

INTERIM FINANCIAL REPORT

FOR THE HALF YEAR
ENDED 31 DECEMBER 2014



SUCCESS
THROUGH
PROPERTY

Villa World Limited ABN 38117546326

Interim Financial Report - 31 December 2014

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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 2014 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*.

Directors' report

The Directors of Villa World Limited present their report together with the interim financial statements for the half year ended 31 December 2014.

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	1/09/2014
Gerald (Gerry) Lambert	Non-Executive Director	Yes	22/01/2015
Alexander (Sandy) Beard ¹	Non-Executive Director	No	11/04/2011

1. Alexander (Sandy) Beard resigned on 2 September 2014.

Review of operations

Key highlights

- Statutory net profit after tax from continuing operations of \$13.0 million (31 December 2013: \$7.6 million).
- Statutory net profit before tax from continuing operations \$11.1 million (31 December 2013: \$9.4 million net profit before tax).
- Successfully completed an institutional placement of \$26.7 million and opened share purchase plan targeting \$5 million.
- 6.0 cps fully franked interim dividend (31 December 2013: 6.0cps fully franked).
- Revenue from the sale of property of \$134.1 million (31 December 2013: \$93.8 million).
- Accounting settlements¹ of 329 lots (including the Company's share of joint ventures) (31 December 2013: 335 lots).
- Earnings per share from continuing operations increased to 13.9 cps (31 December 2013: 9.3 cps).
- Net sales of 352 lots (31 December 2013: 475 lots) for a gross value (inclusive of GST) of \$141.3million (31 December 2013: \$177.9 million), inclusive of proportional share of joint ventures.
- A total of 364 contracts on hand at 31 December 2014 (31 December 2013: 356 contracts) to carry forward for a gross value² of \$138.7 million (31 December 2013: \$153.2 million).
- Gearing³ of 24.8% (30 June 2014 18.7%).

Financial commentary for the half-year

The financial result for the half year to 31 December 2014 was a statutory net profit after tax of \$13.0 million (13.9 cps), compared to a net profit after tax of \$7.6 million (9.3 cps) for the half year to 31 December 2013.

¹ Accounting settlements are based on the revenue recognition accounting policy.

² 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.

³ Gearing ratio: (interest bearing liabilities less cash) / (total assets less cash).

Review of operations (continued)

Sales

352 sales⁴ were recorded for 1H15 (1H14: 475). Inventory levels were replenished over 1H15 to meet market demand. Consequently, sales momentum has strengthened in the most recent quarter with the average sales rate rising from 44.7 per month in 1Q15, to 72.7 per month in 2Q15 (as forecast). 3 new projects were released in Queensland (Era, Waterline and Parkside) and 2 new projects were released in Victoria (Cardinia Views and Roxburgh Park). Further, new stages were released at the strong selling projects of Mt Cotton, Circa Metro and Orana. In FY15, sales will be weighted to the second half.

The Company's property portfolio is located in the eastern seaboard states. With 13 active projects, Queensland remained the dominant contributor to 1H15 sales (81.5% of sales). With the near conclusion of Cascades on Clyde, and the release of its replacement Cardinia Views in 2Q15, Victorian projects accounted for 15.9% of sales. The Lacosi Hill project in New South Wales represented 2.6% of sales.

As at 31 December 2014, the Company will carry forward contracted sales of 364 lots⁵ worth \$138.7 million. Of these, 334 contracts (\$127.0 million) are anticipated to settle in 2H15, and the balance in 1H16.

Revenue

A total of 329 accounting settlements⁶ occurred in 1H15, compared to 335 accounting settlements in 1H14. Current period accounting settlements comprised carried forward sales from FY14 and strong sales in 1HY15.

Revenue improved significantly from \$93.8 million in 1H14 to \$134.1 million in 1H15. Whilst the product mix in 1H15 remained weighted towards house and land (80% of revenue; 1H14: 79%), average revenue per lot rose significantly to \$410,600 (1H14: \$308,400). Revenue growth of 4% to 8% was experienced at select estates (Circa, Park Vista, Mount Cotton and Cascades on Clyde).

Average house and land revenue rose by 10% to \$415,500 (1H14: \$378,800) due to a large number of settlements at higher price point estates in Brisbane's north and bayside suburbs as well as the settlement of house and land product in Victoria at Cascades on Clyde. The settlement of the Company's premium land only project Astonbrook significantly lifted average revenue per land only lot to \$391,600 (1H14: \$183,500, up 113%).

Acquisition Success

The Company has been actively restocking in 1H15, with the announcement of \$103.6 million in new acquisitions (2,409 lots). This has resulted in a step change in the development portfolio to 5,354 lots (from 3,925 at the release of the FY14 results). The increased development portfolio and strong market conditions support a lifted sales target of 1,000 to 1,200 lots p.a. by FY16 (subject to market conditions). At this level of sales, the development portfolio represents a 4-6 year supply.

The Company will continue to acquire additional sites to replenish lots under its control. This will likely comprise outright purchases of smaller projects that can deliver settlements within 1 to 4 years, as well as larger acquisitions purchased through alternative funding structures such as joint ventures or on deferred terms. Acquisitions will focus on replenishing the land bank in SE Queensland and growing Victoria.

Debt Facility

At 31 December 2014, the Company's banking facility with ANZ was \$155 million (inclusive of bank guarantees and working capital), with a maturity date of 1 September 2016 (30 June 2014: \$155 million).

As at 31 December 2014, the facility was drawn to \$100.0 million plus bank guarantees of \$14.2 million. Net Debt was \$98.0 million, and gearing was 24.8% compared to 18.7% as at 30 June 2014. The average cost of debt for the period ending 31 December 2014 was 7.92% compared to 7.80 % as at 30 June 2014.

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

⁵ Lots are included on the basis of 100% for Villa World Group projects and 50% of Joint Venture projects. Represents gross sales price including GST.

⁶ Accounting Settlements - QLD and VIC require an unconditional contract, the land to be registered and (where applicable) a certificate of completion to be issued for the dwelling. Cash settlement is not necessary. In NSW, cash settlement is required.

Review of operations (continued)

Balance Sheet

The gross assets have increased to \$396.6 million as at 31 December 2014, as a result of the implementation of the successful acquisition strategy. Trade creditors include \$66.1 million for land payments which will be funded from the existing debt facility and working capital.

As at 31 December 2014, the Company's NTA was \$1.96 per share compared to \$1.92 at 30 June 2014. The Company carried forward unused tax losses of \$30.4 million (30 June 2014: \$34.6 million), and \$13.1 million franking credits.

Capital Raising

Post balance date (28 January 2015), the Company completed a successful placement raising \$26.7 million, through the issue of approximately 14.0 million new ordinary shares at an issue price of \$1.90 per share. There was very strong demand for the placement. The placement was undertaken to provide the Company with increased financial capacity to continue to grow inventory and take advantage of acquisition opportunities whilst maintaining prudent gearing levels.

Following the placement, the pro-forma NTA per share is \$1.94 (\$1.96 at 31 December 2014) and gearing is 18.2% (31 December 2014: 24.8%).

The Company has also offered eligible shareholders to subscribe for new shares via a Share Purchase Plan ("SPP"), targeting \$5 million, at the placement price. The SPP closing date is 25 February 2015.

New shares issued via the placement and SPP will rank equally with existing Villa World shares and will be entitled to the interim dividend.

Dividend

Post balance date, the Company has declared a 6.0 cps interim dividend fully franked (1H14: 6.0cps). The record date for this dividend is 9 March 2015 and the payment date is 2 April 2015. The full year dividend for FY15 is expected to be at least in line with the FY14 dividend of 15 cents per share fully franked. It is the intention of the Board to continue the payment of dividends in accordance with the stated payout policy of 50% to 75% of NPAT, paid semi-annually.

Governance and Leadership

The Company has continued to strengthen leadership at the Board level, with the appointment of Mr David Rennick and Mr Gerald (Gerry) Lambert. David was appointed as non-executive Director on 1 September 2014. The Company will benefit from the depth of property and corporate experience David brings to the Board.

Gerry was appointed as non-executive Director on 22 January 2015. Gerry comes to the Board with a detailed understanding of the Company's business, being the current Chair of the Audit and Risk Committee and having previously been a director of the Company whilst employed as General Manager and CFO between 2000-2005. The Board looks forward to Gerry contributing to the Company's financial, strategic and governance objectives.

Mr Alexander (Sandy) Beard, who has served on the Board since April 2011, resigned as a non-executive director effective 2 September 2014. We thank Sandy for his years of continuous service and contribution to the Company's growth and success.

Outlook

Positive underlying market fundamentals continue in the Company's key markets of South East Queensland and Melbourne. As a result of strong market conditions and sales momentum and greater clarity on delivery, the Company is targeting net profit before tax for FY15 of at least \$28.5 million, with both profit and sales weighted to the second half.

The Company continues to identify attractive acquisition opportunities in key growth regions of Melbourne and South East Queensland. The equity raising will ensure that the Company can continue to be in a strong position to take advantage of market opportunities at prudent gearing levels. The growing development pipeline supports an increased sales targets of 1,000 - 1,200 lots in FY16, supporting positive earnings growth.

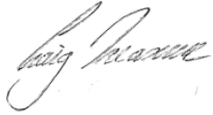
Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 5.

Rounding of amounts

The consolidated entity is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order amounts in the financial report have been rounded off to the nearest \$1,000, unless otherwise stated.

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

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

Craig Treasure
Chief Executive Officer and Managing Director
Broadbeach
17 February 2015



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

In relation to our review of the financial report of Villa World Limited for the half-year 31 December 2014, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

A handwritten signature in black ink that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in black ink that reads 'Ric Roach'.

Ric Roach
Partner
17 February 2015

Villa World Limited
Interim condensed consolidated statement of comprehensive income
for the half-year ended 31 December 2014

		Consolidated entity	
	Notes	31-Dec-14	31-Dec-13
		\$'000	\$'000
Continuing operations			
Revenue from land development, residential building and construction contracts	3	134,094	93,835
Cost of land development, residential building and construction contracts	3	(101,791)	(69,032)
Gross Profit		32,303	24,803
Other Revenue		592	2,792
Share of net profit / (loss) of associates and joint ventures accounted for using the equity method		622	1,824
Expenses, excluding finance costs	4	(17,930)	(15,824)
Finance costs		(4,500)	(4,203)
Profit / (loss) before income tax		11,087	9,392
Income tax benefit / (expense)	6	1,909	(1,835)
Net profit / (loss) for the half-year		12,996	7,557
Profit / (loss) is attributable to:			
Equity holders of the Company		12,996	7,557
		Cents	Cents
Earnings per share for profit attributable to the ordinary equity holders of the Company:			
Basic earnings per share		13.9	9.3
Diluted earnings per share		13.6	9.2

		Consolidated entity	
	Notes	31-Dec-14	31-Dec-13
		\$'000	\$'000
Net profit / (loss) for the half-year		12,996	7,557
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	12, 13	(1,789)	123
Income tax relating to components of other comprehensive income	12, 13	536	(37)
Other comprehensive income / (loss) for the half-year, net of tax		(1,253)	86
Total comprehensive income / (loss) for the half-year		11,743	7,643
Total comprehensive income / (loss) for the half-year is attributable to:			
Equity holders of the Company		11,743	7,643

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

Villa World Limited
Interim condensed consolidated balance sheet
as at 31 December 2014

		Consolidated entity	
	Notes	31-Dec-14	30-Jun-14
		\$'000	\$'000
ASSETS			
Current assets			
Cash and cash equivalents		2,033	12,118
Trade and other receivables		28,968	16,899
Inventories	5	183,167	123,660
Other current assets		1,962	1,978
Total current assets		216,130	154,655
Non-current assets			
Inventories	5	152,393	134,563
Property, plant and equipment		1,010	1,125
Investments accounted for using the equity method	7	15,700	17,968
Deferred tax assets		11,403	8,958
Total non-current assets		180,506	162,614
Total assets		396,636	317,269
LIABILITIES			
Current liabilities			
Trade and other payables	8	89,810	54,856
Provisions	10	13,058	10,963
Total current liabilities		102,868	65,819
Non-current liabilities			
Trade and other payables	8	9,498	1,520
Borrowings	11	100,034	69,086
Provisions	10	589	598
Total non-current liabilities		110,121	71,204
Total liabilities		212,989	137,023
Net assets		183,647	180,246
EQUITY			
Contributed equity	9	413,375	413,375
Other reserves	13	168,652	164,774
Retained earnings		(398,380)	(397,903)
Total equity attributable to shareholders		183,647	180,246
Total equity		183,647	180,246

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

Villa World Limited
Interim condensed consolidated statement of changes in equity
for the half-year 31 December 2014

		Attributable to owners of Villa World Limited				
		Contributed equity \$'000	Cash flow hedges \$'000	Other Reserves \$'000	Profits Reserve \$'000	Retained earnings \$'000
Consolidated entity						Total \$'000
Balance at 1 July 2013		382,125	(657)	220	-	(245,556)
Profit for the half year as reported in the 2013 interim financial statements		-	-	-	-	7,557
Movement in hedge reserve (net of tax)		-	86	-	-	-
Transfer to profits reserve		-	-	-	159,890	(159,890)
Total comprehensive income for the half-year		-	86	-	159,890	(152,333)
Transactions with owners in their capacity as owners:						
Securities issued from capital raising, net of transaction costs and tax		26,292	-	-	-	-
Securities issued under the share purchase plan, net of transaction costs and tax		4,958	-	-	-	-
Expenses related to share based payments		-	-	78	-	-
		31,250	-	78	-	-
Balance at 31 December 2013		413,375	(571)	298	159,890	(397,889)
Balance at 1 July 2014		413,375	(1,413)	174	166,013	(397,903)
Profit for the half year as reported in the 2014 interim financial statements		-	-	-	-	12,996
Movement in hedge reserve (net of tax)		-	(1,253)	-	-	-
Transfer to profits reserve		-	-	-	13,502	(13,502)
Total comprehensive income for the half-year		-	(1,253)	-	13,502	(506)
Transactions with owners in their capacity as owners:						
Dividends provided for or paid	14	-	-	-	(8,430)	-
Expenses related to share based payments	13	-	-	88	-	-
Transfer forfeited share based payments to retained earnings	13	-	-	(29)	-	29
		-	-	59	(8,430)	29
Balance at 31 December 2014		413,375	(2,666)	233	171,085	(398,380)

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

Villa World Limited
Interim condensed consolidated statement of cash flows
for the half-year ended 31 December 2014

	Notes	Consolidated entity	
		31-Dec-14	31-Dec-13
		\$'000	\$'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		132,009	106,995
Payments to suppliers and employees (inclusive of goods and services tax)		(119,130)	(93,514)
Cash generated from operating activities		12,879	13,481
Payments for land acquired		(45,618)	(40,858)
Interest received		376	252
Interest paid		(2,862)	(2,419)
Borrowing costs		-	(120)
GST Paid / (Refund)		402	(1,167)
Net cash (outflow) from operating activities		(34,823)	(30,831)
Cash flows from investing activities			
Payments for property, plant and equipment		(298)	(354)
Payments for the purchase of investments	7	(6,100)	-
Loans (to) / from related parties	7	9,000	(500)
Net cash inflow / (outflow) from investing activities		2,602	(854)
Cash flows from financing activities			
Proceeds from borrowings		46,566	6,957
Repayment of borrowings		(16,000)	(8,000)
Proceeds from issue of share capital		-	32,200
Transactions costs of issue of shares		-	(1,358)
Dividends paid to company's shareholders	14	(8,430)	-
Net cash inflow from financing activities		22,136	29,799
Net decrease in cash and cash equivalents		(10,085)	(1,887)
Cash and cash equivalents at the beginning of the financial year		12,118	15,350
Cash and cash equivalents at end of half-year		2,033	13,464

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

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1 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 2014 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 17 February 2015.

2 Basis of preparation of half-year report

This condensed consolidated interim financial report for the half-year ended 31 December 2014 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 2014 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) 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 2014.

The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. New standards and amendments to standards that are mandatory for the first time for the new financial year beginning 1 July 2014 have not affected any of the amounts recognised in the current period or any prior period, are not likely to affect future periods.

(b) Critical accounting estimates

The preparation of 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 2014 financial report.

3 Segment information

(a) Description of segments

Management has determined the segments based on the reports reviewed by the executive committee that are used to make strategic decisions.

Villa World Limited and its controlled entities develop and sell residential land and houses in Queensland, New South Wales and Victoria. 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 committee considers the business from both a product, and within Australia, a geographic prospective and has identified two reportable segments:

- property development and construction - Queensland and New South Wales; and
- property development and construction - Victoria.

3 Segment information (continued)

(a) Description of segments (continued)

The executive committee considers a range of information relating to the reportable segments including:

- historical results of the segment, using both revenue and gross margin;
- future forecasts of the segment for the remainder of the year; and
- key risks and opportunities facing the segments.

(b) Segment information provided to the executive committee

(i) Segment Revenue

The revenue from external parties reported to the executive committee is measured in a manner consistent with that in the income statement. Revenues from external customers are derived from the sale of residential house and land products.

(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. It excludes the effects of non-cash expenditure from the operating segments such as impairments on inventory and other assets.

The segment information provided to the executive committee for the reportable segments for the six months ended 31 December 2014 is as follows:

	Consolidated entity	
	31-Dec-14	31-Dec-13
From continuing operations	\$'000	\$'000
Segment revenue from land development, residential building and construction contracts		
Queensland and New South Wales	118,229	78,847
Victoria	15,865	14,988
Total segment revenue from land development, residential building and construction contracts	134,094	93,835
Segment cost of land development , residential buildings and construction contracts		
Queensland and New South Wales	(91,697)	(59,456)
Victoria	(10,094)	(9,576)
Total segment cost of land development, residential building and construction contracts	(101,791)	(69,032)
Segment gross margin		
Queensland and New South Wales	26,532	19,391
Victoria	5,771	5,412
Total segment gross margin	32,303	24,803

(c) Other segment information

The entity is domiciled in Australia. The amount of its revenue from external customers in Australia is \$134.1 million (31 December 2013: \$93.8 million).

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.

4 Expenses

	Consolidated entity	
	31-Dec-14	31-Dec-13
	\$'000	\$'000
Expenses, excluding finance costs, included in the interim condensed consolidated income statement classified by function		
Cost of land development, residential building and construction contracts	101,791	69,032
Expenses, excluding finance costs	17,930	15,824
	119,721	84,856
Classification of these expenses by function		
Cost of land development, residential building and construction contracts	101,791	69,032
Other expenses from ordinary activities		
Property sales and marketing expenses	7,378	7,140
Employee Benefits	6,856	5,149
Land holding costs	1,793	1,551
Legal and professional costs	460	500
Administration costs	338	284
Impairment of development land	(520)	(153)
Other Expenses	1,625	1,353
	17,930	15,824

5 Inventories

	Consolidated entity	
	31-Dec-14	30-Jun-14
	\$'000	\$'000
Current assets		
Land and work in progress held for development and resale	178,707	118,515
Capitalised interest	6,814	6,003
Impairment of development land	(2,354)	(858)
	183,167	123,660
Non-current assets		
Land and work in progress held for development and resale	154,394	137,480
Capitalised interest	5,925	7,066
Impairment of development land	(7,926)	(9,983)
	152,393	134,563
Total inventory	335,560	258,223

6 Income tax expense

Numerical reconciliation of prima facie tax payable to income tax expense

	Consolidated entity	
	31 December 2014	31 December 2013
	\$'000	\$'000
Profit from continuing operations before income tax expense	11,087	9,392
Tax at the Australian tax rate of 30.0% (2013 - 30.0%)	3,326	2,818
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Profit / (loss) of equity accounted investments	(587)	1,034
	2,739	3,852
(Recognition) / derecognition of deferred tax asset for losses	(4,300)	(1,895)
Other	34	(122)
Adjustments for current tax of prior periods	(382)	-
Income tax (benefit) / expense	(1,909)	1,835

Tax losses

During the period a prima facie taxable income of \$5.46 million was generated by the Company. The total remaining unused tax losses for the Company as at 31 December 2014 is \$30.4 million after adjusting for the prima facie taxable income, recognition of losses and any permanent differences (30 June 2014: \$34.9 million). During this period \$14.33 million of unused tax losses (DTA: \$4.3 million) were recognised. All revenue losses are now recognised with a tax benefit associated with carried forward losses of \$9.12 million (30 June 2014: \$6.11 million).

Villa World Limited does not recognise a deferred tax asset on its investment in the Eynesbury Pastoral Trust on the basis that the deferred tax asset represents an unrealised capital loss for which the future use is not probable.

7 Investments accounted for using the equity method

	Consolidated entity	
	31-Dec-14	30-Jun-14
	\$'000	\$'000
Interest in Donnybrook Joint Venture	6,099	-
Interest in Eynesbury Group Joint Venture	9,601	17,968
	15,700	17,968

Eynesbury Joint Venture

The Company advised the market on 21 August 2013, that contracts for the sale of the Eynesbury project (in two tranches) to the Hyde Property Group Pty Ltd were unconditional. The sale includes all undeveloped land, as well as the Eynesbury golf course land and business for a total sale price of \$60 million (plus GST).

On 27 June 2014, tranche one of the sale settled at a sale price of \$30 million plus GST. As at 30 June 2014 the equity investment in the Eynesbury Joint Venture was \$18.0 million. On 7 July 2014 \$9.0 million was repaid to each Joint Venture partner. The settlement date for the second tranche remains unchanged at 2 March 2015, at a sale price of \$30 million (plus GST).

Donnybrook Joint Venture

On 30 October 2014 at the Annual General Meeting the Company advised that it had entered into a joint venture with CVC Limited and agreed to the unconditional purchase of a site at Donnybrook, Victoria for \$12.7 million (51% share \$6.5 million). Settlement of this site is due in August 2015.

Donnybrook Joint Venture (continued)

On 11 December 2014 the Company advised the market that the joint venture had agreed to purchase an adjoining site at Donnybrook for the amount of \$10.1 million (51% share \$5.1 million) with settlement occurring on 19 December 2014. The joint venture has obtained project specific finance for the acquisition of this second parcel. The equity accounted investment in the Company's Donnybrook joint venture as at 31 December 2014 is \$6.1 million, representing the investment made by the Company during the period less share of profit and loss.

The two sites secure a landholding of approximately 270ha in one of Melbourne's fastest growing urban corridors. They are located within the Urban Growth Boundary, and will be the subject of a 2-3 year planning process potentially yielding in excess of 2,000 lots.

The Company's ownership interest in the development is 51%. Donnybrook is a joint arrangement with joint control and classified as a joint venture under AASB 11 Joint Arrangements. Whilst the ownership interest itself implies control to Villa World, it is clearly stated throughout the Shareholders Agreement that the development is governed jointly by Villa World and CVC. Each party has the right to appoint two Directors to the Board and decision making must be made by a unanimous resolution. In accordance with AASB 11, the Company accounts for the investment using the equity method in accordance with AASB 128 Investments in Associates and Joint Ventures.

8 Payables

	Consolidated entity	
	31 December	30 June
	2014	2014
	\$'000	\$'000
Current liabilities		
Trade payables ¹	63,952	34,912
Accrued expenses	24,651	19,167
Other payables ²	1,207	777
Total current payables	89,810	54,856
Non-current liabilities		
Trade payables ³	6,468	-
Other payables ⁴	3,030	1,520
Total non-current payables	9,498	1,520
Total payables	99,308	56,376

¹ Includes \$59.6 million (30 June 2014: \$30.4 million) payable for the purchase of inventory, due within 12 months of the reporting date.

² Includes derivatives payable of \$0.9 million (30 June 2014: \$0.6 million).

³ Includes \$6.5 million (30 June 2014: nil) payable for the purchase of inventory, due after 12 months of the reporting date.

⁴ Includes derivatives payable of \$2.9 million (30 June 2014: \$1.4 million).

9 Contributed equity

Issued Capital	31-Dec-14	30-Jun-14	31-Dec-14	30-Jun-14
	Shares '000	Shares '000	\$'000	\$'000
Ordinary shares fully paid				
Beginning of the financial period	93,664	73,539	413,375	382,125
Shares issued as part of the capital raising	-	17,000	-	27,200
Shares issued as part of the share purchase plan	-	3,125	-	5,000
Transaction costs from capital transactions net of tax	-	-	-	(950)
End of the financial period	93,664	93,664	413,375	413,375

10 Provisions

	Consolidated entity	
	31 December	30 June
	2014	2014
	\$'000	\$'000
Current liabilities		
Service warranties (a)	12,258	10,079
Other provisions	299	384
Employee benefits	501	500
Total current provisions	13,058	10,963
Non-current liabilities		
Other provisions	254	247
Employee benefits - long service leave (c)	335	351
Total non-current provisions	589	598
Total provisions	13,647	11,561

(a) Service warranties

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. In addition, provisions include employee benefits and other provisions.

(b) Movements in provisions

Consolidated entity	Service		Employee	
2015	warranties	Other	benefits	Total
	\$'000	\$'000	\$'000	\$'000
Current liabilities				
Carrying amount at start of year	10,079	384	500	10,963
- additional provisions recognised	3,012	283	136	3,431
Amounts incurred and charged	(833)	(368)	(135)	(1,336)
Carrying amount at end of half-year	12,258	299	501	13,058
Consolidated entity	Service		Employee	
2015	warranties	Other	benefits	Total
	\$'000	\$'000	\$'000	\$'000
Non-current liabilities				
Carrying amount at the start of the year	-	247	351	598
- additional provisions recognised	-	7	61	68
Amounts incurred and charged	-	-	(77)	(77)
Carrying amount at end of half-year	-	254	335	589

(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. The long service leave provision of \$121,055 (30 June 2014: \$82,804) is 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.

10 Provisions (continued)

(d) Legal claim

Home Warranty Claim - Thornleigh

A claim of \$6.78 million was made against the Company in respect of damages regarding project development defects, concerning a development in Thornleigh, NSW, known as Wild Ash Grove. This was first disclosed in detail in the annual report for the year ended 30 June 2010 as a contingent liability.

At a Court “adoption hearing” of a Referee’s determination, the Company was found liable for an amount of \$3,494,621. The Company is considering its rights of appeal. There are also likely to be costs orders made against the Company, the extent of which are uncertain and can only be estimated.

The adverse Court result has led to increased provisions as at 31 December 2014 based on best estimates. Factors taken into account include the impact of the Court decision, estimates of potential liability for costs, and alternative potential outcomes of an appeal.

Estimating this provision requires the exercise of significant judgement and it is therefore possible that actual amounts may differ from this estimate. The information in relation to provisions usually required by AASB137 Provisions, Contingent Liability and Contingent Assets is not disclosed on the grounds that it is expected to prejudice the outcome of the potential claim.

11 Interest bearing liabilities

Financing arrangements

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

	Consolidated entity	
	31-Dec-14	30-Jun-14
	\$'000	\$'000
Total Financing Facilities		
Bi-lateral loan (secured) (i)	155,000	155,000
	155,000	155,000
Facilities utilised at reporting date		
Loan (secured) (i) - non-current	100,034	69,086
	100,034	69,086
Bank guarantees utilised at reporting date		
Loan (secured) (i)	14,174	11,026
	14,174	11,026
Facilities unutilised at reporting date		
Loan (secured) (i)	40,792	74,888
	40,792	74,888

(i) Bi-lateral loan facilities

As at 31 December 2014, the Company’s primary banking facility with ANZ remains at \$155 million (inclusive of working capital and bank guarantees) and matures on 1 September 2016.

As at 31 December 2014 the facility was drawn exclusive of bank guarantees at \$100 million (30 June 2014: \$69.1 million). Bank guarantees issued total \$14.2 million (30 June 2014: \$11.0 million). The bank guarantees are also disclosed in Note 15 - Contingencies.

No restrictions have been imposed on this facility by the financier during the half-year ending 31 December 2014 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 half-year.

11 Interest bearing liabilities (continued)

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 3.5% (excluding any margin and line fees applicable under the loan agreement) on \$70 million of borrowings. The swap contract matures on 9 June 2015. The Company entered into a further \$90 million swap at 3.69% which commences on 9 June 2015 and will remain in place for 3 years.

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

12 Financial instruments

Interest rate swap contracts - cash flow hedges

The Company is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest rates in accordance with the Company's financial risk management policies. The gain or loss from remeasuring is transferred to the profit and loss when the hedge is ineffective.

Where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged. The fair value of interest rate swaps 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 and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is their quoted market price at the balance sheet date being the present value of the quoted prices.

The "Multi-Option" bank facility for the Company bears an average variable interest rate of 7.92% (including line and facility fees).

It is policy to protect part of the Bilateral Multi Option Facility of \$155 million from exposure to fluctuating interest rates. Accordingly the Company has entered into interest rate swap contracts under which it is obliged to receive interest at variable rates and to pay interest at fixed rates. Interest payments for interest rate swaps are net settled every 30 days.

For the half-year ended 31 December 2014, the amount hedged remains at \$70 million and is due to expire on 9 June 2015. During the previous financial year the Company entered into a \$90 million swap at 3.69% which will commence on 9 June 2015. At balance date these contracts were liabilities with a fair value of \$3.8 million (30 June 2014: \$2.0 million).

The gain or loss from remeasuring the hedging instruments at fair value is recognised in other comprehensive income and deferred in equity in the hedging reserve, to the extent that the hedge is effective. There is no ineffectiveness for the half-year ended 31 December 2014.

Fair value hierarchy

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- (b) inputs other than quoted prices included within level 1 that are observed for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

12 Financial instruments (continued)

Valuation techniques

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. The Company has determined that all significant inputs required to fair value an instrument are observable and therefore the instrument is included in level 2.

The fair value of interest rate swaps 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 carrying value of trade receivables and payables are assumed to approximate their fair values due to their short term nature. The fair value of non-current borrowings and the bank guarantees equals their carrying amount, as their impact of discounting is not significant.

13 Other reserves

	Notes	Consolidated entity 31-Dec-14 \$'000	30-Jun-14 \$'000
<i>(i) Profits reserve</i>			
Opening balance		166,013	-
Transfer opening retained profits		-	150,342
Dividends provided for or paid		(8,430)	(5,620)
Transfer current year profit		13,502	21,291
Closing balance		171,085	166,013
<i>(ii) Hedging reserve - cash flow hedges</i>			
Opening balance		(1,413)	(657)
Revaluation - gross		(1,789)	(1,080)
Deferred tax		536	324
Closing balance		(2,666)	(1,413)
<i>(iii) Share-based payments</i>			
Opening balance		174	220
Options issued		88	174
Transfer options lapsed to retained earnings		(29)	(220)
Closing balance		233	174
		168,652	164,774

(i) Profits Reserve

The profits reserve represents current year profits transferred to a reserve to preserve the characteristic as a profit and not appropriate against prior year accumulated losses. Any such profits are available to enable payment of franked dividends in the future should the Directors declare by resolution.

(ii) Hedging reserve - cash flow hedges

The hedging reserve is used to record gains and losses on an effective hedging instrument in a cash flow hedge that are recognised directly in equity. Amounts accumulated in equity are reclassified to profit and loss in the period when the associated hedged transaction affects profit and loss.

13 Other reserves (continued)

(iii) Share-based payments reserve

The share-based payments reserve is used to recognise the grant date fair value of options issued to key management personnel and other employees.

14 Dividends

	Consolidated entity	
	31-Dec-14	31-Dec-13
	\$'000	\$'000
Final fully franked ordinary dividend for the year ended 30 June 2014 of 9.0 cents per fully paid share paid on 30 September 2014 (2013: NIL)		
Final franked dividend based on tax paid at 30.0%	8,430	-

15 Contingencies

(a) Details and estimates of contingent liabilities are as follows:

The Company has provided bank guarantees (excluding joint venture entities) to the total of \$14.2 million (30 June 2014: \$11.0 million) to authorities and councils in relation to certain works to be undertaken or maintained or in support of contractual commitments.

(b) 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 and in the course of their employment. It is impractical to estimate the amount that may arise from these arrangements.

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.

(c) Estimates of material amounts of contingent liabilities provided for in the financial report

Silverstone, Tweed Heads

On 25 September 2013, Villa World Developments Pty Ltd (a subsidiary of Villa World Limited) (Villa World) was served with legal proceedings commenced in the Federal Court of Australia in relation to alleged defects at a residential building known as Silverstone, in Tweed Heads, New South Wales. The building was completed in 2009 comprising 27 units.

The proceedings have been commenced by the Owners Corporation for the building, and by unit owners. Villa World is defending the proceedings, and has cross-claimed seeking recovery for any potential liability against certain other parties.

No claim amount has been specified. In October 2014 the applicants provided an engineer's report discussing proposed rectification options and setting out preliminary cost estimates of \$14.5m - refer to Villa World's ASX announcement on 20 October 2014.

15 Contingencies (continued)

Provisions have been raised in the balance sheet for ongoing legal and experts' fees. No provision has been made for any part of the damages claim, as it is considered that the complexity of the litigation and the uncertainty of the outcome prevent a reliable estimate from being made as to the potential financial impact for the Company. Estimating this provision requires the exercise of significant judgement and it is therefore possible that actual amounts may differ from this estimate.

The information in relation to provisions usually required by AASB137 Provisions, Contingent Liability and Contingent Assets is not disclosed on the grounds that it is expected to prejudice the outcome of the potential litigation.

(d) Contingent liabilities in respect of other entities

The Company has provided guarantees in respect of the loan facilities for the Eynesbury and Donnybrook joint ventures. The special conditions of the debt facilities limit the maximum amount recoverable from Villa World to 50% in respect of Eynesbury and 51% for Donnybrook of the principal outstanding, interest and reasonable costs. As at 31 December 2014, the Eynesbury debt facility was drawn to \$10.0 million and \$0.2 million of bank guarantees were issued (30 June 2014: \$10.0 million and \$0.3 million bank guarantees). The Donnybrook debt facility was drawn to \$5.1 million as at 31 December 2014 (30 June 2014: nil).

16 Events occurring after the reporting period

Interim Dividend

On 17 February 2015, the Board declared a fully franked interim dividend of 6.0 cents per share. The ex-dividend date is 5 March 2015 and the record date for this dividend is 9 March 2015. Payments will be made on 2 April 2015.

Capital Raising

On 29 January the Company announced to the market that it had completed a fully underwritten placement to raise approximately \$26.7 million, through the issue of 14,049,570 new ordinary shares at an issue price of \$1.90 per share ("the Placement").

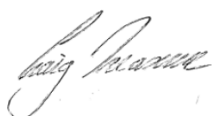
The Company also offered a non-underwritten Share Purchase Plan ("SPP") to eligible shareholders for up to \$15,000 worth of shares per shareholder, targeted to raise \$5 million (subject to change at the discretion of the Company). The record date for the SPP is 28 January 2015.

The Placement issue price of \$1.90 per share represented a 10% discount to the closing price of Villa World's shares on 27 January 2015 (the last trading day prior to this announcement) and a 7% discount to the volume weighted average price for the 5 trading days prior to this announcement. The SPP was offered at the same price per share as the Placement.

In the Chief Executive Officer and Managing Director's opinion:

- (a) the interim financial statements and notes set out on pages 6 to 24 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 2014 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
17 February 2015

Independent auditor's review report to the members of Villa World Limited



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Independent review report to the members of Villa World Limited

Report on the Interim Financial Report

We have reviewed the accompanying interim financial report of Villa World Limited, which comprises the interim condensed consolidated balance sheet as at 31 December 2014, 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 company and the entities it controlled at the half-year end or from time to time during the half-year.

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 controls as the directors determine are 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, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001. As the auditor of Villa World Limited and the entities it controlled during the half-year, 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.

Independence

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

Independent auditor's review report to the members of Villa World Limited (continued)



Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Villa World Limited is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its 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*.

A stylized, handwritten signature of 'Ernst & Young' in black ink.

Ernst & Young

A handwritten signature in black ink, appearing to read 'Ric Roach'.

Ric Roach
Partner
Brisbane
17 February 2015