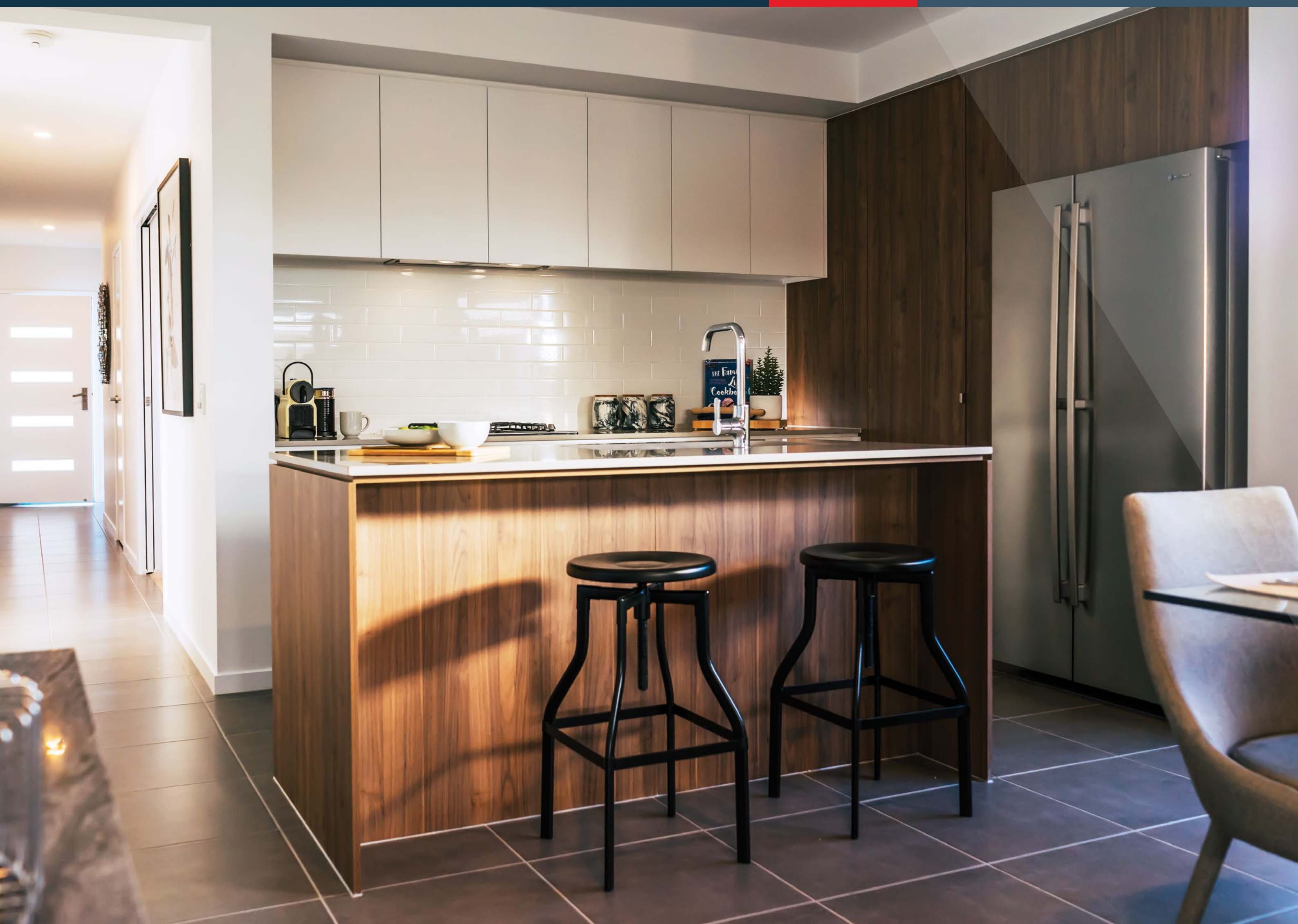
INTERIM FINANCIAL REPORT

31 DECEMBER 2017
VILLA WORLD LIMITED
ABN 38 117 546 326

VILLAWORLD



Villa World Limited ABN 38 117 546 326
Interim Financial Report - 31 December 2017

Contents

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 30 June 2017 and any public announcements made by Villa World Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Villa World Limited
Directors' report
31 December 2017

Directors' report

The Directors of Villa World Limited present their report together with the interim financial report for the half-year ended 31 December 2017.

This report relates to Villa World Limited and its subsidiaries ("Company") and the Company's interest in associates and jointly controlled entities.

Directors

The Directors of Villa World Limited during the period and up to the date of this report were:

Director	Role	Independent	Appointed
Mark Jewell	Independent Chairman	Yes	28/11/2013
Craig Treasure	Chief Executive Officer and Managing Director	No	17/02/2012
David Rennick	Non-Executive Director	Yes	01/09/2014
Donna Hardman	Non-Executive Director	Yes	17/02/2016

Review of operations

Key highlights for the half-year

- Statutory net profit after tax from continuing operations of $17.3 million (31 December 2016: $19.6 million statutory net profit after tax)
- Earnings per share from continuing operations of 13.6 cps[1] (31 December 2016: 17.4 cps)
- Revenue from the sale of property of $202.2 million (31 December 2016: $209.4 million)
- Accounting settlements[2] of 630 lots (including the Company's share of joint ventures) (31 December 2016: 592 lots)
- Net sales[3] of 715 lots (31 December 2016: 673 lots) for a gross value (inclusive of GST) of $252.8 million (31 December 2016: $258.6 million), inclusive of proportional share of joint ventures
- A total of 610 contracts on hand at 31 December 2017 (31 December 2016: 554 contracts) to carry forward for a gross value[4] of $207.4 million (31 December 2016: $191.6 million)
- Gearing[5] of 25.7% (30 June 2017: 12.9%).

Financial commentary for the half-year

Villa World is on track to deliver full-year forecast profit growth of at least 10% and has set the scene for even stronger performances ahead as flagship projects and income from the sale of its Donnybrook parcels (51% joint venture) underpin earnings through to FY23.

The financial result for the half-year to 31 December 2017 was a statutory net profit after tax of $17.3 million (13.6 cps), compared to a net profit after tax of $19.6 million (17.4 cps) for the half-year to 31 December 2016.

The half-year result benefitted from a new joint venture project at Wollert, in Victoria, which contributed $5.2 million net profit after tax ($7.3 million before tax).

Full-year statutory profit after tax guidance is reaffirmed as at least $41.6 million which represents 10% growth on FY17. The Company will continue to monitor product delivery and land title registrations towards the end of 2H18 and will provide a further update if necessary.

Revenue from Land Development, Residential Building and Construction Contracts

Continued sales momentum combined with $175.7 million[6] of carried forward sales from FY17, and excellent delivery of land and housing resulted in 619 wholly owned accounting settlements in 1H18 (1H17: 576). As a result, $202.2 million in revenue was recorded (1H17: $209.4 million).

The revenue mix reflects the Company's continued focus on its core capabilities in house and land product, as well as strong land only settlements. House and land product generated 66% of revenue (1H17: 66%), with New South Wales and Queensland continuing as the main source of revenue at 76% (1H17: 84%).

1 Basic earnings per share based on weighted average of shares on issue of 126,926,266 (1H17: 112,728,788).

2 Accounting settlements are based on the revenue recognition accounting policy.

3 Sale - executed contract of sale, not necessarily unconditional.

4 Contracts on hand gross value - total sales value (including GST) for conditional and unconditional contracts not yet recognised as revenue, inclusive of proportional share of joint ventures.

5 Gearing ratio (interest bearing liabilities less cash) / (total assets less cash).

6 Represents gross sales price inclusive of GST.

Review of operations (continued)

Revenue from Land Development, Residential Building and Construction Contracts (continued)

Average revenue per lot was $326,800 down from $360,400 in 1H17 and is reflective of the product mix. The average revenue per house and land lot was $408,000 (1H17: $453,300) reflecting the contract build component of settlements at *Rochedale Grand* (S-Brisbane), compared to strong settlements of higher value house and land product in North and Bayside Brisbane in the prior year. Average land only revenue was $236,300 (1H17: $254,700) reflecting a high proportion of settlements at the more affordable *Cardinia Views* (SE Melbourne) and *Killara* (Logan) projects.

Strong (like for like) revenue growth was experienced at *Seabright* (Gold Coast), *Lavinia* (N-Melbourne) and *Sienna* (NW-Melbourne) compared to FY17.

Gross Margin

The gross margin for 1H18 was $49.6 million (1H17: $54.7 million) or 24.5% (1H17: 26.1%), within the guidance range of 24%-26%. An increased proportion of capital lite projects contributed to half-year profit.

Revenue – Development and Project Management

During 1H18 the Company continued to progress its strategy to grow development and project management income streams by deploying development management skills into joint venture arrangements.

The Company has entered into a joint venture with Ho Bee Land Limited to develop the ~15.73ha site located in Wollert, Victoria, 25km north of Melbourne CBD. The joint venture will deliver a 285 lot land community at an average sales price of $300,000. The joint venture will obtain project specific financing for the development in due course. In undertaking the development, the joint venturers are to contribute capital and share profits on the basis of 51% (Villa World) and 49% (Ho Bee). The Company will receive fees for development management and sales and marketing coordination; and has the potential to receive a performance fee.

In 1H18, joint ventures delivered $8.0 million in fee income (1H17: $1.0 million) comprising a $7.3 million fee from the Wollert JV and $0.7 million project management fees from the Rochedale JV.

The Company anticipates development and project management fees will provide a growing revenue stream for the business.

Share of Profit from Equity Accounted Investments

The share of profit from equity accounted investments and associates of $0.7 million related to land settlements from the Rochedale joint venture (1H17: $0.9m).

Operations Performance

The Company recorded 715 sales (1H17: 673) in 1H18 across 23 projects (1H17: 18 projects). The average sales rate increased to 119 per month (1H17: 112 per month), with strong contributions from flagship projects released in FY17[7], as well as 3 new project releases during the half including *Lilium* in Clyde. A further 6 projects will commence selling in 2H18, including key projects *The Meadows* (Strathpine), *Chambers Ridge* (Park Ridge), *Covella* (Greenbank) and *Elyssia* (Wollert).

Queensland has continued to perform well, contributing 63% of sales (1H17: 68%). Pleasingly, the Company has experienced continued strength in its Victorian projects, contributing 34% of sales (1H17: 26%), with New South Wales making up the remaining 3% of sales (1H17: 6%).

The Company's strategy of targeting growth corridors continues to reap excellent results in Queensland, with strong sales in all of the Company's south east Queensland corridors and in Hervey Bay. In Victoria, the Company achieved very strong sales at its two active land only projects, *Sienna Rise* (Frasers Rise) and *Lilium* (Clyde), as well as the sell-out of the penultimate stage at *Cascades on Clyde*. The Company's housing product continues to be well received in Sydney's north-west and south-west.

The Company maintains a solid position in all customer segments - the core being the retail market (comprising owner occupiers including first home buyers), as well as builders and local investors[8].

The Company delivered 646 lots of land (1H17: 324). The Company's housing operations delivered 325 homes across New South Wales, Queensland and Victoria (1H17: 291).

Sales Contracts Carried Forward

At 31 December 2017, the Company carried forward 610 sales contracts valued at $207.4 million[9], with 36% of contracts (218 contracts valued at $76.3 million) due to settle in 2H18 and the balance in FY19.

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7 *Killara*, *Arundel Springs*, *Seascape* and *Sienna Rise*.

8 Less than 5% of 1H18 sales were to international investors.

9 Represents gross sales price including GST.

Review of operations (continued)

Sales Contracts Carried Forward (continued)

These strong carried forward sales, when combined with the Company's continued sales focus, place the Company in a very strong position for the remainder of FY18.

Property Sales and Marketing Costs

The sales and marketing strategy introduced in 2015, which shifted focus onto the Villa World brand and targeted regional marketing campaigns, has benefited both sales volume and sales and marketing costs which were 5.8% of revenue (1H17: 5.3%).

Employee Benefits

The Company finished 1H18 with 159 full time equivalent employees (FY17: 146). Additional roles were added in sales and marketing supporting the high number of new estate releases in Queensland and in Victoria. Administration roles were also added to support the increased business operations. Employee costs represented 6.1% of revenue in 1H18 (1H17: 4.8%)

Assets and NTA

Gross assets were $544.4 million as at 31 December 2017 (FY17: $577.7 million). The NTA per share has increased to $2.31 prior to the declaration of the 8.0 cent fully franked interim dividend (FY17: $2.27 prior to the declaration of the 10.5 cent final dividend).

Capital Management

During 1H18, the Company operated a $190 million club facility with ANZ and Westpac. The $140 million ANZ facility has a staggered maturity, with $10 million maturing in August 2018, $80 million maturing in October 2020, $40 million maturing in October 2021 and $10 million maturing in March 2022. The $50 million Westpac facility is due to mature in March 2019. The Company is currently negotiating extensions of the $10 million ANZ facility maturing in August 2018 and the $50 million Westpac facility.

As at 31 December 2017, the cash on hand was $20.5 million (30 June 2017: $7.7 million), and unused capacity in the facility was $68.6 million (30 June 2017: $142.1 million). Net debt was $134.9 million (30 June 2017: $73.8 million). Gearing at 31 December 2017 was 25.7% (30 June 2017: 12.9%). The Company continues to maintain a prudent gearing target of 15-30%.

The Company has on issue $50 million of simple corporate bonds, which pay a variable interest rate of 4.75% margin above the 3 month BBSW and mature in April 2022.

The average cost of debt for the period ended 31 December 2017 was 7.6% compared to 9.0% as at 30 June 2017. A $90 million fixed interest swap of 3.69% remains in place through to June 2018.

Strong sales and settlements during 1H18 generated $92.8 million (1H17: $117.3 million) in operating cash. Strong cash flow, combined with headroom in the debt facility enabled $111.9 million (1H17: $66.6 million) in acquisitions to be settled. The Company expects cash outflow for acquisitions of $110 million to $130 million in FY18 funded from existing debt facilities and working capital, as well as $45 million in capital lite transactions.

Dividend

Shareholders have benefitted from the strong financial performance during 1H18, with the Directors declaring post balance date an interim dividend of 8.0 cents per share fully franked (1H17: 8.0 cents per share), to be paid on 30 March 2018. This represents a payout ratio of 59% of NPAT, which is within the Company's stated dividend policy (payout ratio of 50% - 75% of annual NPAT, paid semi-annually).

Acquisitions and Disposals

In December 2017, the Company announced that the Donnybrook Joint Venture had entered into a conditional contract to sell its remaining parcel at 960 Donnybrook Road, having previously entered into a conditional contract to sell its adjoining parcel at 1030 Donnybrook Road to Satterley Property Group Pty Ltd. The site comprises ~208 ha, with the Donnybrook JV to retain certain portions of the site including non-residential components. The purchaser is 960 Blueways Pty Ltd, a wholly owned subsidiary of Blueways Holding Pty Ltd. The Company's share of revenue from the sale is $50 million which will be recognised progressively in line with the staged settlements, and will therefore be dependent on timing of Precinct Structure Plan approval. Based on current expectations, revenue will be recognised commencing in 1H20 but could be as early as 2H19. This sale (still conditional upon PSP approval) underpins forecast earnings from FY20-FY23.

Review of operations (continued)

Acquisitions and Disposals (continued)

Following the deployment of capital into acquisitions in FY17, the Company will be selective in acquiring projects to build the pipeline beyond FY19. The Company expects to grow its well-established position in South-East Queensland, in what it considers to be the most undervalued market on the east coast. Capital allocated to New South Wales will be reinvested, enabling the Company to continue to grow its presence through further partnering. The Victorian land bank will be replenished, predominantly through partnerships and structured transactions.

At 31 December 2017, the Company had a portfolio of 6,348 lots[10] (FY17: 7,832) representing approximately 4.6 years of sales (at the FY18 sales guidance of 1400).

Governance and Leadership

During the half-year, the Company continued to foster a culture of strong governance and leadership. The Board worked closely with senior management to develop and refine the Company's purpose and the core behaviours that will support that purpose, which will be brought to life throughout the business during 2H18.

At the AGM held in October 2017, Mark Jewell and David Rennick were re-elected to the Board with very strong support from shareholders. The Company expects that prior to full-year end, it will be in a position to announce the appointment of another Non-Executive Director to join the current four Board members.

The Company is pleased to advise of the appointment of Michael Vinodolac as Chief Operating Officer, effective form 1 March 2018. Mr Vinodolac is currently General Manager – Operations, and his new role is well deserved recognition of his leadership and valuable impact on the national operations of the business.

The Company has been continuing to identify suitable candidates for the role of Chief Financial Officer, with Brett Delaney having held the position of Acting CFO since July 2017. The Company anticipates that the permanent CFO role will be filled in the coming months, at which time the market will be updated.

Outlook

In 2H18 the Company's focus will remain on delivering and settling carried forward sales and releasing flagship projects including *The Meadows* (Strathpine), *Chambers Ridge* (Park Ridge), *Covella* (Greenbank) and *Elyssia* (Wollert). With in excess of 15 substantial projects selling during the remainder of FY18, the Company expects to achieve at least 1,400 sales.

The Company continues to progress its strategy of growing joint venture arrangements. In FY18, these arrangements will contribute approximately $14.3 million to profit before tax comprising development and project management fees and share of profit, primarily from the Rochedale and Greenbank joint ventures, as well as the Wollert JV fee.

The Company anticipates that development and project management fees will provide a growing revenue stream, as the Company continues to pursue opportunities to grow the business in a capital efficient way, with a strong focus on return on assets.

The FY18 gross margin is expected to be within the range of 24% to 26%, with an increased proportion of capital lite projects contributing to profit. While such projects may deliver a lower gross margin, they typically provide a stronger return on investment.

Guidance

Assuming general consumer confidence is maintained, interest rates remain low and first home buyer grants remain in place, the Company is targeting at least a 10% growth in statutory profit after tax to at least $41.6 million in FY18 (FY17: $37.8 million). This represents EPS of 32.8 cps (FY17: 32.5 cps). The Company will continue to monitor product delivery and land title registrations towards the end of 2H18 and will provide a further update if necessary.

It is the intention of the Board to continue the payment of strong dividends, in accordance with the stated payout policy of 50% to 75% of annual NPAT, paid semi-annually and fully franked. The Board anticipates paying total dividends of at least 18.5 cents per share fully franked in relation to FY18 (FY17: 18.5 cents per share).

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 6.

10 Reflecting the conditional sale of Donnybrook parcels.

Villa World Limited
Directors' report
31 December 2017
(continued)

Review of operations (continued)

Rounding of amounts

The consolidated entity is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the Directors' Report. Amounts in the Directors' Report have been rounding off in accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 to the nearest thousand dollars, or in certain cases, to the nearest dollar.

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

Craig Treasure
Chief Executive Officer and Managing Director
Broadbeach
13 February 2018

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Auditor's Independence Declaration to the Directors of Villa World Limited

As lead auditor for the review of Villa World Limited for the half-year ended 31 December 2017, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

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

This declaration is in respect of Villa World Limited and the entities it controlled during the financial period.

Ernst & Young

Ric Roach
Partner
13 February 2018

Villa World Limited ABN 38 117 546 326
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Interim condensed consolidated statement of comprehensive income
for the half-year ended 31 December 2017

		Consolidated	
		31-Dec-17	31-Dec-16
	Notes	**$'000**	$'000
Revenue from continuing operations			
Revenue from land development, residential building and construction contracts	A2	**202,230**	209,440
Cost of land development, residential building and construction contracts	A2	**(152,598)**	(154,768)
Gross margin		**49,632**	54,672
Development and project management fees	A1	**8,029**	1,021
Other income		**507**	296
Reversal of impairment of investment in equity accounted investment		**-**	627
Net impairment reversal of development land		**148**	771
Share of profit from associates		**692**	880
Other expenses from ordinary activities			
Property sales and marketing expenses		**(11,731)**	(11,015)
Land holding costs		**(1,796)**	(1,902)
Legal and professional costs		**(1,347)**	(799)
Employee benefits		**(12,305)**	(9,960)
Depreciation and amortisation expense		**(283)**	(254)
Information technology and administration costs		**(3,477)**	(2,374)
Finance costs	C4	**(3,189)**	(3,986)
Profit before income tax		**24,880**	27,977
Income tax expense	A4	**(7,575)**	(8,361)
Profit for the half-year		**17,305**	19,616
Profit is attributable to:			
Owners of Villa World Limited		**17,305**	19,616

		Consolidated	
		31-Dec-17	31-Dec-16
	Notes	**$'000**	$'000
Net profit for the half-year		**17,305**	19,616
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Changes in the fair value of cash flow hedges		**959**	993
Income tax relating to components of other comprehensive income		**(254)**	(298)
Other comprehensive income for the half-year, net of tax		**705**	695
Total comprehensive income for the half-year		**18,010**	20,311
Total comprehensive income for the half-year is attributable to:			
Owners of Villa World Limited		**18,010**	20,311

	Cents	Cents
Earnings per share for profit attributable to the ordinary equity holders of the Company:		
Basic earnings per share	**13.6**	17.4
Diluted earnings per share	**13.5**	17.3

The above interim condensed consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Interim condensed consolidated balance sheet
as at 31 December 2017

		Consolidated	
		31-Dec-17	30-Jun-17
	Notes	**$'000**	$'000
ASSETS			
Current assets			
Cash and cash equivalents		**20,455**	7,663
Trade and other receivables		**56,155**	52,628
Inventories	B1	**188,483**	206,757
Other current assets		**3,175**	3,347
Total current assets		**268,268**	270,395
Non-current assets			
Inventories	B1	**240,741**	271,205
Property, plant and equipment		**1,375**	1,195
Investments accounted for using the equity method	D1	**24,000**	24,869
Other non-current assets		**10,000**	10,000
Total non-current assets		**276,116**	307,269
Total assets		**544,384**	577,664
LIABILITIES			
Current liabilities			
Trade and other payables	B2	**71,765**	165,435
Borrowings	C3	**9,900**	-
Deferred income		**419**	467
Current tax liabilities		**3,213**	10,775
Service warranties	B3	**4,112**	4,219
Employee benefits		**1,151**	1,053
Other provisions		**117**	130
Total current liabilities		**90,677**	182,079
Non-current liabilities			
Trade and other payables	B2	**12,901**	23,760
Borrowings	C3	**145,435**	81,457
Deferred income		**-**	84
Net deferred tax liabilities		**2,165**	1,972
Employee benefits - long service leave		**429**	496
Other provisions		**85**	78
Total non-current liabilities		**161,015**	107,847
Total liabilities		**251,692**	289,926
Net assets		**292,692**	287,738
EQUITY			
Contributed equity	C1	**477,595**	477,597
Other reserves		**220,339**	208,511
Accumulated losses		**(405,242)**	(398,370)
Total equity attributable to shareholders		**292,692**	287,738
Total equity		**292,692**	287,738

The above interim condensed consolidated balance sheet should be read in conjunction with the accompanying notes.

Interim condensed consolidated statement of changes in equity for the half-year 31 December 2017

		Attributable to owners of Villa World Limited					
		Contributed equity	Cash flow hedges	Other reserves	Profits reserve	Accumulated losses	Total
Consolidated	Notes	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Balance at 1 July 2016		444,271	(2,355)	2,441	190,234	(397,711)	236,880
Profit for the half-year as reported in the 2017 interim financial statements		-	-	-	-	19,616	19,616
Movement in hedge reserve (net of tax)		-	695	-	-	-	695
Total comprehensive income for the half-year		-	695	-	-	19,616	20,311
Transactions with owners in their capacity as owners:							
Transfer current year profit to profit reserve		-	-	-	22,075	(22,075)	-
Dividends provided for or paid	A3	-	-	-	(11,359)	-	(11,359)
Expenses related to share based payments		-	-	282	-	-	282
Proceeds from exercise of options under the Villa World Limited Option Plan		4,062	-	-	-	-	4,062
Shares acquired by Employee Share Scheme Trust		(396)	-	-	-	-	(396)
		3,666	-	282	10,716	(22,075)	(7,411)
Balance at 31 December 2016		**447,937**	**(1,660)**	**2,723**	**200,950**	**(400,170)**	**249,780**
Balance at 1 July 2017		477,597	(1,262)	1,489	208,284	(398,370)	287,738
Profit for the half-year as reported in the 2018 interim financial statements		-	-	-	-	17,305	17,305
Movement in hedge reserve (net of tax)		-	705	-	-	-	705
Total comprehensive income for the half-year		-	705	-	-	17,305	18,010
Transactions with owners in their capacity as owners:							
Transfer current year profit to profit reserve		-	-	-	24,173	(24,173)	-
Dividends provided for or paid	A3	-	-	-	(13,327)	-	(13,327)
Expenses related to share based payments		-	-	396	-	-	396
Employee Share Scheme tax impact		-	-	(119)	-	(4)	(123)
Shares acquired by Employee Share Scheme Trust	C1	(48)	-	-	-	-	(48)
Shares issued by Employee Share Trust	C1	46	-	-	-	-	46
		(2)	-	277	10,846	(24,177)	(13,056)
Balance at 31 December 2017		**477,595**	**(557)**	**1,766**	**219,130**	**(405,242)**	**292,692**

The above interim condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Interim condensed consolidated statement of cash flows
for the half-year ended 31 December 2017

	Notes	Consolidated 31-Dec-17 $'000	31-Dec-16 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**212,977**	249,850
Receipts from the transfer of development rights		**18,897**	-
Payments to suppliers and employees (inclusive of goods and services tax)		**(139,074)**	(132,527)
Cash generated from operating activities		**92,800**	117,323
Payments for land acquired		**(111,928)**	(66,627)
Interest received		**184**	158
Interest paid		**(3,887)**	(2,946)
Borrowing costs		**-**	(34)
GST paid		**(3,059)**	(8,466)
Corporate tax paid		**(15,365)**	(5,129)
Net cash (outflow) / inflow from operating activities		**(41,255)**	34,279
Cash flows from investing activities			
Payments for property, plant and equipment		**(462)**	(294)
Payments for equity accounted investments		**(15,637)**	(5,000)
Distributions received from equity accounted investments		**9,600**	2,250
Net cash (outflow) from investing activities		**(6,499)**	(3,044)
Cash flows from financing activities			
Proceeds from borrowings		**122,658**	106,335
Repayment of borrowings		**(58,683)**	(124,105)
Proceeds from exercise of options under the Villa World Limited Option Plan		**-**	4,062
Payments for shares acquired by the Employee Share Scheme Trust	C1	**(48)**	(396)
Proceeds from shares issued under the Employee Share Scheme Trust	C1	**46**	-
Dividends paid to Company's shareholders	A3	**(13,327)**	(11,359)
Net cash inflow / (outflow) from financing activities		**50,646**	(25,463)
Net increase in cash and cash equivalents		**2,892**	5,772
Cash and cash equivalents at the beginning of the financial year		**7,663**	8,358
Cash and cash equivalents at end of half-year		**10,555**	14,130
Reconciliation to cash at end of half-year:			
Cash and cash equivalents		**20,455**	14,130
Bank overdraft	C3	**(9,900)**	-
Cash and cash equivalents at end of half-year		**10,555**	14,130

The above interim condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Contents of the notes to the interim condensed consolidated financial statements

A

RESULTS FOR THE YEAR

This section provides information that is most relevant to explaining the Company's performance during the half-year and where relevant, the accounting policies that have been applied and significant estimates and judgements made.

In this section:

A1 Joint venture revenue

	Consolidated	
	31-Dec-17	31-Dec-16
Development and project management fees	**$'000**	$'000
Opportunity fee - Wollert joint venture[1]	**7,301**	-
Project management fee - Rochedale joint venture	**728**	1,021
	8,029	1,021

[1] Represents 49% of the opportunity fee received from the Wollert joint venture for the right to develop the land.

A2 Segment revenue

(a) Identification of reportable operating segments

The Company is organised into two operating segments:

(i) Property development and construction - New South Wales and Queensland

(ii) Property development and construction - Victoria.

The Company has identified its operating segments based on the internal reports that are reviewed and used by the executive committee (chief operating decision makers) in assessing performance and in determining resource allocation.

The Company and its controlled entities develop and sell residential land and buildings predominately in New South Wales, Victoria and Queensland. The individual operating segments of each geographical area have been aggregated on the basis that they possess similar economic characteristics and are similar in nature of the product and production processes.

The segment information provided to the executive committee for the reportable segments for the six months ended 31 December 2017 is as follows:

A2 Segment revenue (continued)

(a) Identification of reportable operating segments (continued)

	31-Dec-17 $'000	31-Dec-16 $'000
From continuing operations		
Segment revenue from land development, residential building and construction contracts		
New South Wales and Queensland	**153,639**	176,363
Victoria	**48,591**	33,077
Total segment revenue from land development, residential building and construction contracts	**202,230**	209,440
Segment cost of land development, residential building and construction contracts		
New South Wales and Queensland	**116,398**	130,443
Victoria	**36,200**	24,325
Total segment cost of land development, residential building and construction contracts	**152,598**	154,768
Segment gross margin		
New South Wales and Queensland	**37,241**	45,920
Victoria	**12,391**	8,752
Total segment gross margin	**49,632**	54,672

Segment assets and liabilities are not directly reported to the executive committee when assessing the performance of the operating segments and are therefore not relevant to the disclosure.

(b) Segment information provided to the executive committee

(i) Segment revenue

Revenue received from external parties is derived from land development, residential building and construction contracts. Revenue is reported to the executive committee in a manner consistent with that presented in the income statement.

(ii) Segment gross margin

The executive committee assesses the performance of the operating segments based on a measure of gross margin. This measurement basis consists of revenue less land, development, construction and sundry costs.

A3 Dividends

(a) Ordinary shares

	Consolidated	
	31-Dec-17 $'000	31-Dec-16 $'000
Final fully franked ordinary dividend for the year ended 30 June 2017 of 10.5 cents (2016: 10.0 cents per fully paid share) paid on 29 September 2017 (2016: 30 September 2016)		
Final franked dividend based on tax paid at 30.0%	**13,327**	11,359

(b) Dividends not recognised at the end of the reporting period

	Consolidated	
	31-Dec-17 $'000	31-Dec-16 $'000
In addition to the above dividends, since half-year end the Directors have recommended the payment of an interim fully franked dividend of 8.0 cents per fully paid ordinary share (2016: 8.0 cents per fully paid ordinary share) based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 30 March 2018 out of profits reserve at 31 December 2017, but not recognised as a liability at half-year end, is	**10,154**	9,086

Notes to the interim condensed consolidated financial statements for the half-year ended 31 December 2017 (continued)

A4 Taxes

Numerical reconciliation of income tax expense to prima facie tax payable

	Consolidated	
	31-Dec-17	31-Dec-16
	$'000	$'000
Profit from continuing operations before income tax expense	**24,880**	27,977
	24,880	27,977
Tax at the Australian tax rate of 30% (2016 - 30%)	**7,464**	8,393
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share of profit / (loss) in equity accounted investments utilised	**105**	(132)
	7,569	8,261
Other	**5**	(26)
Adjustments for current tax of prior periods	**1**	126
	6	100
Income tax expense	**7,575**	8,361

B

OPERATING ASSETS AND LIABILITIES

This section shows the assets used to generate the Company's trading performance and the liabilities incurred as a result.

In this section:

B1 Inventories

	Consolidated	
	31-Dec-17	30-Jun-17
	$'000	$'000
Current assets		
Acquisition cost of land held for development and resale	**99,181**	125,794
Development costs	**85,502**	78,756
Capitalised interest	**4,589**	3,930
Impairment of development land	**(789)**	(1,723)
	188,483	206,757
Non-current assets		
Acquisition cost of land held for development and resale	**206,224**	238,163
Development costs	**31,062**	30,725
Capitalised interest	**9,579**	7,693
Impairment of development land	**(6,124)**	(5,376)
	240,741	271,205
Total inventory	**429,224**	477,962

B2 Trade and other payables

	Consolidated	
	31-Dec-17	30-Jun-17
	$'000	$'000
Current liabilities		
Land acquisitions	**18,253**	116,024
Sub-contractors and materials	**4,027**	2,927
Total trade payables	**22,280**	118,951
Other current payables		
Accrued expenses	**45,678**	42,586
Other payables[1]	**3,807**	3,898
Total current other payables	**49,485**	46,484
Total current trade and other payables	**71,765**	165,435
Non-current liabilities		
Land acquisitions	**12,329**	23,276
Other payables	**572**	484
Total non-current trade and other payables	**12,901**	23,760
Total payables	**84,666**	189,195

[1] Includes derivatives payable of $0.9 million (30 June 2017: $1.8 million).

B3 Provisions

(a) Service warranties

	Consolidated	
	31-Dec-17	30-Jun-17
	$'000	$'000
Current liabilities		
Service warranties	**4,112**	4,219
	4,112	4,219

A provision for warranties is recognised when the underlying products or services are sold. Provision is made for the estimated warranty claims in respect of Villa World Developments Pty Ltd built properties which are still under warranty at balance date. These claims are expected to be settled within the statutory warranty period. Where the Company expects some or all of a provision to be reimbursed, such as under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain.

The following statutory warranty periods generally apply to the Company's housing products:

- New South Wales - 10 years from occupancy certificate
- Victoria - 10 years from issue of occupancy certificate
- Queensland - 6 years 6 months from completion of work

(b) Movements in provision for service warranties

	Consolidated	
	31-Dec-17	30-Jun-17
	$'000	$'000
Current liabilities		
Carrying amount at start of period	**4,219**	14,392
- additional provisions recognised	**734**	1,310
Amounts incurred and paid	**(746)**	(10,840)
- unused amounts reversed	**(95)**	(643)
Carrying amount at end of period	**4,112**	4,219

(c) Amounts not expected to be settled within 12 months

The current provision for employee benefits includes accrued annual leave and long service leave. For long service leave it includes all unconditional entitlements where employees have completed the required period of service. Included within the long service leave provision is an amount of $429,564 (30 June 2017: $254,745) classified as current, since the Company does not have an unconditional right to defer settlement for this obligation. The non-current long service leave provision covers conditional entitlements where employees have not completed their required period of service, adjusted for the probability of likely realisation.

(d) Contingencies

(i) Details and estimates of contingent liabilities

The Company has provided bank guarantees (excluding joint venture entities) to the total of $14.6 million (30 June 2017: $14.9 million) to authorities and councils in relation to certain works to be undertaken or maintained or in support of contractual commitments.

(ii) Estimates of material amounts of contingent liabilities not provided for in the financial report

The Company has entered into agreements to indemnify certain employees and former employees against all liabilities that may arise as a result of any claims against them by third parties as a result of the Company's building activities. It is impractical to estimate the amount that may arise from these arrangements. There were no material claims made against the Company for the half-year ended 31 December 2017 (30 June 2017: nil).

A controlled entity has contractual arrangements that provide for liquidated damages under certain circumstances. It is impractical to estimate the amount of any liability that may arise from these arrangements. There were no claims made against the Company at 31 December 2017 (30 June 2017: nil).

B3 Provisions (continued)

(d) Contingencies (continued)

(iii) Contingent liabilities in respect of other entities

The Company has provided the following guarantees in respect of its interest in jointly controlled entities.

	Rochedale Joint Venture[1]		Donnybrook Joint Venture[2]		Villa Green Joint Venture[3]	
	31-Dec-17	30-Jun-17	**31-Dec-17**	30-Jun-17	**31-Dec-17**	30-Jun-17
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
Total financing facilities	**11,500**	11,500	**23,985**	11,220	**317**	-
Facilities utilised at reporting date	**1,856**	-	**21,388**	10,750	**-**	-
Bank guarantees utilised at reporting date	**1,099**	743	**-**	-	**-**	-

[1] For the Rochedale joint venture, the joint venture parties have agreed that they will share liabilities in the same proportion as their holding in the joint venture (50% each). If the parties enter into an agreement which creates on each of them a joint and several (unlimited) liability to a third party, they have agreed to indemnify each other to the extent that one of them is required to pay more than 50% of the liability to a third party.

[2] Donnybrook joint venture is jointly controlled as the parties contractually share the agreed control of the arrangement including the unanimous consent of the parties sharing control for decision-making.

[3] The Company's ownership interest in Villa Green joint venture is a joint arrangement with joint control. The joint venture partners contribute equal capital contributions and share profits on a 50/50 several liability basis.

B4 Capital and other commitments

(a) Put and call commitments

Villa World Limited, through its wholly owned subsidiaries, assumed certain contractual obligations in conjunction with the execution of Put and Call Option Agreements (the Agreements) in relation to the acquisition of individual subdivided lots in property developments in New South Wales, Queensland and Victoria.

The call option gives the Company (or a third party purchaser introduced by the Company) the option to purchase the lot(s) at a nominated price by the call option expiry date. The put option gives the vendor the right to sell to the Company at a nominated price on expiry of the call option. The potential total commitments remaining under the Agreements are $12.7 million (30 June 2017: $16.6 million). The commitments are crystallised upon the satisfaction of the conditions under the Agreements and registration of the land by the vendor and will be made available under the terms of the contract. However, some Agreements are severable by development stage and the commitments may be less than the total commitments under the Agreements as outlined below:

	Consolidated	
	31-Dec-17	30-Jun-17
	$'000	$'000
Capital commitments in relation to put and call arrangements		
Opening balance	**16,552**	13,163
Crystallised and paid commitments	**(7,822)**	(49,402)
Arrangements entered into during the period	**4,006**	52,791
Total commitments	**12,736**	16,552

(b) Joint Venture commitments

As at 31 December 2017, the Company has commitments of $14 million (30 June 2017: $22.5 million) which relate to the equity contributions committed under the Joint Venture agreements.

C CAPITAL STRUCTURE, FINANCE COSTS AND FINANCIAL RISK MANAGEMENT

This section outlines how the Company manages its capital structure and related financing costs, including its balance sheet liquidity and access to capital markets.

In this section:

C1 Contributed equity

Issued Capital	**Shares 31-Dec-17 '000**	Shares 30-Jun-17 '000	**31-Dec-17 $'000**	30-Jun-17 $'000
Ordinary shares fully paid				
Beginning of the financial period	**126,907**	110,344	**477,597**	444,271
Shares acquired by the Employee Share Scheme Trust	**(20)**	(169)	**(48)**	(384)
Shares issued by the Employee Share Scheme Trust	**19**	-	**46**	-
Proceeds from exercise of options under the Villa World Limited Option Plan	**-**	3,400	**-**	4,303
Shares issued as part of the capital raising	**-**	8,889	**-**	20,000
Shares issued as part of the share purchase plan	**-**	4,443	**-**	9,997
Transaction costs from capital transactions, net of tax	**-**	-	**-**	(590)
End of the financial period	**126,906**	126,907	**477,595**	477,597

C2 Financial instruments

The Company measures its derivative financial liabilities at fair value at each reporting date. The fair value techniques used to value these financial instruments have not materially changed since 30 June 2017. Cash flow hedges are measured using significant observable inputs (level 2 of the fair value hierarchy). At balance date these interest rate swap contracts were liabilities with a fair value of $0.9 million (30 June 2017: $1.8 million). This is the only financial instrument included on the consolidated balance sheet and measured at fair value.

The fair value of the swap is the estimated amount that the entity would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates, forward interest yield curves and the current creditworthiness of the swap counterparties. The fair value of the interest rate swap is calculated as the present value of the estimated future cash flows.

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and accumulated in the hedging reserve. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. There is no material ineffectiveness for the half-year ended 31 December 2017.

Except for the Villa World Bonds, the carrying value of financial assets and liabilities is considered to approximate fair values.

The quoted market value (on ASX) of a Villa World Bond as at 31 December 2017 is $103.20 (30 June 2017: $101.50). At 31 December 2017, the carrying value of Villa World Bonds is $48.6 million (30 June 2017: $48.5 million).

C3 Borrowings

(a) Financing arrangements

Access was available at balance date to the following lines of credit:

31 December 2017	Facility amount $'000	Utilised amount $'000	Bank guarantees utilised $'000	Available amount $'000	Effective interest rate %
Financing arrangements					
Bank loans - secured (i)	**190,000**	**106,721**[1]	**14,643**	**68,636**	**7.9%**
Villa World Bonds - unsecured (ii)	**50,000**	**48,614**[2]	**-**	**-**	**7.0%**
	240,000	**155,335**	**14,643**	**68,636**	

[1] Net of transaction costs as at 31 December 2017.
[2.] Net of transaction costs and amortisation as at 31 December 2017. Refer Note (a)(ii) - Villa World Bonds - unsecured.

30 June 2017	Facility amount $'000	Utilised amount $'000	Bank guarantees utilised $'000	Available amount $'000	Effective interest rate %
Financing arrangements					
Bank loans - secured (i)	190,000	33,005[1]	14,860	142,135	9.5%
Villa World Bonds - unsecured (ii)	50,000	48,452[2]	-	-	7.2%
	240,000	81,457	14,860	142,135	

[1] Net of transaction costs as at 30 June 2017.
[2.] Net of transaction costs and amortisation as at 30 June 2017. Refer Note (a)(ii) - Villa World Bonds - unsecured.

The borrowings are disclosed as follows in the balance sheet:

	Consolidated 31-Dec-17 $'000	Consolidated 30-Jun-17 $'000
Bank overdraft - Current	**9,900**	-
Borrowings - Non-current	**145,435**	81,457
Total borrowings	**155,335**	81,457
Cash and cash equivalents	**(20,455)**	(7,663)
Net debt	**134,880**	73,794

(i) Bank Loan - secured

The Company's Club Facility with Australia and New Zealand Banking Group Limited (ANZ) and Westpac Banking Corporation (Westpac) remains at $190 million (30 June 2017: $190 million).

The maturity of the ANZ facility has been staggered, with $10 million expiring on 16 August 2018, $80 million expiring on 31 October 2020, $40 million expiring on 31 October 2021 and $10 million expiring on 31 March 2022. The $50 million Westpac facility expires on 31 March 2019.

As at 31 December 2017 the facility was drawn exclusive of bank guarantees at $106.7 million (30 June 2017: $33 million). Bank guarantees issued total $14.6 million (30 June 2017: $14.9 million).

No restrictions have been imposed on this facility by the financiers during the period ending 31 December 2017 and drawdowns continue to be made in the ordinary course of business. All covenants under the facility were met within the required timeframes during the period.

Interest is payable based on a margin over bank bill swap rate. The Company entered into interest rate swap contracts to fix the interest rate at 3.69% (excluding the margin and line fees applicable under the loan agreement) on $90 million of borrowings. The swap contract matures on 12 June 2018.

The fair value of non-current borrowings and the bank guarantees equals their carrying amount, as the impact of discounting is not significant.

C3 Borrowings (continued)

(a) Financing arrangements (continued)

(ii) Villa World Bonds - unsecured

On 21 April 2017, the Company issued 500,000 Bonds of $100 each, pursuant to the prospectus dated 22 March 2017, raising $50 million (excluding issuance costs). The Bonds are unsecured simple corporate bonds that are listed on the Australian Securities Exchange (code: VLWHA). The Bonds are interest-bearing with a variable rate of interest of 4.75% margin over the 3 month bank bill swap rate, paid quarterly in arrears and have a maturity date of 21 April 2022.

Under the terms of the Bonds, the Company is required to maintain two covenants. The negative pledge (secured gearing ratio) is calculated based on total secured debt divided by total assets. Under the negative pledge the Company must maintain a secured gearing ratio of not greater than 40%. For the half-year ended 31 December 2017 the secured gearing ratio is 16.20% (30 June 2017: 4.2%).

The limitation on debt incurrence covenant (gearing ratio) is calculated as total debt divided by total assets adjusted for cash on hand. Total debt is calculated as borrowings (including "interest bearing liabilities" and "other financial commitments" as shown in the balance sheet). For the purposes of the covenant, the Company must maintain a gearing ratio of no greater than 50%. For the half-year ended 31 December 2017, the gearing ratio is 25.7% (30 June 2017: 12.9%).

The fair value of Villa World Bonds is the quoted market value (code: VLWHA) of a bond which at 31 December 2017 was $103.20 per bond (30 June 2017: $101.50) (Level 1).

The Bonds are presented in the Balance Sheet as follows:

	Consolidated	
	31-Dec-17	30-Jun-17
	$'000	$'000
Villa World Bonds	**50,000**	50,000
Transaction and finance costs	**(1,548)**	(1,615)
Amortisation of borrowing costs	**162**	67
Non-current liability	**48,614**	48,452

Interest is payable based on a 4.75% margin over the 3 month bank bill swap rate. The third interest instalment is payable on 22 January 2018 at an interest rate of 6.45%.

	Consolidated	
	31-Dec-17	30-Jun-17
	$'000	$'000
Accrued interest expense	**610**	623
	610	623

(b) Assets pledged as security

All of the consolidated entity's assets are pledged as security for the Company's finance facilities. The carrying amounts of assets pledged as mortgaged security are set out below:

	Consolidated	
	31-Dec-17	30-Jun-17
	$'000	$'000
Total inventory:		
Current inventory	**188,483**	206,757
Non-current inventory	**240,741**	271,205
Aggregate carrying amount	**429,224**	477,962

(c) Guarantors

Villa World is required to ensure that, so long as any Villa World Bond remains outstanding, each member of the Group which provides a guarantee of indebtedness of any other member of the Group, under the terms of any of the Group's external bank debt facilities, is a Guarantor. This requirement as to the Guarantors does not apply to joint venture entities included in the consolidated financial statements of the Group pursuant to current accounting practice.

Notes to the interim condensed consolidated financial statements for the half-year ended 31 December 2017 (continued)

C4 Finance costs

	Consolidated	
	31-Dec-17 $'000	31-Dec-16 $'000
Loan interest and charges		
Other financial institutions	**3,544**	3,939
Unwind of discount deferred consideration	**164**	448
Interest payable on Villa World Bonds	**1,609**	-
Borrowing costs	**310**	169
Fair value gain/(loss) on interest swap cash flow hedge	**98**	(137)
	5,725	4,419
Amount capitalised[1]	**(4,351)**	(2,960)
Unwind of amount capitalised	**1,815**	2,527
	(2,536)	(433)
Total finance costs included within the income statement	**3,189**	3,986

[1] The weighted average interest rate applicable to the entity's outstanding borrowings during the half-year, including line fees and margins is 7.6% (31 December 2016: 7.7%).

D

GROUP STRUCTURE

This section provides information which will help users understand how the group structure affects the financial position and performance of the Company as a whole.

In this section:

D1 Investments accounted for using the equity method

D1 Investments accounted for using the equity method

The carrying amounts of the Company's interest in joint ventures at balance date were:

	Consolidated	
	31-Dec-17	30-Jun-17
	$'000	$'000
Interest in Eynesbury Joint Venture	**51**	51
Interest in Donnybrook Joint Venture	**3,270**	8,429
Interest in Rochedale Joint Venture	**7,969**	11,426
Interest in Villa Green Joint Venture	**10,675**	4,963
Interest in Wollert Joint Venture	**2,035**	-
	24,000	24,869

(i) Wollert Joint Venture

The Company advised the market on 20 December 2017 that it had entered into a joint venture with Ho Bee Land Limited for the development of a site of ~15.73ha in Wollert, Victoria. The site is 25km north of Melbourne CBD, 18km from Melbourne Tullamarine airport and 300m from the future Wollert Town Centre.

The joint venture will deliver a master planned 285 lot land community to be known as *Elyssia*, with an average lot size of 394m^2 and an average sales price of $300,000. The joint venture will obtain project specific financing for the development in due course.

In undertaking the development, the joint venturers are to contribute capital and share profits on the basis of 51% (Villa World) and 49% (Ho Bee). The Company will receive fees for development management and sales and marketing coordination, and has the potential to receive a performance fee.

The equity accounted investment in the Company's Wollert joint venture as at 31 December 2017 is $2 million. This represents the investment of $9.6 million less the Company's 51% share of the opportunity fee ($7.6 million) received from the Wollert joint venture to be unwound over time as lots settle.

The Company's ownership interest in the development is a joint arrangement with joint control and is classified as a joint venture under *AASB 11 Joint Arrangements*. Under *AASB 11*, the Company accounts for the investment using the equity method in accordance with *AASB 128 Investments in Associates and Joint Ventures*.

(ii) Donnybrook Joint Venture

On 20 December 2017 the Company announced the Donnybrook Joint Venture had entered into a conditional contract to sell its remaining parcel at 960 Donnybrook Road, having previously entered into a conditional contract to sell its adjoining parcel at 1030 Donnybrook Road to Satterley Property Group Pty Ltd.

The site comprises ~208ha, with the vendor to retain certain portions of the site including non-residential components. The purchaser is 960 Blueways Pty Ltd, a wholly owned subsidiary of Blueways Holding Pty Ltd.

The Company's share of revenue from the sale is $50 million which will be recognised progressively in line with the staged settlements, and will therefore be dependent on timing of Precinct Structure Plan approval. Based on current expectations, revenue will be recognised progressively commencing in 1H20 but could be as early as 2H19.

OTHER INFORMATION

This section provides the remaining information relating to the Company that must be disclosed to comply with the Accounting Standards, the *Corporations Act 2001* or the *Corporations Regulations*.

In this section:

E1 Reporting entity

Villa World Limited is a company incorporated and domiciled in Australia. The consolidated financial report of the Company for the half-year ended 31 December 2017 comprises Villa World Limited and its subsidiaries and the Company's interest in associates and jointly controlled entities.

The interim financial report was authorised for issue by the Directors on 13 February 2018.

E2 Basis of preparation of half-year report

This condensed consolidated interim financial report for the half-year ended 31 December 2017 has been prepared in accordance with Accounting Standard *AASB 134 Interim Financial Reporting* and the *Corporations Act 2001*.

This condensed consolidated interim financial report does not include all the information and disclosures required in the annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2017 and any public announcements made by Villa World Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

(i) Critical accounting estimates

The preparation of interim financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The directors have not identified any changes to the critical accounting estimates and assumptions from those disclosed in the 30 June 2017 financial report.

(ii) Functional and presentation currency

The condensed consolidated interim financial statements are presented in Australian dollars, which is the functional and presentation currency of Villa World Limited.

(iii) New accounting standards and interpretations

The accounting policies adopted in the preparation of the condensed consolidated interim financial report are consistent with those followed in the preparation of the Company's annual consolidated financial statements for the year ended 30 June 2017.

AASB 9 Financial instruments

AASB 9 *Financial Instruments* includes requirements for the classification, measurement and de-recognition of financial assets. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139.

AASB 9 is effective for annual periods beginning on or after 1 July 2018 but is available for early adoption. The Company continues to assess the impact of the new guidance.

E2 Basis of preparation of half-year report (continued)

(iii) New accounting standards and interpretations (continued)

AASB 15 Revenue from contracts with customers

The Company continues to evaluate the potential impact of AASB15 on its consolidated financial statements. It is likely that revenue from land development and residential housing will be recognised on cash settlement, this being the point in time that the customer controls the related asset. This will potentially represent a change from the existing accounting policy for Queensland and Victoria sales whereby revenue is currently recognised when there is an unconditional sales contract and registration of the land and/or certification of building completion. The Company intends to adopt AASB15 for the first time for the financial year ended 30 June 2019 and is in the process of determining which transition method to adopt. The impact will be quantified when the assessment has been fully completed.

The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

E3 Related party transactions

During the reporting period, Villa World Properties Pty Ltd (a subsidiary of Villa World Limited) acquired a property adjacent to one of its holdings in South-East Queensland on arms-length terms from an entity in which Mark Jewell (Non-Executive Director of Villa World Limited) held a 49% interest.

E4 Events occurring after the reporting period

Interim dividend

On 13 February 2018, the Board declared a fully franked interim dividend of 8.0 cents per share. The ex-dividend date is 8 March 2018 and the record date for this dividend is 9 March 2018. Payments will be made on 30 March 2018.

As at 31 December 2017, an amount of $13.3 million is held as franking credits in the Company.

Directors' declaration
31 December 2017

In the Directors' opinion:

(a) The interim financial statements and notes set out on pages 7 to 25 are in accordance with the *Corporations Act 2001*, including:

  (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and

  (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date, and

(b) there are reasonable grounds to believe that the Company 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 Directors.

Craig Treasure
Chief Executive Officer and Managing Director
Broadbeach
13 February 2018

Building a better working world

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Independent Auditor's Review Report to the Members of Villa World Limited

Report on the Interim Financial Report

Conclusion

We have reviewed the accompanying interim financial report of Villa World Limited and its subsidiaries (collectively the "Group"), which comprises the interim condensed consolidated statement of financial position as at 31 December 2017, the interim condensed consolidated statement of comprehensive income, interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the Group at half-year end or from time to time during the half-year.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the interim financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of its consolidated financial performance for the half-year ended on that date; and

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

Directors' Responsibility for the Interim Financial Report

The directors of the Company are responsible for the preparation of the interim 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 interim financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2017 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim 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.

Building a better working world

Independence

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

Ernst & Young

Ric Roach
Partner
Brisbane
13 February 2018

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