2019

Interim Financial Report

31 DECEMBER 2018

VILLA WORLD LIMITED

ABN 38 117 546 326

VILLA WORLD

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Interim Financial Report - 31 December 2018

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 2018 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 2018

Directors' report

The Directors of Villa World Limited present their report together with the interim financial report for the half-year ended 31 December 2018.

This report relates to Villa World Limited and its subsidiaries ("the 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
Lisa MacCallum	Non-Executive Director	Yes	15/08/2018

Review of operations

Key highlights for the half-year

- Statutory net profit after tax from continuing operations of $17.6 million (31 December 2017: $17.3 million statutory net profit after tax)
- Earnings per share from continuing operations of 13.9 cps[1] (31 December 2017: 13.6 cps)
- Revenue from the sale of property of $232.7 million (31 December 2017: $202.2 million)
- Settlements[2] of 670 lots (including joint venture settlements recorded at 100%) (31 December 2017: 648[3] lots)
- Net sales[4] of 517 lots for a gross value (inclusive of GST) of $174.8 million inclusive of 152 joint venture lots for a gross value of $40.8 million (recorded at 100%), (31 December 2017: 742 lots for a gross value of $263.3 million inclusive of 42 joint venture lots with a gross value of $17.1 million)
- A total of 1,126 contracts on hand at 31 December 2018 (31 December 2017: 624 contracts) to carry forward for a gross value[5] of $340.4 million (31 December 2017: $211.5 million)
- Net tangible assets $2.31 per share[6] (FY18: $2.44 per share)
- Gearing[7] of 27.9% (30 June 2018: 29.7%).

Financial commentary for the half-year

The Company reported a 1H19 statutory net profit after tax of $17.6 million (13.9 cps), compared with the prior period's result of $17.3 million (13.6 cps).

Revenue from Land Development, Residential Building and Construction Contracts

The Company recorded 611[8] wholly owned settlements in 1H19 (1H18: 626), resulting in $232.7 million revenue (1H18: $202.2 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 52% of revenue (1H18: 66%), with Queensland and New South Wales continuing as the main source of revenue at 92% (1H18: 76%).

Englobo sales in South Morang, Victoria and Hope Island, Queensland were cash settled in 1H19. These transactions were recognised under AASB 15 generating $15.9 million in revenue.

1 Basic earnings per share based on weighted average of shares on issue of 126,636,967 (1H18: 126,926,266).

2 Accounting settlements are recorded in line with revenue recognition and reflect cash settlement per accounting standard AASB 15. This applies to land and house and land contracts in Queensland, Victoria and New South Wales.

3 Statistics associated with sales, production, settlements and portfolio lots have changed for split contracts and joint ventures. Previously they were recorded in line with Villa World's ownership interest or as part of a whole transaction; they are now recorded as one single transaction.

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

5 Contracts on hand gross value - total sales value (including GST) for conditional and unconditional contracts not yet recognised as revenue, inclusive of 100% of joint venture contracts.

6 Net tangible asset based on shares on issue at 31 December 2018 of 125,549,624 (30 June 2018: 126,926,266).

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

8 Total settlements 1H19: 670 lots (1H18: 648) of which 611 lots are from wholly owned projects (1H18: 626) and 59 lots from joint venture projects (1H18: 22) recorded at 100% and reflected in share of joint venture profits.

Review of operations (continued)

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

Average revenue per lot was $356,400 up from $323,100 in 1H18 and is reflective of the higher value product which settled during 1H19 compared to 1H18.

The average revenue per house and land lot was up 12% to $451,100 (1H18: $403,500) reflecting the contribution from the higher valued product from *The Meadows,* a flagship project in North Brisbane, Victorian based *Cascades on Clyde* and *Allure* in Sydney.

Average land only revenue was $280,500 up 20% from $233,500 in 1H18 reflecting the settlement of the high valued *Bella Vista*, Albion Park project in Sydney. This project is now fully settled.

Gross Margin

The reported gross margin was $57.2 million or 24.6% (1H18: $48.0 million or 23.7%), within the guidance range of 23% to 25%.

In line with industry peers, the Company has changed the presentation of borrowing costs previously capitalised and net impairments, into the cost of inventory sold. The changes do not impact net profit after tax. However gross margin, EBITDA and finance costs will vary. These changes in accounting classifications lower the reported gross margin, with the Company now targeting a gross margin range of 23% to 25%, reduced from 24% to 26%. Refer to note A1(a) *Revenue - Gross margin* and note C4 *Accounting for finance costs* in the Interim Financial Report.

Revenue – Development Management Fees

During 1H19 the Company continued to deploy development management skills into joint venture arrangements, delivering $1.2 million in development revenue (1H18: $8.0 million which included a one-off $7.3 million fee). The Company anticipates development management fees will provide an ongoing revenue stream for the business.

Share of Profit from Equity Accounted Investments

The share of profit from equity accounted investments and associates of $1.0 million relates to 59 land settlements from the Covella and Rochedale joint ventures (1H18: $0.7m).

Operational Performance

The Company recorded 517 sales during 1H19, down 30% on 1H18 (742 lots). The average sales rate decreased to 86 per month (1H18: 124 per month), across 19 projects (1H18: 23 projects).

Queensland has contributed 49% of sales (1H18: 63%) and Victorian projects 47% of sales (1H18: 33%), with New South Wales making up the remaining 4% of sales (1H18: 4%).

Demand for the Company's core product – affordable land and housing in the growth corridors – performed as expected in the first quarter. As widely reported, Australia's residential housing market conditions and customer sentiment have declined. Customers are experiencing a reduction in the availability of finance, delayed finance approvals, more stringent assessment criteria and reduced borrowing capacity. This led to lower sales results and enquiries in late 2018.

Demand in Victoria moderated from the cyclical highs seen in FY18, influenced by tightening credit conditions, waning consumer confidence and strong price growth over recent years which is now affecting affordability. Nonetheless, the Company's Victorian projects delivered consistent sales, particularly at the Wollert joint venture project.

Queensland flagship projects including *The Meadows* (Strathpine), *Killara* (Logan) and *Arundel Springs* (Gold Coast) sold well. However, an anticipated uplift in the Queensland market is yet to eventuate.

In response to current market conditions, the Company has invigorated its sales strategy in 2H19 to highlight its value offering in the affordable housing sector.

The Company maintains a strong presence across its key customer segments, being retail buyers comprising of first home buyers and other owner occupiers, as well as builders and local investors.

Review of operations (continued)

Operational Performance (continued)

The Company delivered 375 lots of land (1H18: 676). Land development activity continues across the Victorian projects *Lilium* (Clyde), *Sienna Rise* and *Sienna North* (Melbourne North West) as the Company focuses on delivery of the high level of carried forwards sales.

The Company's housing operations delivered 149 homes across New South Wales, Queensland and Victoria (1H18: 331).

The pace of housing construction and land development at some projects has been revised in line with market conditions in Queensland and New South Wales. The Company will continue to monitor these projects and adjust accordingly.

Sales Contracts Carried Forward

The Company will carry forward into 2H19 1,126 sales contracts worth $340.4 million. This includes 193 sale contracts worth $50.7m across the Covella, Wollert and Rochedale joint ventures (recorded at 100%). The Company is carrying significant unconditional sales at *Lilium* (Clyde), *Sienna Rise* and *Sienna North* (Melbourne North West). While planning delays have been resolved, and delivery is progressing, the Company now anticipates settlements at *Lilium* will commence in 2H19 and *Sienna Rise* and *Sienna North* in 1H20.

30% of contracts (342 lots valued at $116.6 million) are anticipated to settle in 2H19, with a further 59% settling in FY20 (666 lots valued at $193.5 million) and the balance of 11% (118 lots valued at $30.3 million) in FY21 (inclusive of joint venture contracts recorded at 100%).

Property Sales and Marketing Costs

The Company's sales operation has performed well, with sales and marketing costs maintained at 5.6% of revenue (1H18: 5.8%).

Employee Benefits

The Company finished 1H19 with 156.9 full time equivalent employees (FY18: 155.4). Employee costs represented 5.3% of revenue in 1H19 (1H18: 6.1%). It is expected 2H19 costs will be consistent with 1H19.

Adoption of AASB 15

The new accounting standard AASB 15 came into effect on 1 July 2018. AASB 15 – revenue from contracts with customers has changed the point in time at which the Company recognises revenue for certain contractual arrangements. Land only and house and land contracts in Queensland and Victoria are now recognised at cash settlement. The Company adopted the standard under the modified retrospective approach where comparatives are not restated, rather, a one-off retained earnings adjustment of $21 million was made for contracts not completed. Further information can be found in the Interim Financial Report in note A1(c) *Accounting for Revenue* and E2(c)(ii) *New accounting standards and interpretations – AASB 15 Revenue from contracts with customers*.

Assets and NTA

Net tangible assets at half year-end were $290.0 million (FY18: $309.7 million), representing $2.31 per share (FY18: $2.44 per share) before the declaration of the interim 8 cps fully franked dividend (FY18: 10.5 cps final dividend).

Capital Management

During 1H19, the Company operated a $190 million club facility with ANZ and Westpac. The $140 million ANZ facility has a staggered maturity, with $90 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 2021.

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.

As at 31 December 2018, the cash on hand was $9.8 million (30 June 2018: $12.6 million), and unused capacity in the facility was $60.3 million (30 June 2018: $32.3 million). As forecast, during this current delivery phase the gearing at 31 December 2018 was 27.9% (30 June 2018: 29.7%), within the Company's target range of 15% to 30%. Net debt as at 31 December 2018 was $149.2 million (FY18: $171.1 million).

The average cost of debt for the period ended 31 December 2018 was 6.2% compared to 7.3% as at 30 June 2018. To manage exposure to future interest rate risk, the Company has executed two interest rate caps totalling $50 million. These contracts will cap the Company's interest rate at a maximum of 3.0% on $50 million until 2 July 2020, and $25 million thereafter until 4 July 2022.

Review of operations (continued)

Capital Management (continued)

The Company commenced an on-market share buy-back in October 2018 for up to 5% of shares on issue, as part of its capital management strategy. The buy-back is being funded from working capital. At 31 December 2018, the Company had purchased 1,376,642 shares at an average price of $1.89. The buy-back represents a prudent deployment of capital, being NTA and earnings per share accretive.

The Company generated strong net cash flows from trading activities of $85.4 million which supported expenditure of $19.1 million on the acquisition of new land while retaining a strong cash and debt position. The land acquisition payable at 31 December 2018 is $51.4 million (FY18: $33.7 million). This will be settled from operating cash flows, existing debt facilities and settlement proceeds from third parties.

Dividend

The Directors declared an interim dividend of 8.0 cents per share fully franked (1H18: 8.0 cents per share) post balance date, to be paid on 2 April 2019. This represents a payout ratio of 57% 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

The Donnybrook joint venture has previously entered into contracts to sell 960 Donnybrook Road to 960 Blueways Pty Ltd and 1030 Donnybrook Road to Satterley Property Group Pty Ltd, both of which are conditional on Precinct Structure Plan (PSP) approval. On 21 December 2018 the Company confirmed receipt of $5.5 million under the contract for 960 Donnybrook Road, taking the total payments held under that contract to $10 million.

The Company's share of revenue from the sales will be recognised progressively in line with the staged settlements, and will therefore be dependent on timing of PSP approval. The PSP approval process has progressed positively. Consultation with relevant authorities has enabled the Company to revise its estimate of the likely timing for PSP approval. Based on that, it is now expected that revenue from the sale contracts will begin to be recognised from 1H21, underpinning earnings through to FY24.

Villa World expects current market conditions to present opportunities commencing in FY20, for astute acquisitions and strategic partnering relationships. With a strong balance sheet and disciplined capital management, the Company expects to be well placed to capitalise on these as they arise.

At 31 December 2018, the Company had a portfolio of 6,910[9] lots (FY18 7,064) representing approximately five to six years of sales.

Governance and Leadership

Implementation of the Company's newly articulated Purpose and Beliefs continued during the half-year through the implementation of the strategic framework. The Board continues to monitor progress and impact of the sharpened strategic direction which emphasises Villa World's continued commitment to its people, customers and community.

Lisa MacCallum was appointed as a non-executive director on 15 August 2018 and re-elected at the AGM held in November 2018. Lisa brings a global commercial and brand perspective to Villa World, having extensive experience as an advisor and brand strategist including a long career with Nike Inc. in the United States, where she held executive positions spanning commercial and brand leadership roles through to executive leadership of the global brand's Corporate Philanthropy and Global Community Investments. Lisa's addition to the Board continues to develop the diversity of skills and expertise within our Boardroom supporting the execution of our purpose led strategy.

Outlook

In 2H19 the Company will continue to focus on operational delivery and cash settlement of carried forward sales. Sales conditions are expected to remain difficult. This will be balanced against an invigorated sales strategy with pricing and products positioned to meet the needs of key customer segments.

The Company is progressing its joint venture strategy. In FY19, these arrangements are expected to contribute ~$4 million to profit before tax comprising of development management fees and share of profit, primarily from the Rochedale and Covella joint ventures. The presales from the Wollert joint venture are expected to contribute to profit from FY20, with the Donnybrook joint venture likely to contribute from 1H21 as noted above.

Development management fees continue to provide an ongoing revenue stream, as the Company pursues capital-efficient growth opportunities that provide a strong return on assets.

The FY19 gross margin is expected to be within the range of 23% to 25%.

9 Inclusive of joint venture projects recorded at 100%.

Review of operations (continued)

Outlook (continued)

The Company expects cash outflow for acquisitions in FY19 of ~$32 million, inclusive of $16.6 million in capital lite transactions, with the balance funded from existing debt facilities.

Despite market conditions, the Company remains confident that its medium to long term strategy and affordable price point will provide sustainable success and shareholder value beyond the current sector dynamics.

A key strength is the Company's fully built turnkey housing model which has strong operational efficiencies. This will enable the Company to deliver more housing product which has a higher profit component compared to land only. As is prudent in current market conditions, the Company will continue to responsibly manage its cost structure.

Guidance

Market conditions and the availability of customer credit are likely to remain challenging for the remainder of FY19. Upcoming federal and NSW elections may also lead to increased customer uncertainty.

Several stages in the Company's Victorian projects are scheduled for completion in late FY19, with some likely to extend into 1H20.

Given those factors, the Company considers it prudent not to provide guidance for FY19 at this time. The Company will continue to monitor progress and update the market when appropriate.

The Board recognises the importance of returns to shareholders through fully franked dividends, whilst also being mindful of long-term, sustainable value creation through reinvestment of capital. The Board intends to continue with a full year payout ratio consistent with its stated dividend policy (payout ratio of 50% - 75% of annual NPAT, paid semi-annually).

This phase of the property cycle will bring opportunities. The Company has a long history of successfully navigating through market cycles, and has a forward strategy focused on its customers and long-term value creation.

The Company has conviction that its projects are located where people want to live, its homes are priced within reach of its customers, and its turnkey homes offer a unique customer experience. With sound financial fundamentals, prudent capital management and a committed team, the Company has the foundations and resources in place to deliver shareholder value.

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.

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
12 February 2019

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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 2018, 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

Ernst & Young

Alison de Groot
Partner
12 February 2019

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Interim condensed consolidated statement of comprehensive income
for the half-year ended 31 December 2018

	Notes	Consolidated 31-Dec-18 $'000	31-Dec-17 $'000
Revenue from continuing operations			
Revenue from land development, residential building and construction contracts	A1	**232,730**	202,230
Cost of land development, residential building and construction contracts	A1	**(171,379)**	(152,598)
Gross margin before interest and net impairments		**61,351**	49,632
Capitalised interest and net impairments		**(4,183)**	(1,667)
Gross margin		**57,168**	47,965
Development management fees	A1	**1,164**	8,029
Other income		**350**	507
Share of profit / (loss) from associates and Joint Ventures		**1,040**	692
Other expenses from ordinary activities			
Property sales and marketing expenses		**(13,109)**	(11,731)
Land holding costs		**(2,583)**	(1,796)
Legal and professional costs		**(1,003)**	(1,347)
Employee benefits		**(12,444)**	(12,305)
Depreciation and amortisation expense		**(384)**	(283)
Administration costs and other expenses		**(3,249)**	(3,477)
Other finance costs	C4	**(2,008)**	(1,374)
Profit before income tax		**24,942**	24,880
Income tax expense	A4	**(7,319)**	(7,575)
Profit for the half-year		**17,623**	17,305
Profit is attributable to:			
Owners of Villa World Limited		**17,623**	17,305

	Cents	Cents
Earnings per share for profit attributable to the ordinary equity holders of the Company:		
Basic earnings per share	**13.9**	13.6
Diluted earnings per share	**13.9**	13.5

	Consolidated 31-Dec-18 $'000	31-Dec-17 $'000
Profit for the half-year	**17,623**	17,305
Other comprehensive income		
Items that may be reclassified to profit or loss		
Changes in the fair value of cash flow hedges	**(127)**	959
Income tax relating to components of other comprehensive income	**38**	(254)
Other comprehensive income for the half-year, net of tax	**(89)**	705
Total comprehensive income for the half-year, net of tax	**17,534**	18,010
Total comprehensive income for the half-year is attributable to:		
Owners of Villa World Limited	**17,534**	18,010

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 2018

		Consolidated	
		31-Dec-18	30-Jun-18
	Notes	**$'000**	$'000
ASSETS			
Current assets			
Cash and cash equivalents		**9,762**	12,645
Trade and other receivables	B1	**4,669**	130,206
Inventories	B2	**222,180**	167,590
Contract assets		**335**	-
Other current assets		**4,892**	4,187
Current tax receivables		**180**	-
Total current assets		**242,018**	314,628
Non-current assets			
Inventories	B2	**254,785**	233,967
Property, plant and equipment		**2,259**	2,063
Investments accounted for using the equity method	D1	**34,109**	27,260
Deferred tax assets		**397**	-
Contract assets		**1,726**	-
Other non-current assets		**10,000**	10,000
Total non-current assets		**303,276**	273,290
Total assets		**545,294**	587,918
LIABILITIES			
Current liabilities			
Trade and other payables	B3	**66,059**	64,426
Deferred income		**6**	42
Current tax liabilities		**-**	2,353
Service warranties	B4	**4,117**	4,266
Employee benefits		**1,262**	1,298
Other provisions		**48**	48
Total current liabilities		**71,492**	72,433
Non-current liabilities			
Trade and other payables	B3	**24,135**	13,396
Borrowings	C3	**158,992**	183,786
Deferred tax liabilities	E2	**-**	7,979
Employee benefits - long service leave		**522**	453
Other provisions		**157**	151
Total non-current liabilities		**183,806**	205,765
Total liabilities		**255,298**	278,198
Net assets		**289,996**	309,720
EQUITY			
Contributed equity	C1	**475,028**	477,611
Other reserves		**244,484**	241,021
Accumulated losses		**(429,516)**	(408,912)
Total equity attributable to shareholders		**289,996**	309,720
Total equity		**289,996**	309,720

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 2018

		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 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)	-
Employee Share Scheme tax impact		-	-	(119)	-	(4)	(123)
Dividends provided for or paid	A3	-	-	-	(13,327)	-	(13,327)
Expenses related to share based payments		-	-	396	-	-	396
Shares acquired by Employee Share Scheme Trust		(48)	-	-	-	-	(48)
Shares issued by Employee Share Scheme Trust		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 changes in equity for the half-year 31 December 2018 (continued)

		Attributable to owners of Villa World Limited					
Consolidated	Notes	**Contributed equity $'000**	**Cash flow hedges $'000**	**Other reserves $'000**	**Profits reserve $'000**	**Accumulated losses $'000**	**Total $'000**
Balance at 1 July 2018		477,611	-	2,046	238,975	(408,912)	309,720
Adoption of new accounting standard		-	-	-	-	(20,994)	(20,994)
Restated total equity at the beginning of the financial period		477,611	-	2,046	238,975	(429,906)	288,726
Profit for the half year as reported in the 2019 interim financial statements		-	-	-	-	17,623	17,623
Movement in hedge reserve (net of tax)		-	(89)	-	-	-	(89)
Total comprehensive income for the half-year		-	(89)	-	-	17,623	17,534
Transactions with owners in their capacity as owners:							
Transfer current year profit to profit reserve		-	-	-	17,275	(17,275)	-
Dividends provided for or paid	A3	-	-	-	(13,327)	-	(13,327)
Expenses related to share based payments		-	-	451	-	-	451
Employee Share Scheme tax impact		-	-	(142)	-	42	(100)
Shares acquired for entitlements under LTIP		-	-	(705)	-	-	(705)
Shares issued by Employee Share Scheme Trust	C1	743	-	-	-	-	743
Shares acquired by Employee Share Scheme Trust	C1	(725)	-	-	-	-	(725)
Shares acquired as part of share buy-back	C1	(2,601)	-	-	-	-	(2,601)
		(2,583)	-	(396)	(3,948)	(17,233)	(16,264)
Balance at 31 December 2018		**475,028**	**(89)**	**1,650**	**242,923**	**(429,516)**	**289,996**

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 2018

		Consolidated	
		31-Dec-18	31-Dec-17
	Notes	**$'000**	$'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**251,105**	212,977
Receipts from the transfer of development rights		**-**	18,897
Payments to suppliers and employees (inclusive of goods and services tax)		**(165,745)**	(139,074)
Cash generated from trading activities		**85,360**	92,800
Payments for land acquired		**(19,107)**	(111,928)
Interest received		**239**	184
Interest paid		**(3,320)**	(3,887)
Borrowing costs		**(35)**	-
GST paid		**(6,560)**	(3,059)
Corporate tax paid		**(9,900)**	(15,365)
Net cash (outflow) / inflow from operating activities		**46,677**	(41,255)
Cash flows from investing activities			
Payments for property, plant and equipment		**(598)**	(462)
Payments for equity accounted investments		**(8,684)**	(15,637)
Distributions received from equity accounted investments		**1,500**	9,600
Proceeds from sale of property, plant and equipment		**31**	-
Net cash (outflow) from investing activities		**(7,751)**	(6,499)
Cash flows from financing activities			
Proceeds from borrowings		**43,391**	122,658
Repayment of borrowings		**(69,290)**	(58,683)
Payments for shares acquired as part of the share buy-back		**(2,601)**	-
Payments for shares acquired by Employee Share Scheme Trust	C1	**(725)**	(48)
Proceeds from shares allocated under Employee Share Scheme Trust	C1	**743**	46
Dividends paid to Company's shareholders	A3	**(13,327)**	(13,327)
Net cash inflow / (outflow) from financing activities		**(41,809)**	50,646
Net increase / (decrease) in cash and cash equivalents		**(2,883)**	2,892
Cash and cash equivalents at the end of the previous financial year		**12,645**	7,663
Cash and cash equivalents at end of half-year		**9,762**	10,555
Reconciliation to cash at the end of the year:			
Cash at bank and in hand		**9,762**	20,455
Bank overdrafts		**-**	(9,900)
Cash and cash equivalents at the end of the year		**9,762**	10,555

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 Group'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 Revenue

(a) Gross margin

	Notes	Consolidated 31-Dec-18 $'000	Consolidated 31-Dec-17 $'000
Revenue from land only development		**110,772**	69,110
Revenue from land development, residential building and construction contracts		**121,958**	133,120
Revenue from land development, residential building and construction contracts		**232,730**	202,230
Cost of land only developments		**(78,293)**	(48,718)
Cost of land development, residential building and construction contracts		**(92,780)**	(103,723)
Other direct costs[1]		**(306)**	(157)
Cost of land development, residential building and construction contracts		**(171,379)**	(152,598)
Gross margin before interest and net impairments		**61,351**	49,632
Gross margin before interest and net impairments		**26.4%**	24.5%
Cost of inventory sold			
Cost of land development, residential building and construction contracts		**(171,379)**	(152,598)
		(171,379)	(152,598)
Capitalised interest expense	C4	**(4,091)**	(1,815)
Net impairment of development land		**(92)**	148
		(4,183)	(1,667)
Total cost of inventory sold		**(175,562)**	(154,265)
Gross margin		**57,168**	47,965
Gross margin		**24.6%**	23.7%

[1]Includes provisions raised for warranty claims or released where warranty term has expired.

(b) Revenue from development management fees

Development management fees	Consolidated 31-Dec-18 $'000	Consolidated 31-Dec-17 $'000
Opportunity fee - Wollert Joint Venture[1]	**-**	7,301
Development management fees - Rochedale Joint Venture	**307**	728
Development management fees - Villa Green Joint Venture	**607**	-
Development management fees - Wollert Joint Venture	**250**	-
	1,164	8,029

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

A1 Revenue (continued)

(c) Accounting for revenue

Revenue recognition from 1 July 2018

Land development and residential housing

Villa World's contracts with customers typically include a single performance obligation which is fulfilled when the completed land or house and land package is transferred to the customer. This is satisfied at settlement, which is when control and legal title pass to the customer who can then benefit from the use of the asset.

Construction Contracts

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments. The Company recognises revenue on the basis of direct measurements of the value to the customer for the goods transferred to date, relative to the remaining goods promised under the contract using the output method. As soon as the outcome of a construction contract can be estimated reliably, contract revenue is recognised in accordance with the contract as certain milestones are achieved throughout construction.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately in the income statement.

Development management fees

Significant accounting judgement

The Company is responsible for performing different services under each respective Joint Venture including project management, sales and marketing and administrative management.

The Company recognises revenue on the basis of its efforts to the satisfaction of the performance obligation relative to the expected efforts using the input method. Revenue is recognised in accordance with the timing of the performance obligations specified under each contract which is typically over time.

The transactions prices include a fixed percentage as per the terms of each contract. The total transaction price may include variable considerations such as sale proceeds of the underlying development or a percentage variable based on the number of lots sold in a financial year.

A2 Segment revenue

(a) Identification of reportable operating segments

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

The Company is organised into two separate reporting segments:

(i) Property development and construction - Qld & NSW

(ii) Property development and construction - Victoria

The Company and its controlled entities develop and sell residential land and buildings predominately in Qld, NSW & Victoria. During the period, the Company assessed that its reportable segments were also its operating segments.

Notes to the interim condensed consolidated financial statements
for the half-year ended 31 December 2018
(continued)

A2 Segment revenue (continued)

(a) Identification of reportable operating segments (continued)

Gross margin from reportable operating segments

The segment information provided to the executive team for the reportable segments for the six months ended 31 December 2018 is as follows:

	Property development and construction					
	Queensland & New South Wales		Victoria		Total	
	31-Dec-18 $'000	31- Dec-17 $'000	**31-Dec-18 $'000**	31-Dec-17 $'000	**31-Dec-18 $'000**	31-Dec-17 $'000
From continuing operations						
Segment revenue	**213,990**	153,639	**18,740**	48,591	**232,730**	202,230
Segment expenses before interest and net impairments	**(156,002)**	(114,731)	**(15,377)**	(37,867)	**(171,379)**	(152,598)
Gross margin before interest and net impairments	**57,988**	38,908	**3,363**	10,724	**61,351**	49,632
Segment capitalised interest and net impairments	**(3,607)**	(1,171)	**(576)**	(496)	**(4,183)**	(1,667)
Gross Margin	**54,381**	37,737	**2,787**	10,228	**57,168**	47,965

Segment assets and liabilities are not directly reported to the executive team 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

The revenue from external parties reported to the executive team is measured in a manner consistent with that in the income statement. Revenues from external customers are derived from land development, residential building and construction contracts.

(ii) Segment gross margin

The executive team assesses the performance of the operating segments based on a measure of gross margin. This measurement basis consists of revenue from land development, residential building and construction contracts less cost of land, development, construction, capitalised interest and impairments.

A3 Dividends

(a) Ordinary shares

	Consolidated	
	31-Dec-18 $'000	31-Dec-17 $'000
Final fully franked ordinary dividend for the year ended 30 June 2018 of 10.5 cents (2017: 10.5 cents per fully paid share) paid on 29 September 2018 (2017: 29 September 2017)		
Final franked dividend based on tax paid at 30.0%	**13,327**	13,327

A3 Dividends (continued)

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

	Consolidated	
	31-Dec-18	31-Dec-17
	$'000	$'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 (2017: 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 02 April 2019 out of profits reserve at 31 December 2018, but not recognised as a liability at half-year end, is	**10,044**	10,154

A4 Taxes

Numerical reconciliation of income tax expense to prima facie tax payable

	Consolidated	
	31-Dec-18	31-Dec-17
	$'000	$'000
Profit from continuing operations before income tax expense	**24,942**	24,880
Tax at the Australian tax rate of 30% (2017 - 30%)	**7,482**	7,464
Tax effect of amounts which are not deductible (taxable)		
in calculating taxable income:		
Share of profit / (loss) in equity accounted investments	**(170)**	105
Other	**7**	6
Income tax expense	**7,319**	7,575

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 Trade and other receivables

B2 Inventories

B3 Trade and other payables

B4 Provisions and contingencies

B5 Capital and other commitments

B1 Trade and other receivables

	Consolidated	
	31-Dec-18 $'000	30-Jun-18 $'000
Current assets		
Trade receivables	**2,169**	587
Trade receivable properties	**549**	126,835
Trade receivables due from related parties	**-**	-
Other receivables	**1,951**	2,784
Total current assets	**4,669**	130,206

B2 Inventories

	Consolidated	
	31-Dec-18 $'000	30-Jun-18 $'000
Current assets		
Acquisition cost of land held for development and resale	**96,586**	88,077
Development costs	**121,467**	76,193
Capitalised interest	**5,421**	4,687
Impairment of development land	**(1,294)**	(1,367)
	222,180	167,590
Non-current assets		
Acquisition cost of land held for development and resale	**198,064**	188,821
Development costs	**51,203**	40,986
Capitalised interest	**11,504**	10,245
Impairment of development land	**(5,986)**	(6,085)
	254,785	233,967
Total inventory	**476,965**	401,557

B3 Trade and other payables

	Consolidated	
	31-Dec-18 $'000	30-Jun-18 $'000
Current liabilities		
Land acquisitions	**27,340**	21,347
Sub-contractors and materials	**3,500**	3,872
Total trade payables	**30,840**	25,219
Other current payables		
Accrued expenses	**33,046**	36,753
Other payables	**2,173**	2,454
Total current other payables	**35,219**	39,207
Total current trade and other payables	**66,059**	64,426

B3 Trade and other payables (continued)

	Consolidated	
	31-Dec-18 $'000	30-Jun-18 $'000
Non-current liabilities		
Land acquisitions	**24,060**	12,401
Other payables	**75**	995
Total non-current trade and other payables	**24,135**	13,396
Total payables	**90,194**	77,822

B4 Provisions and contingencies

(a) Service warranties

	Consolidated	
	31-Dec-18 $'000	30-Jun-18 $'000
Current liabilities		
Service warranties	**4,117**	4,266
	4,117	4,266

(b) Contingencies

(i) 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 claims made against the Company for the half-year ended 31 December 2018 (30 June 2018: nil).

The Company has provided bank guarantees (excluding Joint Venture entities) to the total of $19.7 million (30 June 2018: $22.7 million) predominantly to authorities and councils in relation to certain works to be undertaken or maintained or in support of contractual commitments.

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 2018 (30 June 2018: nil).

(ii) Liabilities in respect of other entities

The Company has interests in a number of Joint Ventures and is a Guarantor for the financing facilities of the Joint Ventures. The guarantee given by Villa World in respect of the financing facilities for the Donnybrook, Villa Green and Wollert Joint Ventures meet the definition of a financial guarantee contract.

As at 31 December 2018, no liability has been recognised by the Company as there is no present obligation for the Company to repay the Joint Venture borrowings and outflow is not probable.

The following table shows the financing facilities and utilisation of the Joint Ventures - refer to D1 for information on the debt facilities entered into during the period.

	Rochedale Joint Venture		Donnybrook Joint Venture		Villa Green Joint Venture		Wollert Joint Venture	
	31-Dec-18	30-Jun-18	**31-Dec-18**	30-Jun-18	**31-Dec-18**	30-Jun-18	**31-Dec-18**	30-Jun-18
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Total financing facilities	**640**	1,000	**23,985**	23,985	**32,318**	2,318	**30,000**	-
Facilities utilised at reporting date	**-**	-	**23,186**	22,409	**19,871**	-	**9,500**	-
Bank guarantees and surety Bonds utilised at reporting date	**557**	589	**-**	-	**1,653**	1,795	**-**	-
Proportion of Company's ownership	**50%**	50%	**51%**	51%	**50%**	50%	**51%**	-

B5 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 property developments in Queensland, New South Wales and Victoria.

The call option gives the Company (or a nominated third party) 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 $17.5 million (30 June 2018: $13.8 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-18	30-Jun-18
	$'000	$'000
Capital commitments in relation to put and call arrangements		
Opening balance	**13,774**	16,552
Crystallised and paid commitments	**(5,044)**	(7,822)
Arrangements entered into during the period	**8,755**	5,044
Total commitments	**17,485**	13,774

(b) Joint Venture commitments

As at 31 December 2018, commitments relating to equity contributions to Joint Ventures were estimate to be $0.6 million (30 June 2018: $8.1 million).

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-18 '000**	Shares 30-Jun-18 '000	**31-Dec-18 $'000**	30-Jun-18 $'000
Ordinary shares fully paid				
Beginning of the financial period	**126,914**	126,907	**477,611**	477,597
Shares acquired by the Employee Share Scheme Trust	**(318)**	(32)	**(725)**	(77)
Shares allocated by the Employee Share Scheme Trust	**324**	39	**743**	91
Share buy-back	**(1,377)**	-	**(2,601)**	-
End of the financial period	**125,543**	126,914	**475,028**	477,611

On 5 October 2018, the Company commenced an on-market buy-back for up to 5% of its issued ordinary shares, for a period of up to 12 months.

During the period 1.37 million shares were acquired at an average price of $1.89 per share.

C2 Financial instruments

The Company measures its derivative financial liabilities at fair value at each reporting date. Cash flow hedges are measured using significant observable inputs (level 2 of the fair value hierarchy).

On 2 July 2018, the Company executed two interest rate caps totalling $50 million. The interest rate cap contracts will cap the Company's floating interest rate at a maximum of 3% on $50 million until 2 July 2020 and $25 million thereafter until 4 July 2022.

At balance date the interest rate caps were recognised as an asset with a fair value of $48,334 (30 June 2018: nil). This is the only financial instrument included on the consolidated balance sheet and measured at fair value.

The fair value of the interest rate cap is the estimated amount that the entity would receive to terminate the cap at the balance sheet date, taking into account current interest rates, forward interest yield curves and the current creditworthiness of the cap counterparties.

The fair value of Villa World Bonds is the quoted market value (code: VLWHA) of a bond which at 31 December 2018 was $105.0 per bond (30 June 2018: $104.5) (Level 1). At 31 December 2018, the carrying value of Villa World Bonds is $48.9 million (30 June 2018: $48.8 million).

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

C3 Borrowings

(a) Financing arrangements

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

31 December 2018	Facility amount $'000	Utilised amount $'000	Bank guarantees utilised $'000	Undrawn amount $'000	Effective interest rate %
Financing arrangements					
Bank loans - secured (i)	**190,000**	**110,056[1]**	**19,669**	**60,275**	**5.7%**
Villa World Limited Bonds - unsecured (ii)	**50,000**	**48,936[2]**	**-**	**-**	**7.4%**
	240,000	**158,992**	**19,669**	**60,275**	

30 June 2018	Facility amount $'000	Utilised amount $'000	Bank guarantees utilised $'000	Undrawn amount $'000	Effective interest rate %
Financing arrangements					
Bank loans - secured (i)	190,000	135,013[1]	22,694	32,293	7.3%
Villa World Limited Bonds - unsecured (ii)	50,000	48,773[2]	-	-	7.2%
	240,000	183,786	22,694	32,293	

[1] Carrying amount is net of transaction costs and amortisation as at end of financial period.
[2] Carrying amount is net of transaction costs and amortisation as at end of financial period. Refer Note (a)(ii) - Villa World Bonds - unsecured.

(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 2018: $190 million).

The maturity of the ANZ facility has been staggered, with $90 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 2021.

As at 31 December 2018 the facility was drawn exclusive of bank guarantees at $110 million (30 June 2018: $135 million). Bank guarantees issued total $19.7 million (30 June 2018: $22.7 million).

No restrictions have been imposed on this facility by the financiers during the period ending 31 December 2018 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.

The carrying value of non-current borrowings and the bank guarantees is considered to approximate fair values.

C3 Borrowings (continued)

(a) Financing arrangements (continued)

(ii) Villa World Bonds - unsecured

The Company issued 500,000 Bonds with a face value of $100 per bond on 21 April 2017 (ASX: VLWHA). The Bonds are unsecured and interest-bearing at 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 no greater than 40%. For the half-year ended 31 December 2018 the secured gearing ratio is 18.7% (30 June 2018: 21.3%).

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 2018, the gearing ratio is 27.9% (30 June 2018: 29.7%).

The Bonds are presented in the Balance Sheet as follows:

	Consolidated	
	31-Dec-18	30-Jun-18
	$'000	$'000
Villa World Bonds	**50,000**	50,000
Transaction and finance costs net of amortisation	**(1,226)**	(1,549)
Amortisation of borrowing costs	**162**	322
Carrying value of Bonds	**48,936**	48,773

Interest is payable based on a 4.75% margin over the 3 month bank bill swap rate. The seventh interest instalment was paid on 21 January 2019 at an interest rate of 6.68%.

(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-18	30-Jun-18
	$'000	$'000
Total inventory:		
Current inventory	**222,180**	167,590
Non-current inventory	**254,785**	233,967
Aggregate carrying amount	**476,965**	401,557

(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 2018
(continued)

C4 Finance costs

Accounting for finance costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale.

Historically, when revenue was recognised on land development and residential housing, borrowing costs previously capitalised into inventory have been presented within Total Finance Costs.

In the current period, interest allocation which relates to non-qualifying assets is expensed when incurred. For each accounting settlement on qualifying assets the capitalised interest is expensed / (unwound) on a per lot basis through cost of inventory sold. Once an asset has been impaired or development activity has ceased the borrowing costs will be expensed in the month incurred.

	Notes	Consolidated **31-Dec-18** **$'000**	 31-Dec-17 $'000
Loan interest and charges			
Interest and finance charges paid/payable for financial liabilities not at fair value through profit or loss		**3,525**	3,544
Unwind of discount deferred consideration		**64**	164
Interest payable on Villa World Limited Bonds		**1,704**	1,609
Borrowing costs		**253**	310
Fair value gain/(loss) on interest swap cash flow hedge		**-**	98
		5,546	5,725
Amount capitalised[1]		**(3,567)**	(4,351)
Unwind of amount capitalised relating to financial assets		**29**	-
Unwind of amount capitalised attributable to inventories sold		**4,091**	1,815
		553	(2,536)
Capitalised interest expense attributable to inventory sold	A1	**(4,091)**	(1,815)
Total other finance costs included within the income statement		**2,008**	1,374

[1]The weighted average cost of debt applicable to the entity's outstanding borrowings during the half-year, including line fees and margins is 6.2% (31 December 2017: 7.6%).

CAPITAL STRUCTURE, FINANCE COSTS AND FINANCIAL RISK MANAGEMENT

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 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-18	30-Jun-18
	$'000	$'000
Interest in Donnybrook Joint Venture	**3,423**	3,308
Interest in Rochedale Joint Venture	**1,062**	2,268
Interest in Villa Green Joint Venture	**24,883**	18,226
Interest in Wollert Joint Venture	**4,741**	3,458
	34,109	27,260

(a) Donnybrook Joint Venture

On 20 December 2018, the Company received payment of $5.5 million from the purchaser 960 Blueways Pty Ltd as required under the contract for sale of 960 Donnybrook Road, Victoria. That sale, and the sale of the adjoining 1030 Donnybrook Road to Satterley Property Group Pty Ltd, remain conditional on approval of the Shenstone Park Precinct Structure Plan which continues to progress.

(b) Villa Green Joint Venture

On 24 August 2018, the Joint Venture entered into a facility agreement with Australia and New Zealand Banking Group Limited to fund the acquisition and development of land. The facility has a limit of $30 million and matures in August 2020. The Joint Venture also has bank guarantee and performance bond facilities totalling $2.31 million.

(c) Wollert Joint Venture

On 10 September 2018, the Joint Venture entered into a facility agreement with Suncorp-Metway Limited to fund the acquisition and development of land. The facility has a limit of $30 million and matures in August 2020.

(d) Eynesbury Joint Venture

On 13 September 2018, the Eynesbury Joint Venture was deregistered under *section 601AA(4) Corporations Act 2001*. The Company previously had a 50% interest in this Joint Venture.

OTHER INFORMATION

E

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 2018 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 12 February 2019.

E2 Basis of preparation of half-year report

This condensed consolidated interim financial report for the half-year ended 31 December 2018 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 2018 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*.

(a) 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 2018 financial report, other than adopting AASB 15.

(b) 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.

(c) New accounting standards and interpretations

This note outlines the impact of the adoption of *AASB 15 Revenue from Contracts with Customers* and *AASB 9 Financial Instruments* on the Company's interim condensed consolidated financial statements and the new accounting policies that have been applied from 1 July 2018, where they are different to prior periods with no restated comparatives.

All other accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Company's annual consolidated financial statements for the year ended 30 June 2018.

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

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

(c) New accounting standards and interpretations (continued)

(i) AASB 9 Financial instruments

AASB 9 Financial Instruments replaces the provisions of AASB 139 that relate to requirements for the classification, measurement and derecognition of financial assets, including a new expected credit loss model for calculation of impairment on financial assets and hedge accounting. To assess for any expected credit losses under AASB 9, there is a consideration around the probability of default upon initial recognition of the asset. For trade receivables, contract debtors and other debtors, the Group applies the simplified recognition of the receivables whereby the loss allowance is measured at an amount equal to the lifetime expected credit losses. The adoption has not had a material impact. In adopting this standard the Company has elected to apply the modified retrospective approach.

Derivative Financial instruments

The interest rate caps entered into on 2 July 2018 qualified as cash flow hedges under AASB 9. The Group's risk management strategies and hedge documentation are aligned with the requirements of the standard with hedge accounting applied.

(ii) AASB 15 Revenue from contracts with customers

AASB 15 Revenue from contracts with customers was issued in December 2014, and amended in May 2016. The new revenue standard supersedes all current revenue recognition requirements under Australian Accounting Standards and permits either a full or modified retrospective approach on transition. AASB 15 has been applied by the Company for the financial year ended 30 June 2019.

The core principle of AASB 15 is to recognise revenue at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

AASB 15 establishes a five-step model to account for revenue arising from contracts with customers and includes increased disclosure requirements. These include but are not limited to, identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation.

Significant judgement is required to determine when control over the asset is transferred to the customer. The new standard is based on the principle that the revenue is recognised when control of a good or service transfers to a customer.

Impact

The Company's primary source of revenue is derived from the development and sales of residential land, and the development, construction and sale of house and land packages.

The Company has assessed and evaluated the impact of AASB 15 on its consolidated financial statements. Under AASB 15, the Company considers performance obligations are satisfied at settlement irrespective of geographical location as this is when control of the asset transfers to the customer. This represents a change from the Company's previous revenue recognition policy for Queensland and Victoria sales whereby revenue was previously recognised when an unconditional sales contract and registration of the land and / or certification of building is complete.

As a result, revenue and associated costs of sales recognised on contracts which were unconditional but not yet settled as at 30 June 2018 for house and land, and land only contracts in Queensland and Victoria have been adjusted through retained earnings and corresponding balance sheet accounts by $20.9m.

Consistent accounting policies are applied to the Company's associates and Joint Ventures which impacted investments accounted for using the equity method and retained earnings in the Company by $1.3m.

The Company's construction contracts are not materially impacted by the adoption of the new standard.

Development management fees are considered on a per contract basis. Previously revenue in relation to these contracts was recognised at cash settlement. Under AASB 15, the Company considers that the performance obligations are satisfied over time. Development revenue includes project management fees; and sales and marketing fees as defined in each separate contract. These revenues represent a series of services that are substantially the same, have the same pattern of transfer to the customer over the term of the contract and recognised as a single performance obligation. Where revenue meets the conditions for recognition, the fees derived will be recognised over the period the services are performed. Revenue will be recognised as deferred income in the balance sheet until received.

Development management fees relating to services performed in prior periods not previously recognised amount to $1.2 million, which has been adjusted through retained earnings and corresponding balance sheet accounts.

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

(c) New accounting standards and interpretations (continued)

The Company adopted AASB 15 using the modified retrospective method of adoption, where comparatives are not restated. The effect of adopting AASB 15 is, as follows:

	Balance 30-Jun-18 $'000	AASB 15 adjustment $'000	Restated balance 1-Jul-18 $'000
ASSETS			
Current assets			
Cash and cash equivalents	12,645	-	12,645
Trade and other receivables	130,206	(127,103)	3,103
Inventories	167,590	91,663	259,253
Contract assets	-	150	150
Other current assets	4,187	762	4,949
Total current assets	**314,628**	**(34,528)**	**280,100**
Non-current assets			
Inventories	233,967	-	233,967
Property, plant and equipment	2,063	-	2,063
Investments accounted for using the equity method	27,260	(1,375)	25,885
Deferred tax assets	-	496	496
Contract assets	-	1,608	1,608
Other non-current assets	10,000	-	10,000
Total non-current assets	**273,290**	**729**	**274,019**
Total assets	**587,918**	**(33,799)**	**554,119**
LIABILITIES			
Current liabilities			
Trade and other payables	64,426	(4,667)	59,759
Deferred income	42	18	60
Current tax liabilities	2,353	-	2,353
Other current liabilities	3	-	3
Employee benefits	1,298	-	1,298
Service warranties	4,266	(177)	4,089
Other provisions	45	-	45
Total current liabilities	**72,433**	**(4,826)**	**67,607**
Non-current liabilities			
Trade and other payables	13,396	-	13,396
Borrowings	183,786	-	183,786
Deferred tax liabilities	7,979	(7,979)	-
Other financial liabilities	59	-	59
Employee benefits	453	-	453
Other provisions	92	-	92
Total non-current liabilities	**205,765**	**(7,979)**	**197,786**
Total liabilities	**278,198**	**(12,805)**	**265,393**
Net assets	**309,720**	**(20,994)**	**288,726**
EQUITY			
Contributed equity	477,611	-	477,611
Other reserves	241,021	-	241,021
Accumulated losses	(408,912)	(20,994)	(429,906)
Total equity	**309,720**	**(20,994)**	**288,726**

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

(c) New accounting standards and interpretations (continued)

(iii) AASB 16 Leases

AASB 16 Leases introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligations to make lease payments.

AASB 16 substantially carries forward the lessor accounting requirements in *AASB 117 Leases*. Accordingly a lessor continues to classify its leases as operating leases, and to account for those two types of leases differently.

AASB 16 requires enhanced disclosures for both lessees and lessors to improve information disclosed about an entity's exposure to leases.

This new standard is not yet effective and is applicable to annual reporting periods beginning on or after 1 January 2019, with early application permitted. The Company is currently assessing the impact of the new guidance and will adopt this standard for the year ended 30 June 2020.

E3 Events occurring after the reporting period

Interim dividend

On 12 February 2019, the Board declared a fully franked interim dividend of 8.0 cents per share. The ex-dividend date is 12 March 2019 and the record date for this dividend is 13 March 2019. Payments will be made on 2 April 2019.

As at 31 December 2018, an amount of $19.3 million is held as franking credits in the Company.

Directors' declaration
31 December 2018

In the Directors' opinion:

(a) the interim financial statements and notes set out on pages 7 to 29 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 2018 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.

Chief Executive Officer and Managing Director
Broadbeach
12 February 2019

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

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Villa World Limited (the Company) and its subsidiaries (collectively the Group), which comprises the interim condensed consolidated balance sheet as at 31 December 2018, 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.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year 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 2018 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 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 is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with 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 half-year 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 2018 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 a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

Ernst & Young

Ernst & Young

Alison de Groot
Partner
Brisbane
12 February 2019

2019

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VILLA WORLD

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