# INTERIM FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2015

VILLA WORLD LIMITED ABN 38 117 546 326


CELEBRATING 30 YEARS

SUCCESS THROUGH PROPERTY

# Villa World Limited ABN 38 117 546 326
# Interim Financial Report - 31 December 2015

## 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 2015 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 report for the half-year ended 31 December 2015.

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

### Directors

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

| Director | Role | Independent | Appointed |
|---|---|---|---|
| Mark Jewell | Independent Chairman | Yes | 28/11/2013 |
| Craig Treasure | Chief Executive Officer and Managing Director | No | 17/02/2012 |
| David Rennick | Non-Executive Director | Yes | 01/09/2014 |
| Gerald (Gerry) Lambert[1] | Non-Executive Director | Yes | 22/01/2015 |

1. Gerald (Gerry) Lambert resigned 5 November 2015.

### Review of operations

### Key highlights for the half-year

- Statutory net profit after tax from continuing operations of $20.4 million (31 December 2014: $13.0 million statutory net profit after tax)
- Statutory net profit before tax from continuing operations $28.5 million (31 December 2014: $11.1 million statutory net profit before tax)
- 8.0 cps fully franked interim dividend declared post balance date (31 December 2014. 6.0cps fully franked)
- Revenue from the sale of property of $200.2 million (31 December 2014: $134.1 million)
- Accounting settlements[1] of 550 lots (including the Company's share of joint ventures) (31 December 2014: 329 lots)
- Earnings per share from continuing operations increased to 18.5 cps (31 December 2014: 13.9 cps)
- Net sales[2] of 497 lots (31 December 2014: 352 lots) for a gross value (inclusive of GST) of $191.0 million (31 December 2014: $141.3 million), inclusive of proportional share of joint ventures
- A total of 311 contracts on hand at 31 December 2015 (31 December 2014: 364 contracts) to carry forward for a gross value[3] of $107.7 million (31 December 2014: $138.7 million)
- Gearing[4] of 9.4% (30 June 2015: 16.9%)
- During the half, the Company secured an extension of the $130 million ANZ facility, with $80 million expiring on 1 March 2019 and $50 million expiring on 30 October 2020.

### Financial commentary for the half-year

As Villa World Limited (ASX: VLW) enters its 30th year, the Board's strategy is designed to achieve consistent through the cycle performance. The Company's focus on its key business fundamentals - a core product in the affordable to mid-price point, a diversity of sales channels, keen operational execution, geographic diversification across strategic east coast markets and financial strength - continues to deliver a strong performance and a resilient business model.

The financial result for the half-year to 31 December 2015 was a statutory net profit after tax of $20.4 million (18.5 cps), compared to a net profit after tax of $13.0 million (13.9 cps) for the half-year to 31 December 2014.

### Sales

The Company recorded 497 sales during 1H16 (1H15: 352) across 19 projects (1H15: 18 projects). The average sales rate remained strong at 83 per month. The Company is targeting 1,000 - 1,200 sales in FY16. With seven projects being released mid-year, sales will be weighted to the second half.

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

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

3 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.

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

## Review of operations (continued)

### Sales (continued)

Sales were weighted to Queensland (80% of sales) reflecting continuing supportive market conditions and increased number of projects being marketed. Sales were strong in all south east Queensland corridors and in Hervey Bay. Victorian projects accounted for 20% of sales, with a strong performance from the land only project Cardinia Views, as well as a good market response to the Company's turnkey house and land product at Lavinia and Sienna. This follows the opening of the Company's first Victorian display home in November 2015.

The Company's broad product offering continued to appeal to the diversity of customers, comprising owner occupiers (52%) (including first home buyers (27%)), investors (31%) and builders (17%).

As at 31 December 2015, the Company will carry forward contracted sales of 311 lots worth $107.7 million. Of these, 262 contracts ($93.1 million) are anticipated to settle in 2H16 and the balance in 1H17.

### Revenue

Sales momentum and an excellent delivery of land and housing resulted in 550 accounting settlements in 1H16, (1H15: 329). Revenue increased by 49% to $200.2 million (1H15: $134.1 million) as a result of strong sales in 1H16, combined with $134.1 million in carried forward sales from FY15. A total of 76% of revenue was generated through house and land product (1H15: 80%).

The average revenue per lot of $353,600, down from $410,600, in 1H15 was a result of product mix. The average house and land revenue of $405,300 (1H15: $415,500) reflected a high number of settlements at the affordable townhouse project Orana. Average land only revenue was $244,000 reflecting a high number of affordable land only settlements at Cardinia Views in Victoria, compared to the settlement of the Company's premium land only project, Astonbrook, in the prior corresponding period (1H15: $391,600).

Revenue growth of 2% to 4% was experienced at select estates (Parkside, Era, Mt Cotton and Waterline) over FY15.

### Gross Margin

The gross margin for 1H16 was $55.0 million or 27.5% (1H15: $32.3 million). The Company expects the margin at the full year to be at the lower end of the target range of 26% to 29%. The Company will continue to focus on maintaining a balance between gross margin and sales volume.

### Sales and Marketing Costs

Sales and marketing costs for 1H16 were $12.7 million (1H15: $7.4 million), representing 6.3% of revenue (1H15: 5.5%), due to higher commission product settling in the half. The Company expects sales and marketing costs for the full year to be consistent with the prior period.

### Acquisition Success

The Company has been actively restocking in 2016, with $69 million in new acquisitions (860 lots) contracted in 1H16, and a further $32 million over 726 lots contracted post balance date. Importantly, significant acquisitions were made at Strathpine, Logan and Arundel to replenish the south east Queensland pipeline. The development portfolio of 5,869 lots[5] (FY15: 5,191) represents a 5 to 6 year supply.

Further acquisitions will focus on replenishing the land bank in south east Queensland, growing Victoria and entering the New South Wales market through partnering and joint ventures. This will likely comprise outright purchases of smaller projects that can deliver settlements within two to three years, as well as larger acquisitions purchased through alternative funding structures such as joint ventures or on deferred terms.

5 At reporting date 16 February 2016

### Review of operations (continued)

#### Debt Facility

The Company has in place a $180 million Club Facility with Australia and New Zealand Banking Group Limited (ANZ) and Westpac Banking Corporation (Westpac) to provide funding for the Company's ongoing requirements for its core business.

On 18 August 2015, the Company announced that it had secured an extension of the $130 million ANZ facility, with $80 million expiring on 1 March 2019 and $50 million expiring on 30 October 2020. The $50 million Westpac facility expires on 2 March 2018.

As at 31 December 2015, the facility was drawn to $46.3 million plus bank guarantees of $14.0 million. Net debt was $38.9 million with $118.6 million of undrawn capacity in the debt facility. Gearing was 9.4% compared to 16.9% as at 30 June 2015. The average cost of debt for the period ending 31 December 2015 was 9.6% compared to 8.3% as at 31 December 2014 as a result of interest incurred on a $90 million SWAP which was partially ineffective during the period and lower average debt balances.

#### Balance Sheet

The gross assets were $420.8 million as at 31 December 2015 compared to $432.7 million at 30 June 2015. Land acquisitions payable are $78.4 million which will be funded from the existing debt facility and working capital. The NTA has increased to $2.09 per share compared to $2.00 at 30 June 2015 prior to the declaration of the interim dividend. The Company has utilised all its carried forward unused tax losses of $19.3 million and cash tax payable in relation to 1H16 is $4.4 million. The franking credit balance at 31 December 2015 was $5.5 million.

#### Eynesbury Joint Venture

The settlement of the second tranche of the Eynesbury project (comprising the balance of the land) occurred in 1H16 for $34.5 million (plus GST). The sale price was increased from $30 million as part of the arrangements to extend settlement.

The Company’s share of profit from the Eynesbury joint venture in 1H16 was $3.6 million, representing primarily the increase in selling price and extension fees. A total of $9.5 million in cash proceeds was returned to the Company from the Eynesbury joint venture in 1H16. The Company’s equity accounted investment in the Eynesbury joint venture as at 31 December 2015 is $5 million. A further $3.5 million in cash proceeds has subsequently been returned to the Company from the Eynesbury joint venture in 2H16.

#### Rochedale Joint Venture

In FY15, the Company acquired a number of adjoining parcels of land in Rochedale to form a proposed development of approximately 148 lots. In 1H16, the Company entered into a joint venture with Ausin Rochedale Pty Ltd ATF Ausin Rochedale Trust to develop the land component. The project will be marketed as a premium price point house and land community. The houses will be built exclusively by the Company under the split contract method.

The joint venture will free up significant capital for the Company to recycle into other projects, while participating in profits on the land component of the development, as well as generating acquisition and development management fees and construction profits for the 148 premium house builds outside the joint venture.

Development management fees, share of profits and revenue on the housing component of Rochedale development are expected to contribute to the Company’s profit from FY17.

The Company’s equity accounted investment in the Rochedale joint venture as at 31 December 2015 is $7.5 million.

#### Dividend

Post balance date, the Company has declared an 8.0 cps interim dividend fully franked (1H15: 6.0 cps). The record date for this dividend is 9 March 2016 and the payment date is 31 March 2016. The full year dividend for FY16 is expected to be at least 18.0 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 annual NPAT, paid semi-annually and fully franked.

### Review of operations (continued)

### Governance and Leadership

Mr Gerald (Gerry) Lambert, who has served on the Board since January 2015, resigned as a non-executive director effective 5 November 2015. We thank Gerry for his service and contribution to the Company's growth and success.

Mr David Rennick was appointed to chair the Audit and Risk Committee on 11 November 2015.

### 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, continued sales momentum across more projects and clarity on delivery, the Company is targeting net profit before tax for FY16 of $46.6 million, representing a 59% growth on the FY15 statutory profit before tax of $29.4 million.

The Company continues to identify attractive acquisition opportunities in key growth regions of south east Queensland and Melbourne. The Company is in a strong position to take advantage of market opportunities at prudent gearing levels. The growing development pipeline supports a sales target of 1,000 to 1,200 lots in FY16, which will be weighted to the second half, 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.

Craig Treasure
Managing Director
Broadbeach
16 February 2016

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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 2015, I declare to the best of my knowledge and belief, there have been:

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

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

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

Ernst & Young

Ric Roach
Partner
16 February 2016

# Villa World Limited ABN 38 117 546 326
# Interim report - 31 December 2015



## Contents

Villa World Limited
Interim condensed consolidated statement of comprehensive income
for the half-year ended 31 December 2015

| | Notes | Consolidated 31-Dec-15 $'000 | 31-Dec-14 $'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue from land development, residential building and construction contracts | | 200,153 | 134,094 |
| Cost of land development, residential building and construction contracts | | (145,138) | (101,791) |
| **Gross margin** | | 55,015 | 32,303 |
| Development and project management fee | | 1,159 | 54 |
| Other income | | 451 | 538 |
| Net impairment of development land | | 71 | 520 |
| Share of profit from associates and joint ventures | | 3,450 | 622 |
| Other expenses from ordinary activities | | | |
| Property sales and marketing expenses | | (12,685) | (7,378) |
| Land holding costs | | (2,004) | (1,793) |
| Legal and professional costs | | (648) | (460) |
| Employee benefits | | (7,747) | (6,856) |
| Depreciation and amortisation expense | | (373) | (420) |
| Administration costs and other expenses | | (2,212) | (1,543) |
| Finance costs | C4 | (5,983) | (4,500) |
| **Profit before income tax** | | 28,494 | 11,087 |
| Income tax (expense) / benefit | A3 | (8,068) | 1,909 |
| **Net profit for the half-year** | | 20,426 | 12,996 |
| Profit is attributable to: | | | |
| Owners of Villa World Limited | | 20,426 | 12,996 |
| **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 | | 229 | (1,789) |
| Income tax relating to components of other comprehensive income | | (68) | 536 |
| **Other comprehensive income / (loss) for the half-year, net of tax** | | 161 | (1,253) |
| **Total comprehensive income for the half-year** | | 20,587 | 11,743 |
| Total comprehensive income for the half-year is attributable to: | | | |
| Owners of Villa World Limited | | 20,587 | 11,743 |

| | Cents | Cents |
|---|---|---|
| **Earnings per share for profit attributable to the ordinary equity holders of the Company:** | | |
| Basic earnings per share | 18.5 | 13.9 |
| Diluted earnings per share | 18.3 | 13.6 |

*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 2015

| | Notes | Consolidated 31-Dec-15 $'000 | 30-Jun-15 $'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | 7,367 | 22,571 |
| Trade and other receivables | | 50,035 | 41,907 |
| Inventories | B1 | 187,403 | 191,318 |
| Other current assets | | 2,725 | 3,588 |
| **Total current assets** | | 247,530 | 259,384 |
| **Non-current assets** | | | |
| Inventories | B1 | 147,972 | 148,326 |
| Property, plant and equipment | | 913 | 898 |
| Investments accounted for using the equity method | D1 | 20,787 | 16,779 |
| Deferred tax assets | | 3,592 | 7,286 |
| **Total non-current assets** | | 173,264 | 173,289 |
| **Total assets** | | 420,794 | 432,673 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | B2 | 121,264 | 96,452 |
| Current tax liabilities | | 5,639 | 1,196 |
| Service warranties | B3 | 13,959 | 14,983 |
| Employee benefits | | 525 | 635 |
| Other provisions | | 116 | 239 |
| **Total current liabilities** | | 141,503 | 113,505 |
| **Non-current liabilities** | | | |
| Trade and other payables | B2 | 2,199 | 5,926 |
| Borrowings | C3 | 46,270 | 92,044 |
| Employee benefits - long service leave | | 361 | 339 |
| Other provisions | | 184 | 261 |
| **Total non-current liabilities** | | 49,014 | 98,570 |
| **Total liabilities** | | 190,517 | 212,075 |
| **Net assets** | | 230,277 | 220,598 |
| **EQUITY** | | | |
| Contributed equity | C1 | 444,286 | 444,286 |
| Other reserves | | 185,183 | 174,190 |
| Accumulated losses | | (399,192) | (397,878) |
| Total equity attributable to shareholders | | 230,277 | 220,598 |
| **Total equity** | | 230,277 | 220,598 |

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

| Consolidated | Notes | Contributed equity $'000 | Cash flow hedges $'000 | Other reserves $'000 | Profits reserve $'000 | Accumulated losses $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| | | | Attributable to owners of Villa World Limited | | | | |
| **Balance at 1 July 2014** | | 413,375 | (1,413) | 174 | 166,013 | (397,903) | 180,246 |
| Profit for the half-year as reported in the 2014 interim financial statements | | - | - | - | - | 12,996 | 12,996 |
| Movement in hedge reserve (net of tax) | | - | (1,253) | - | - | - | (1,253) |
| Transfer current year profit to profit reserve | | - | - | - | 13,502 | (13,502) | - |
| **Total comprehensive income for the half-year** | | **-** | **(1,253)** | **-** | **13,502** | **(506)** | **11,743** |
| **Transactions with owners in their capacity as owners:** | | | | | | | |
| Dividends provided for or paid | A2 | - | - | - | (8,430) | - | (8,430) |
| Expenses related to share based payments | | - | - | 88 | - | - | 88 |
| Transfer forfeited share-based payments to retained earnings | | - | - | (29) | - | 29 | - |
| | | - | - | 59 | (8,430) | 29 | (8,342) |
| **Balance at 31 December 2014** | | **413,375** | **(2,666)** | **233** | **171,085** | **(398,380)** | **183,647** |
| **Balance at 1 July 2015** | | 444,286 | (2,677) | 317 | 176,550 | (397,878) | 220,598 |
| Profit for the half-year as reported in the 2015 interim financial statements | | - | - | - | - | 20,426 | 20,426 |
| Movement in hedge reserve (net of tax) | | - | 161 | - | - | - | 161 |
| Transfer current year profit to profit reserve | | - | - | - | 21,740 | (21,740) | - |
| **Total comprehensive income for the half-year** | | **-** | **161** | **-** | **21,740** | **(1,314)** | **20,587** |
| **Transactions with owners in their capacity as owners:** | | | | | | | |
| Dividends provided for or paid | A2 | - | - | - | (11,034) | - | (11,034) |
| Expenses related to share-based payments | | - | - | 164 | - | - | 164 |
| Forfeited share-based payments | | - | - | (38) | - | - | (38) |
| | | - | - | 126 | (11,034) | - | (10,908) |
| **Balance at 31 December 2015** | | **444,286** | **(2,516)** | **443** | **187,256** | **(399,192)** | **230,277** |

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

FINANCIAL STATEMENTS

Villa World Limited
Interim condensed consolidated statement of cash flows
for the half-year ended 31 December 2015

| | Notes | Consolidated 31-Dec-15 $'000 | 31-Dec-14 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers (inclusive of goods and services tax) | | 209,808 | 132,009 |
| Receipts for the transfer of development rights | | 25,400 | - |
| Payments to suppliers and employees (inclusive of goods and services tax) | | (128,589) | (119,130) |
| **Cash generated from operating activities** | | 106,619 | 12,879 |
| Payments for land acquired | | (53,127) | (45,618) |
| Interest received | | 297 | 376 |
| Interest paid | | (3,733) | (2,862) |
| Borrowing costs | | (270) | - |
| GST (paid) / refund | | (6,290) | 402 |
| **Net cash inflow / (outflow) from operating activities** | | 43,496 | (34,823) |
| **Cash flows from investing activities** | | | |
| Payments for property, plant and equipment | | (359) | (298) |
| Equity accounted investments | | (11,815) | (6,100) |
| Return of capital from equity accounted investments | | 10,257 | 9,000 |
| **Net cash (outflow) / inflow from investing activities** | | (1,917) | 2,602 |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | 60,551 | 46,566 |
| Repayment of borrowings | | (106,300) | (16,000) |
| Dividends paid to Company's shareholders | A2 | (11,034) | (8,430) |
| **Net cash (outflow) / inflow from financing activities** | | (56,783) | 22,136 |
| **Net decrease in cash and cash equivalents** | | (15,204) | (10,085) |
| Cash and cash equivalents at the beginning of the financial year | | 22,571 | 12,118 |
| **Cash and cash equivalents at end of half-year** | | 7,367 | 2,033 |

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

## Contents of the notes to the interim condensed consolidated financial statements

# A RESULTS FOR THE YEAR

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

In this section:



## A1 Segment revenue

### (a) Identification of reportable operating segments

The Company is organised into two operating segments:

- Property development and construction - Queensland and New South Wales
- Property development and construction – Victoria.

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

The Company and its controlled entities develop and sell residential land and buildings predominantly 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 segment information provided to the executive committee for the reportable segments for the six months ended 31 December 2015 is as follows:

| | Consolidated | |
|---|---|---|
| | 31-Dec-15<br>$'000 | 31-Dec-14<br>$'000 |
| **From continuing operations** | | |
| **Segment revenue from land development, residential building and construction contracts** | | |
| Queensland and New South Wales | 171,594 | 118,229 |
| Victoria | 28,559 | 15,865 |
| **Total segment revenue from land development, residential building and construction contracts** | 200,153 | 134,094 |
| **Segment cost of land development, residential building and construction contracts** | | |
| Queensland and New South Wales | 121,837 | 91,697 |
| Victoria | 23,301 | 10,094 |
| **Total segment cost of land development, residential building and construction contracts** | 145,138 | 101,791 |
| **Segment gross margin** | | |
| Queensland and New South Wales | 49,757 | 26,532 |
| Victoria | 5,258 | 5,771 |
| **Total segment gross margin** | 55,015 | 32,303 |

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

### (b) Segment information provided to the executive committee

#### (i) Segment revenue

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

## A1 Segment revenue (continued)

### (b) Segment information provided to the executive committee (continued)

### (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.

## A2 Dividends

### (a) Ordinary shares

| | Consolidated | |
|---|---|---|
| | 31-Dec-15<br>$'000 | 31-Dec-14<br>$'000 |
| Final fully franked ordinary dividend for the year ended 30 June 2015 of 10.0 cents (2014: 9.0 cents per fully paid share) paid on 30 September 2015 (2014: 30 September 2014) | | |
| Final franked dividend based on tax paid at 30.0% | 11,034 | 8,430 |

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

| | Consolidated | |
|---|---|---|
| | 31-Dec-15<br>$'000 | 31-Dec-14<br>$'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 (2014: 6.0 cents per fully paid ordinary share) based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 31 March 2016 out of profits reserve at 31 December 2015, but not recognised as a liability at half-year end, is | 8,828 | 6,620 |

## A3 Taxes

### (a) Numerical reconciliation of income tax expense to prima facie tax payable

| | Consolidated | |
|---|---|---|
| | 31-Dec-15<br>$'000 | 31-Dec-14<br>$'000 |
| Profit from continuing operations before income tax expense | 28,494 | 11,087 |
| | 28,494 | 11,087 |
| Tax at the Australian tax rate of 30.0% (2014 - 30.0%) | 8,548 | 3,326 |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income: | | |
| Share of loss in equity accounted investments utilised | (525) | (587) |
| | 8,023 | 2,739 |
| Recognition of deferred tax asset for losses | - | (4,300) |
| Other | 52 | 34 |
| Adjustments for current tax of prior periods | (7) | (382) |
| | 45 | (4,648) |
| Income tax expense / (benefit) | 8,068 | (1,909) |

### (b) Tax losses

During the period a prima facie taxable income of $33.8 million (30 June 2015: $20.5 million) was generated by the Company with tax losses utilised of $19.3 million and an increase in the provision of tax payable by $4.4 million to $5.6 million. The 30 June 2015 tax payable of $1.2 million will be paid in 2H16 with instalments for FY16 tax to commence shortly after.

# B OPERATING ASSETS AND LIABILITIES

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

In this section:



## B1 Inventories

| | Consolidated 31-Dec-15 $'000 | Consolidated 30-Jun-15 $'000 |
|---|---|---|
| **Current assets** | | |
| Acquisition cost of land held for development and resale | 105,901 | 110,505 |
| Development costs | 78,089 | 76,459 |
| Capitalised interest | 3,825 | 4,958 |
| Impairment of development land | (412) | (604) |
| | 187,403 | 191,318 |
| **Non-current assets** | | |
| Acquisition cost of land held for development and resale | 117,144 | 114,451 |
| Development costs | 33,663 | 35,880 |
| Capitalised interest | 5,692 | 6,324 |
| Impairment of development land | (8,527) | (8,329) |
| | 147,972 | 148,326 |
| **Total inventory** | 335,375 | 339,644 |

## B2 Trade and other payables

| | Consolidated 31-Dec-15 $'000 | Consolidated 30-Jun-15 $'000 |
|---|---|---|
| **Current liabilities** | | |
| Land acquisitions | 78,409 | 65,627 |
| Sub-contractors and materials | 4,717 | 5,931 |
| Total trade payables | 83,126 | 71,558 |
| **Other current payables** | | |
| Accrued expenses | 34,418 | 21,671 |
| Other payables[1] | 3,720 | 3,223 |
| Total current other payables | 38,138 | 24,894 |
| Total current trade and other payables | 121,264 | 96,452 |
| **Non-current liabilities** | | |
| Land acquisitions | - | 3,408 |
| Other payables[2] | 2,199 | 2,518 |
| Total non-current trade and other payables | 2,199 | 5,926 |
| **Total payables** | 123,463 | 102,378 |

1. Includes derivatives payable of $1.5 million (30 June 2015: $1.6 million).

2. Includes derivatives payable of $2.1 million (30 June 2015: $2.2 million).

## B3 Provisions

### (a) Service warranties

| | Consolidated | |
|---|---|---|
| | 31-Dec-15 | 30-Jun-15 |
| | $'000 | $'000 |
| **Current liabilities** | | |
| Service warranties | 13,959 | 14,983 |
| | 13,959 | 14,983 |

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

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

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

### (b) Movements in provision for service warranties

| | Consolidated | |
|---|---|---|
| | 31-Dec-15 | 30-Jun-15 |
| | $'000 | $'000 |
| **Current liabilities** | | |
| Carrying amount at start of year | 14,983 | 10,079 |
| - additional provisions recognised | 947 | 10,213 |
| Amounts incurred and charged | (1,971) | (5,309) |
| Carrying amount at end of period | 13,959 | 14,983 |

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

The current provision for employee benefits includes accrued annual leave and long service leave. For long service leave it includes all unconditional entitlements where employees have completed the required period of service. Included within the long service leave provision is an amount of $131,502 (30 June 2015: $120,505) classified as current, since the Company does not have an unconditional right to defer settlement for this obligation. The non-current long service leave provision covers conditional entitlements where employees have not completed their required period of service, adjusted for the probability of likely realisation.

### (d) Legal claims

**Home warranty claim - Thornleigh**

A claim of $6.8 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.

The Company has paid the Plaintiff $3.6 million for its claim and $1.2 million for its costs in final satisfaction of Court orders. The Company has made provision for its estimated liability for costs payable to certain other defendants which is expected to be paid during 2H16 or 1H17.

Estimating this provision requires the exercise of significant judgement and it is therefore possible that actual amounts may differ from this estimate.

## B3 Provisions (continued)

### Silverstone litigation

The Silverstone litigation relates to alleged defects at a residential building located in Tweed Heads, NSW. The building comprises 27 units and was completed in 2009. A Villa World subsidiary, Villa World Developments Pty Ltd, was the registered builder. Villa World Developments Pty Ltd engaged independent subcontractors to carry out construction.

Progress in the Silverstone litigation during 2H15 enabled the Directors to make a reliable estimate of the financial impact. The Company made a provision as at 30 June 2015 of approximately $6.5 million for its proportion of the potential claim against it by the Silverstone owners corporation and unit owners. This is in addition to the provisions for legal fees and experts costs which have been made since 30 June 2012 and expensed through cost of sales. There has been no material change in this matter since 30 June 2015.

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 Liabilities and Contingent Assets* is not disclosed on the grounds that it is expected to prejudice the outcome of the potential litigation.

### (e) Contingencies

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

The Company has provided bank guarantees (excluding joint venture entities) for a total of $14.0 million (30 June 2015: $13.0 million) to authorities and councils in relation to certain works to be undertaken or maintained or in support of contractual commitments.

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

The Company has entered into agreements to indemnify certain employees and former employees against all liabilities that may arise as a result of any claims against them by third parties as a result of the Company's building activities. It is impractical to estimate the amount that may arise from these arrangements. There were no claims made against the Company for the half-year ended 31 December 2015 (30 June 2015: nil).

A controlled entity has contractual arrangements that provide for liquidated damages under certain circumstances. It is impractical to estimate the amount of any liability that may arise from these arrangements.

#### (iii) Contingent liabilities in respect of other entities

The Company has provided guarantees in respect of the loan facilities for Joint Venture entities. The special conditions of the debt facilities limit the maximum principal amount recoverable from the Company to 50% in respect of Eynesbury and Rochedale, and 51% for Donnybrook of the principal outstanding, interest and reasonable costs.

As at 31 December 2015, the Eynesbury debt facility (at 100%) was $nil and bank guarantees issued were $nil (30 June 2015: $10.0 million and $0.2 million bank guarantees). As at 31 December 2015, the Rochedale debt facility (at 100%) was drawn to $9.6 million (30 June 2015: $nil), and the Donnybrook debt facility (at 100%) was drawn to $9.1 million (30 June 2015: $5.1 million). There have been no bank guarantees issued in respect of Donnybrook and Rochedale for the period ended 31 December 2015.

# 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 | 31-Dec-15 Shares '000 | 30-Jun-15 Shares '000 | 31-Dec-15 $'000 | 30-Jun-15 $'000 |
|---|---|---|---|---|
| **Ordinary shares fully paid** | | | | |
| Beginning of the financial period | **110,344** | 93,664 | **444,286** | 413,375 |
| Shares issued as part of the capital raising | **-** | 14,050 | **-** | 26,693 |
| Shares issued as part of the share purchase plan | **-** | 2,630 | **-** | 5,000 |
| Transaction costs from capital transactions net of tax | **-** | - | **-** | (782) |
| **End of the financial period** | **110,344** | 110,344 | **444,286** | 444,286 |

## C2 Financial instruments

### Interest rate swap contracts - cash flow hedges

The Company measures its derivative financial liabilities at fair value at each reporting date. The fair value techniques used to value these financial instruments have not materially changed since 30 June 2015. Cash flow hedges are measured using significant observable inputs (level 2 of the fair value hierarchy). At balance date, these interest rate swap contracts were liabilities with a fair value of $3.6 million (30 June 2015: $3.8 million). This is the only financial instrument included on the consolidated balance sheet and measured at fair value.

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

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and accumulated in the hedging reserve. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. There is no material ineffectiveness for the half-year ended 31 December 2015.

## C3 Borrowings

### (a) Financing arrangements

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

| | Consolidated | |
|---|---|---|
| | 31-Dec-15 $'000 | 30-Jun-15 $'000 |
| **Total financing facilities secured (i)** | | |
| Australian and New Zealand Banking Group | 130,000 | 130,000 |
| Westpac Banking Corporation | 50,000 | 50,000 |
| | 180,000 | 180,000 |
| **Facilities utilised at reporting date** | | |
| Loan (secured) (i) - non-current | 46,270 | 92,044 |
| | 46,270 | 92,044 |
| **Bank guarantees utilised at reporting date** | | |
| Loan (secured) (i) | 14,039 | 12,981 |
| | 14,039 | 12,981 |
| **Facilities unutilised at reporting date** | | |
| Loan (secured) (i) | 119,691 | 74,975 |
| | 119,691 | 74,975 |

### (i) Club facility

As at 31 December 2015, the Company's Club Facility with Australia and New Zealand Banking Group Limited (ANZ) and Westpac Banking Corporation (Westpac) remains at $180 million. On 18 August 2015, the Company announced that it had secured an extension of the $130 million ANZ facility, with $80 million expiring on 1 March 2019 and $50 million expiring on 30 October 2020. The $50 million Westpac facility expires on 2 March 2018.

As at 31 December 2015, the facility was drawn exclusive of bank guarantees at $46.3 million (30 June 2015: $92.0 million). Bank guarantees issued total $14.0 million (30 June 2015: $13.0 million).

No restrictions have been imposed on this facility by the financiers during the period ending 31 December 2015 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.

Interest is payable based on a margin over bank bill swap rate. The Company entered into interest rate swap contracts to fix the interest rate at 3.69% (excluding the margin and line fees applicable under the loan agreement) on $90 million of borrowings. The swap contract matures on 12 June 2018. The fair value of non-current borrowings and the bank guarantees equals their carrying amount, as the impact of discounting is not significant.

## C4 Finance costs

| | Consolidated | |
|---|---|---|
| | 31-Dec-15 $'000 | 31-Dec-14 $'000 |
| **Loan interest and charges** | | |
| Other financial institutions | 3,393 | 3,198 |
| Unwind of discount deferred consideration | 581 | 654 |
| Borrowing costs | 171 | 131 |
| Fair value loss on interest swap cash flow hedge - transfer from equity | 73 | - |
| | 4,218 | 3,983 |
| Amount capitalised[1] | (2,540) | (2,061) |
| Unwind of amount capitalised | 4,305 | 2,578 |
| | 1,765 | 517 |
| **Total finance costs included within the income statement** | 5,983 | 4,500 |

1. The weighted average interest rate applicable to the entity's outstanding borrowings during the year, including line fees and margins is 9.6% (31 December 2014: 8.3%).

D

## GROUP STRUCTURE

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

In this section:

D1 Investments accounted for using the equity method

## D1 Investments accounted for using the equity method

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

| | Consolidated | |
|---|---|---|
| | 31-Dec-15 $'000 | 30-Jun-15 $'000 |
| Interest in Eynesbury Joint Venture | 4,972 | 10,902 |
| Interest in Donnybrook Joint Venture | 8,337 | 5,877 |
| Interest in Rochedale Joint Venture[1] | 7,478 | - |
| | 20,787 | 16,779 |

1. Ausin Rochedale Pty Ltd ATF Ausin Rochedale Trust & Villa World Rochedale Pty Ltd

### (i) Eynesbury Joint Venture

On 7 December 2015, the Company announced that settlement of the second tranche (comprising the balance of the land) was completed at a sale price of $34.5 million (plus GST). The sale price was increased from $30 million (plus GST) as part of the arrangements to extend settlement.

Payments totalling $9.5 million have been released to the joint venture for the half-year ended 31 December 2015. A further $3.5 million was received in January 2016.

For the half-year ended 31 December 2015, the Company's share of profit from the Eynesbury joint venture is $3.6 million (30 June 2015: $1.9 million).

### (ii) Rochedale Joint Venture

The Company advised the market on 19 October 2015 that it had entered into a joint venture with Ausin Rochedale Pty Ltd ATF Ausin Rochedale Trust for the right to develop the land component.

This joint venture will free up a significant amount of capital for the Company to recycle into other projects, while participating in profits on the land component as well as generating acquisition fees, development management fees and construction profits for the 148 premium house builds outside the joint venture.

The development will be marketed as a premium price point house and land community, starting at approximately $650,000. These premium houses will be built exclusively by the Company under the capital efficient split contract method where the buyer progressively pays for the house build.

In undertaking the land component of the development, the joint ventures are to contribute equal capital contributions, share profits on a 50/50 basis and utilise external funding on a 50/50 several liability basis. The Company's ownership interest in the development is a joint arrangement with joint control and classified as a joint venture under *AASB 11 Joint Arrangements*. 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*.

# E OTHER INFORMATION

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

In this section:



## E1 Reporting entity

Villa World Limited is a company incorporated and domiciled in Australia. The consolidated financial report of the Company for the half-year ended 31 December 2015 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 16 February 2016.

## E2 Basis of preparation

This condensed consolidated interim financial report for the half-year ended 31 December 2015 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 2015 and any public announcements made by Villa World Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

### (i) Critical accounting estimates

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

The Directors have not identified any changes to the critical accounting estimates and assumptions from those disclosed in the 30 June 2015 annual financial report.

### (ii) 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 2015.

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 2015 have not affected any of the amounts recognised in the current period or any prior period, and are not likely to affect future periods.

## E3 Events occurring after the reporting period

### (a) Interim dividend

On 16 February 2016, the Board declared a fully franked interim dividend of 8.0 cents per share. The ex-dividend date is 8 March 2016 and the record date for this dividend is 9 March 2016. Payments will be made on 31 March 2016.

As at 31 December 2015, an amount of $5.5 million is held as franking credits in the Company.

### (b) Investment in the Eynesbury Joint Venture

As previously disclosed in note D1(i), the Company completed the settlement of the second tranche (comprising the balance of the land) at a sale price of $34.5 million (plus GST).

As at 31 December 2015, the equity accounted investment in the Eynesbury joint venture was $5.0 million. On 15 January 2016, $3.5 million was repaid to each joint venture partner, reducing the investment to $1.5 million.

## E3 Events occurring after the reporting period (continued)

### (c) Acquisition - Queensland

On 8 February 2016, the Company announced that it had agreed to the unconditional purchase of a site at Logan Reserve, south of Brisbane, comprising seven adjoining parcels. The total purchase price is approximately $32 million (inclusive of GST) with progressive settlements scheduled to occur during 2H16.

The site, within 26kms of the Brisbane CBD, is located close to major employment, commercial and retail precincts. The majority of the site is approved for residential development. The Company intends to develop approximately 726 lots, with a mixture of house and land product and home sites. The Company will offer an affordable home priced from the high $300,000's and suited to diverse customers, including first home buyers, owner occupiers and investors. This development is expected to commence contributing to revenue during FY17.

In the Directors' opinion:

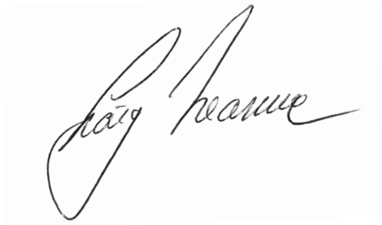
(a) the interim financial statements and notes set out on pages 6 to 21 are in accordance with the *Corporations Act 2001*, including:

  (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 2015 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
16 February 2016

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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 2015, 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 2015 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.

## 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 2015 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*.

Ernst & Young

Ric Roach
Partner
Brisbane
16 February 2016

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