

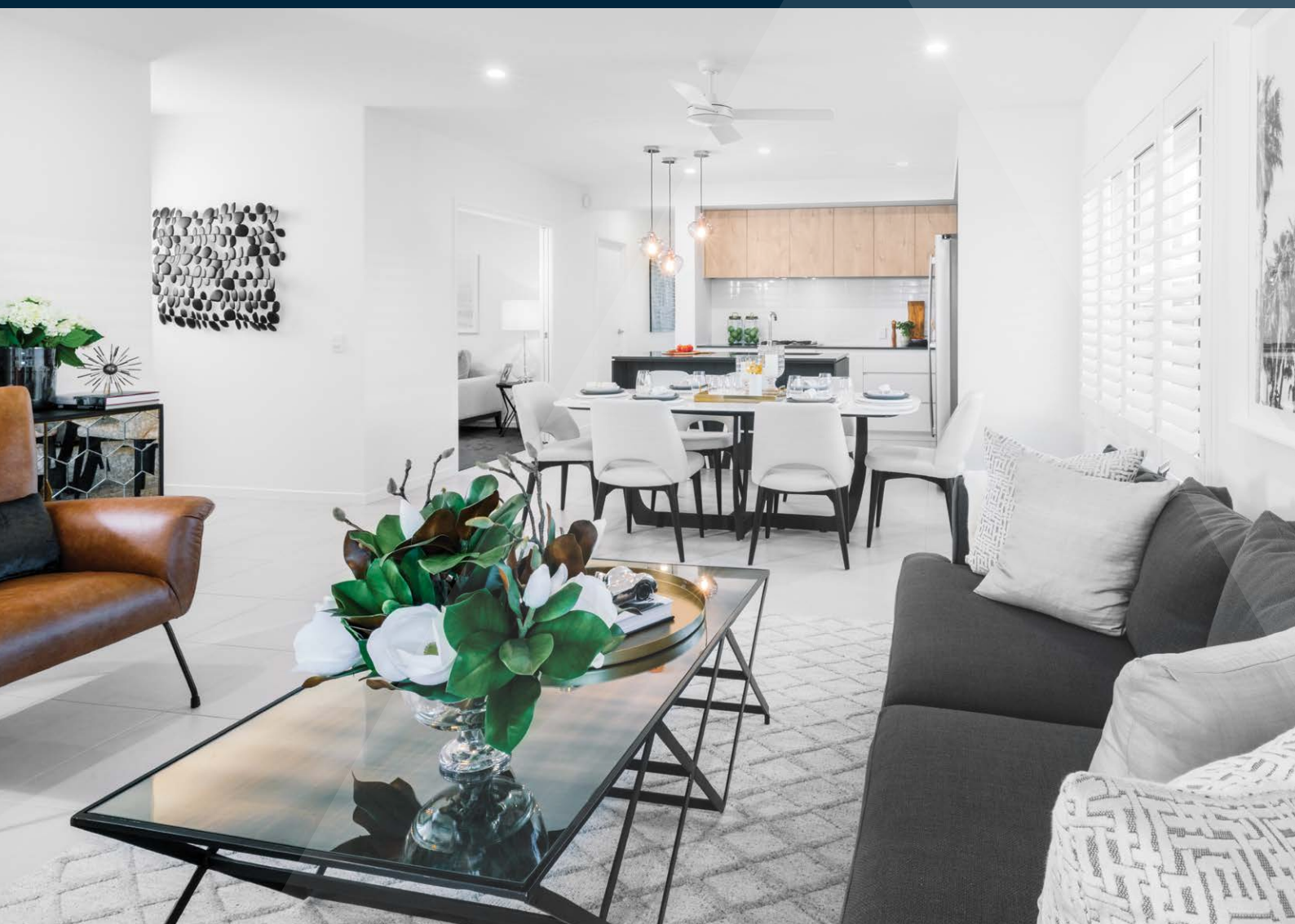
ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED
30 JUNE 2018

VILLA WORLD



HELPING PEOPLE REACH HOME



SHAREHOLDERS INFORMATION

VILLA WORLD LIMITED

Villa World Limited
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Shareholder information and enquiries

All enquiries and correspondence regarding shareholdings should be directed to Villa World's share registry provider:

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Melbourne VIC 3000

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Fax: +61 3 9473 2500
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PURPOSE AND BELIEFS

PURPOSE

HELPING PEOPLE REACH HOME

- For our people, this means ensuring they feel “at home” by helping them develop to their full potential while providing a safe, healthy and happy workplace.
- For our customers, this means helping them find their dream home and making the process of buying that home easy.
- For our community, this means we recognise the broader societal contribution we can make to better living, through our commitment to corporate social responsibility.
- For our other external stakeholders, we’re proud of the partnerships we have forged with companies who share our beliefs and have found their home working with us.



“Home is more than a place...

*It’s a feeling, a sense of
belonging. It’s where
the heart is.”*

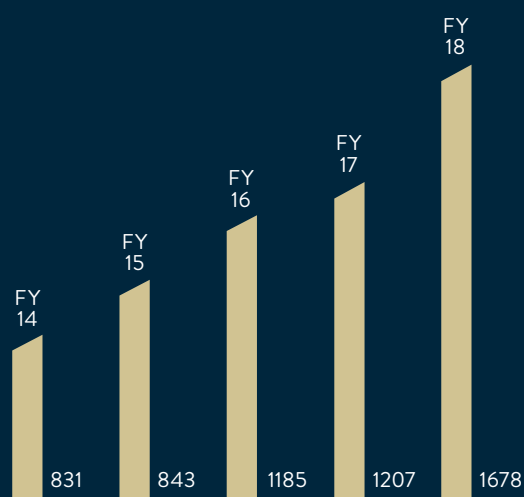
BELIEFS

- *Put people first*
- *Do it as one team*
- *We do what we say*
- *Get it done*
- *Enjoy the ride*
- *Make it easy*

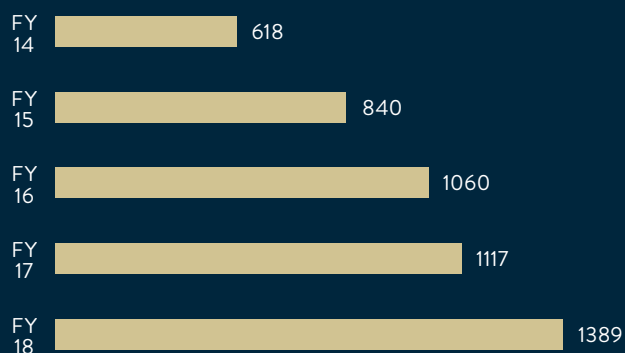
KEY HIGHLIGHTS



SALES
PER FY



LAND
DELIVERED



EARNINGS
PER SHARE (CPS)

34.4

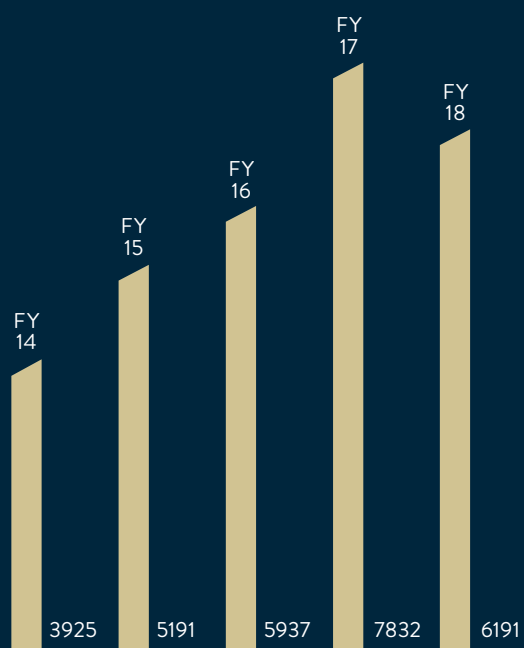
DIVIDEND
(CPS)

18.5



PORTFOLIO

PORTFOLIO
OF **6,191** LOTS
REPRESENTING
4-5 YEARS SALES
DIVERSIFIED ACROSS
AND WITHIN EAST
COAST STATES



JOINT CHAIRMAN'S AND MANAGING DIRECTOR'S REVIEW

NET PROFIT
AFTER TAX UP

15%

VILLA WORLD HAS BEEN DEVELOPING LAND AND BUILDING QUALITY, AFFORDABLE HOMES FOR AUSTRALIAN FAMILIES FOR MORE THAN 30 YEARS. WE ARE A BRICKS AND MORTAR BUSINESS – AND MUCH MORE. WE ARE **HELPING PEOPLE REACH HOME.**

In May, the Board and Leadership Team launched a newly-adopted company Purpose and Beliefs, replacing the previous Mission, Vision and Values. This followed a year-long period of deliberation, taking in feedback from staff and various external business partners along the way.

Endorsement of the new Purpose and Beliefs delivered clarity and a strategic direction that unashamedly sharpens Villa World's focus on our customers, our people and our community. This framework reflects our past success and will shape the Company's future by providing strong beacons to guide decision making at all levels.



Mark Jewell

Villa World's continued success is demonstrated by our outstanding financial performance and emphasis on mastering our fundamentals. It has seen Villa World deliver a fifth consecutive year of double-digit profit growth along with consistent earnings value for our shareholders.

The Board is pleased to report a statutory net profit after tax of \$43.6 million (34.4 cps), up 15% on the prior period's result of \$37.8 million (32.5 cps). This is at the top end of our upgraded guidance and demonstrates Villa World's continued strength in the east coast residential market.

Revenue increased by 14% to \$441.6 million in FY18, up from \$386.8 million last year, reflecting the Company's robust sales, strong delivery mindset through operational performance, efficient inventory management, acquisition astuteness and supported by solid technology and systems platforms.

Even more pleasing was the sales result for the year up 39% from 1,207 lots in FY17 to 1,678 sales this year. Villa World continues to benefit from the geographic diversity and substantially-sized developments in three state markets offering affordable value in major urban growth corridors. A strong marketing campaign highlighting the Company's customer centricity and connection with our customer journey has continued to see more people calling Villa World home. Our in-house sales team continues to perform beyond expectations.

The Company's position within the affordable to mid-priced residential housing and land market provides a strong buffer against market challenges. We continue to meet the everyday housing needs of Australians, particularly first home buyers, owner-occupiers, domestic investors and builders, through consistent delivery of high quality, affordably-priced, completed designer homes. Villa World has also diversified its offering through land only product and joint ventures, increasing the Company's market resilience.

For Villa World, home is much more than a place. It's the essence of our business and our connection to our people, our customers and our community.

“Revenue increased by 14% to \$441.6 million in FY18, up from \$386.8 million last year, reflecting the Company’s robust sales...”

Our new purpose puts “home” at the centre of what we do and our core beliefs guide how we will achieve that.

This is our pathway to strong and consistent financial results through the medium term, characterised by sustained through-the-cycle performance and astute capital management and allocation. This sustainable growth will be reflected in attractive yields for shareholders.

The Board is pleased to have declared a total of 18.5 cents per share fully franked dividends in relation to the financial year ended 30 June 2018 - an interim dividend of 8.0 cents per share and a final dividend of 10.5 cents per share declared post balance date.

We remain confident in the sustainability of the dividend over the coming years.

The FY18 financial result and the consistent year-on-year growth achieved over the past five years demonstrate that Villa World’s commitment to its core affordable house-and-land and land-only product is the right path. The Board has now turned its attention to the next phase in the Villa World journey, committing the company to stretch beyond good, to great.

The Company’s Leadership Team and staff have been working together to embed the newly articulated beliefs and strive towards delivering on our purpose as part of everyday life at Villa World. Acknowledging the importance of our people is not new to Villa World. We continue to invest in our people, ensuring that we have the diverse leaders around the table to make the best decisions. Our commitment to developing the potential of our team was demonstrated this year through a number of internal promotions and appointments, and other capability development initiatives.

Similarly, the Board has emphasised the importance of a strengthened people and culture strategy and will continue to support safety, health and wellness initiatives. The Board and Leadership Team are committed to setting the cultural “tone from the top” in these important areas.



As we move forward, the Board is also committed to best-fit environmental, social and governance frameworks including investment in a sustainability strategy to reflect the forward direction marked out in the new Villa World purpose.

We are preparing for challenges and will embrace the opportunities presented in a changing world. We will draw on the innovative thinking of our team to embrace change and seek opportunities for smart growth. The Board acknowledges the senior executive team for their tremendous effort this year to achieve these outstanding results, and thanks all staff and the Company’s strong partner network for their contribution to **Helping People Reach Home**.

Mark Jewell
Chairman

A handwritten signature in black ink, appearing to read "Mark Jewell".

Craig Treasure
Managing Director and
Chief Executive Officer

A handwritten signature in black ink, appearing to read "Craig Treasure".

HEALTH, SAFETY AND WELLBEING

VILLA WORLD'S NEW PURPOSE STATEMENT, **HELPING PEOPLE REACH HOME**, IS SUPPORTED BY A COMMITMENT TO SIX CORE BELIEFS, DESIGNED TO ENSURE THAT THE COMPANY'S CULTURE IS MAINTAINED AND STRENGTHENED THROUGH ADHERENCE TO AGREED BEHAVIOURAL STANDARDS.

Consistent with this approach, the Company adopted a Health and Wellbeing Policy during FY18 which commits to providing an environment in which staff have the opportunity to flourish, and which also contributes to organisational success and sustainability. The policy sets out the framework to promote and maintain employee health and wellbeing through workplace practices, and by encouraging participation in activities and programs which support that goal.

Among the policy commitments is the provision of information on healthy eating, fatigue management, exercise, stress management and mental health. Other incentives include corporate gym memberships, skin cancer checks, flu vaccinations and corporate rates for private health insurance.

The policy also outlines employee and manager responsibilities, acknowledging the importance of self-care and supporting colleagues to contribute to a healthier and more productive workplace. For employees, this includes consideration of health and wellbeing when completing work-related duties and at any time while representing Villa World.

It also encourages staff to identify any health and wellbeing issues, including talking to fellow employees about mental health issues. The policy promotes participation in fitness, health and wellbeing activities and events, or other social activities.

During FY18, staff participated in a range of health and wellbeing events and activities including Wear Red Day (supporting Health Research Australia); International Women's Day; Australia's Biggest Morning Tea (supporting the Cancer Council); Men's Health Week; and Dry July.

The Directors and Senior Managers lead our Health, Safety and Environment (HSE) culture and understand their own HSE obligations by following the Villa World HSE Due Diligence Framework.

It sets out our approach to ensuring a healthy and safe work environment for our workers. This commitment also extends to managing our compliance with regulations regarding the impacts that our business may have on the local community or environment.

Within the HSE Due Diligence Framework, the HSE Leadership Committee meets quarterly to discuss:

- detailed HSE reports
- lead indicators (positive safety outcomes)
- lag indicators (incidents and notices)
- other health, safety and wellbeing initiatives.

During FY18, Villa World's HSE Management System was certified under the Australian Standard 4801 (Occupational Health and Safety Systems) and International Standard 14001 (Environmental Management Systems).

At all levels, the Company continues to develop its strong commitment to a positive health, safety and environment culture, in line with our core beliefs and purpose of **Helping People Reach Home**.



For Villa World, Reconciliation is a fundamental aspect of our purpose. We are one **people**. We share one **home**. We will play our part in **helping** all Australians to feel that they belong here together, and have the opportunity to **reach** their full potential for better living.

Villa World is excited and proud to be taking the first steps on our Reconciliation path. We have been growing our understanding of the history and culture of Aboriginal and Torres Strait Islander peoples. Importantly, this has included the incorporation of Welcome to Country and Smoking Ceremonies at corporate events, and the first performance of a “Native Bee Dance” developed as a collaboration between Moondarewa Inc and the Nunukal Kunjeil Dancers of Stradbroke Island.

Villa World continues to work towards weaving Reconciliation through the fabric of our business. We see a future where every Australian proudly acknowledges and respects the deep connection of our First Peoples to this country, our one home.



COMMUNITY

Villa World has a proud record of commitment to the community. In further recognition of the importance of community involvement, the Company will be developing a more unified approach in this area, including clear goals that align to corporate strategy.

Support and involvement in community activities during FY18 aligned closely with the Company’s Health, Safety and Wellbeing Policy approach and will be formalised further in FY19.

The MATES in Construction (MIC) program achieved a unique milestone this year, having completed 10 years of saving and turning lives around in the Australian construction industry.

Every year, 190 Australians working in the construction industry die by suicide. In response, MIC provides on-site development programs and support for workers through case management and a 24/7 help line.

During FY18, Villa World was a proud supporter of MIC. The Company held a golf day for our trade contractors and supplier partners, raising close to \$40,000 for MIC. As well as highlighting the importance of workplace mental health and suicide prevention, the event provided Villa World with an opportunity to thank and acknowledge the importance of our strong partnerships with contractors and suppliers in **Helping People Reach Home**.



ACCESS Community Services Limited works towards a cohesive community where everyone is valued and can fully participate in the social and economic life of the community.

This not-for-profit organisation helps migrants, refugees and disadvantaged individuals to gain employment and work experience.

Villa World engaged ACCESS's social enterprise to provide builders clean and silicone services as part of our “complete home, complete address” residential house-and-land product. This partnership has provided transformational opportunities for disadvantaged individuals who face significant barriers to entering the employment market.

The partnership was acknowledged by Queensland’s Minister for Employment and Small Business and Minister for Training and Skills Development, the Hon. Shannon Fentiman, MP, Member for Waterford, who said: “Villa World is setting a benchmark across corporate Queensland and I encourage other businesses to follow your lead.”

As a result of our continued sponsorship, the **Gold Coast Hospital Foundation** this year received a donation of \$2500 every time a Gold Coast Hospital and Health Staff member purchased land at our nearby Arundel Springs project. The Company’s on-going contribution to the Foundation has also included the sponsorship of their annual Gala Awards for the past two years and the funding of a children’s book entitled ‘The Stripy Dachshund’ by cancer patient Lisa Gilmer.

OPERATING FINANCIAL REVIEW

FINANCIAL RESULT

Flagship project releases across three states contributed to a fifth consecutive year of double-digit growth for the Company, reporting a statutory net profit after tax of \$43.6 million (34.4 cps) for the year to 30 June 2018, a 15% increase on the \$37.8 million (32.5 cps) in FY17. This result is at the top end of upgraded guidance of net profit after tax of between \$42 million and \$44 million.

REVENUE FROM LAND DEVELOPMENT, RESIDENTIAL BUILDING AND CONSTRUCTION CONTRACTS

Continued sales momentum combined with \$175.7 million¹ of carried forward sales from FY17, and an outstanding delivery of land and housing resulted in 1,290² wholly owned accounting settlements in FY18 (FY17: 1,116). As a result, \$441.6 million (FY17: \$386.8 million) in revenue was recorded.

The revenue mix reflects the Company's continued focus on its core capabilities in house and land, as well as strong land only settlements, particularly in Logan, the Gold Coast, Brisbane and the Melbourne growth corridors. House and land product generated 53% of revenue (FY17: 65%), with Queensland and New South Wales continuing as the main source of revenue at 84% (FY17: 80%).

Smaller projects in South Morang, Victoria and Hope Island, Queensland were sold during the year, generating \$27.1 million in revenue. Funds were redeployed into the delivery of significant projects in the growth corridors of Melbourne and the acquisition of a project in the Logan corridor.

Average revenue per lot was \$322,500, down from \$344,900 in the previous year, and is reflective of the product mix shifting to more land-only sales. The average revenue per house and land lot fell 2% to \$425,400. The prior year benefitted from significant house and land settlements in the more affluent Bayside Brisbane region. Average revenue per land-only lot fell 2% to \$245,600 per lot, reflecting a large number of settlements of affordable land in Logan and South East Melbourne.

¹ Inclusive of GST.

² 1,290 settlements of Company owned lots (FY17: 1116), and 74 lots relating to joint ventures (FY17: 38), which are reflected in Share of Joint Venture Profits.



GROSS MARGIN

The reported gross margin for FY18 was \$117.6 million or 26.6% (FY17: \$106.3 million or 27.5%), ahead of the guidance range of 24%-26%. Strong margins were achieved at land only estates in Queensland and Victoria.

REVENUE DERIVED FROM EQUITY ACCOUNTED INVESTMENTS

During FY18 the Company continued to progress its strategy to grow development/project management income streams by deploying its management skills into joint venture arrangements.

These ventures delivered \$17.5 million in fee income during the reporting period (FY17: \$5.4 million). This comprised of \$11.1 million in development and project management fees, including the \$7.3 million fee from the Wollert joint venture³. Further, the share of profit from equity accounted investments was \$6.4 million (FY17: \$3.0 million), related to strong land settlements from the Rochedale joint venture and initial land settlements from the Greenbank joint venture (Villa Green).

The Company anticipates that development/project management fees, and share of profit from equity accounted investments, will provide a positive and ongoing revenue stream for the business.

OTHER INCOME

Other income of \$1.0 million (FY17: \$0.8 million) was largely comprised of bank interest received and penalty interest on delayed settlements.

³ In 1H18, the Company entered into a joint venture with Ho Bee Land Limited for a site located in Wollert, Victoria. The Company will receive fees for development management, sales and marketing coordination, and has the potential to receive a performance fee.



OPERATIONAL PERFORMANCE

PERFORMANCE	FY18	FY17	CHANGE
Sales (lots) ^A	1678	1207	▲ 39%
Mean rate of sale pcm - FY	140	101	▲ 39%
Number of projects contributing to profit	28	28	
Settlements (# lots) ^B	1364	1154	▲ 18%
- inc. Joint Ventures			
Settlements (# lots)	1290	1116	▲ 16%
- ex. Joint Ventures			
House and Land (# lots)	550	579	▼ -5%
Land Only (# lots)	735	537	▲ 37%
Englobo Sale (# lots) ^C	5	1	
House and Land (%)	43%	52%	
Land Only (%)	57%	48%	
Revenue - property sales (\$m)	441.6	386.8	▲ 14%
House and Land (\$m)	234.0	250.0	▼ -6%
Land Only (\$m)	180.5	134.6	▲ 34%
Englobo (\$m) ^C	27.1	2.2	
House and Land (%)	53%	65%	
Land Only (incl. englobo) (%)	47%	35%	
Revenue - property sales (\$k/Lot) ^D	322.5	344.9	▼ -6%
House and Land	425.4	432.1	▼ -2%
Land Only ^D	245.6	250.8	▼ -2%

^A Sales - executed contracts, not necessarily unconditional.

^B Refer to Note E5(h) Revenue Recognition Policy - Transition to AASB 15.

^C Englobo sales recorded at Essence South Morang (1 lot), Lyra Hope Island (3 lots); and Celeste Hope Island (1 lot).

^D Excludes englobo sale.

The Company recorded 1,678 sales during FY18, up 39% on FY17 (1,207 lots).

The average sales rate increased to 140 per month (FY17: 101 per month), with a strong full year contribution from flagship projects released in FY17⁴ and Lilium which was launched in early 2Q18. Several smaller projects⁵ sold well, approaching sellout, and initial sales were recorded from new flagship projects which commenced selling in 4Q18⁶.

Queensland continued to perform very well, contributing 64% of sales (FY17: 71%). Pleasingly, the Company has experienced continued strength in its Victorian projects, contributing 33% of sales (FY17: 21%), with New South Wales making up the remaining 3% of sales (FY17: 8%).

The Company's strategy of targeting growth corridors continues to reap excellent results in Queensland, with strong sales in all south-east Queensland corridors and in Hervey Bay. In Victoria, the Company achieved very strong sales at its land only projects while its housing product continues to be well received in Sydney's north-west and south-west.

The Company maintains a solid position in all customer segments – the core being the retail market (comprising owner occupiers including first home buyers), as well as builders and predominantly local investors⁷.

The Company delivered 1,389 lots of land, up 24% on the 1,117 lots delivered in FY17. Housing operations delivered 540 homes across New South Wales, Queensland and Victoria (FY17: 548).

⁴ Killara (Logan Reserve), Arundel Springs (Arundel), Sienna Rise/North (Plumpton) and Seascope (Redland Bay - which approached sell out).

⁵ The Orchard (Doolandella), Silvan Rise (Dakabin) and Rochedale Grand (Rochedale).

⁶ The Meadows (Strathpine), Chambers Ridge (Park Ridge), Covella (Greenbank) and Elyssia (Wollert).

⁷ Less than 5% of FY18 sales were to international investors (FY17: less than 5%).

OPERATING FINANCIAL REVIEW CONT.

SALES CONTRACTS CARRIED FORWARD

At 30 June 2018, the Company carried forward 845 sales contracts valued at \$278.1 million⁸, with 32% of contracts (266 lots valued at \$108.4 million) due to settle in 1H19, 21% of contracts (181 lots valued at \$61.2 million) in 2H19, with the balance of 47% of contracts (398 lots valued at \$108.5 million) settling in FY20.

The Company is carrying forward significant unconditional sales at its projects in Plumpton and Clyde with commencement of delivery impacted by delays with planning authorities. It is apparent that Victorian authorities are experiencing significant challenges flowing from an industry-wide peak in construction and the resolution of laws regarding infrastructure charges, resulting in abnormal approval delays. The Company expects to commence delivery of the first stages of Sienna Rise and Lilium in 1H19 however future stages will be delayed into FY20.

Earlier than expected resolution of approval delays may lead to delivery of these pre-sold stages in 2H19, bringing forward up to \$65 million in carried forward sales at Sienna Rise (248 lots), and up to \$39 million in carried forward sales at Lilium (134 lots).

The Company will continue to monitor delivery commencements and will provide further guidance updates if necessary.

PROPERTY SALES AND MARKETING COSTS

The sales and marketing strategy introduced in 2015, which shifted focus onto the Villa World brand and targeted regional marketing campaigns, has continued to benefit both sales rates, and sales and marketing costs, which were 5.8% of revenue (FY17: 5.6% of revenue).

EMPLOYEE BENEFITS

As at 30 June 2018, the Company had 155.4 full time equivalent employees (FY17: 146). Additional roles were added primarily in operations and marketing, due to the expansion of operations in NSW and the addition of new projects.

The full year salary contribution of the new employees hired in FY17, as well as the new employees hired in FY18 resulted in a 21% increase in staff costs year-on-year. Employee costs represented 5.7% of revenue (FY17: 5.3%).

In FY18, the full year salary contribution of the new employees hired in FY18 as well as roles which may be added in FY19 (expected to be minimal), are expected to result in an increase in employee cost of 5 - 7%.

⁸ Represents gross sales price including GST.

ADOPTION OF AASB 15

Effective for reporting periods from 1 January 2018 the Company has reassessed its revenue recognition policy in accordance with the new standard which moves away from the risks and rewards of ownership towards a five step recognition model. The Company has assessed that land only and house and land contracts will be recognised at cash settlement which is when control is passed to the purchaser. This is a change in recognition for contracts entered into in Queensland and Victoria. A one off adjustment to retained earnings and other impacted accounts will be made on 1 July 2018. Further information of the adoption of the new standard refer to Note E5(h) New accounting standards and interpretations.

ASSETS AND NTA

Gross assets increased to \$587.9 million at 30 June 2018 from \$577.7 million. The NTA per share increased to \$2.44, prior to the declaration of the 10.5 cent fully franked dividend (FY17: \$2.27, prior to the declaration of 10.5 cent dividend).

CAPITAL MANAGEMENT

Following on from the Company's capital repositioning in FY17 a very strong and sustainable balance sheet has been maintained and cash flow has been effectively managed across the portfolio.

During the year, the Company operated a \$190 million club facility with ANZ and Westpac. In 1H18, the term of the \$50 million Westpac facility was extended through to March 2021. In addition, a \$10 million component of the ANZ facility was also extended through to October 2020. The maturity of the \$140 million ANZ facility is staggered, with \$90 million maturing October 2020, \$40 million extended through to October 2021 and \$10 million to March 2022.

At 30 June 2018, cash on hand was \$12.6 million (30 June 2017: \$7.7 million) and unused capacity in the facility was \$32.3 million (30 June 2017: \$142.1 million). The Company has transitioned into a strong delivery phase. Consequently, gearing was 29.7% (12.9% as at 30 June 2017), at the top end of Company's gearing target of 15-30%. Net debt was \$171.1 million.

The Company has on issue \$50 million of Simple Corporate Bonds. The Bonds diversify the Company's capital structure, extend the debt maturity and support growth objectives. The Bonds pay a variable interest rate of 4.75% margin above three month BBSW, and mature in April 2022.

Strong sales and settlements during the year generated \$123.6 million in net cash flow from trading activities (FY17: \$188.7 million). Strong cash flow, combined with

DIVIDEND
(CPS)

18.5

headroom in the debt facility enabled \$155.5 million (FY17: \$123.3 million) in acquisitions to be settled. The land acquisition amount payable at 30 June 2018 was \$33.7 million (FY17: \$139.3 million). Since year end, \$4.4 million has been paid, and the balance will be settled from operating cash flows, existing debt facilities and proceeds from third party settlements.

The Company expects cash outflow for acquisitions of \$40 million to \$60 million in FY19 funded from existing debt facilities and working capital, inclusive of \$7 million in capital lite transactions.

The average cost of debt during the year was 7.3% (FY17: 9.0%). A \$90 million fixed interest rate swap of 3.69% remained in place through to 12 June 2018. To manage exposure to future interest rate risk, the Company has executed two interest rate caps totalling \$50 million with a forward start date of 2 July 2018. These contracts will cap the Company's interest rate at a maximum of 3.0% on \$50 million until 2 July 2020, and \$25 million thereafter until 4 July 2022.

DIVIDENDS

Shareholders have benefited from the strong financial performance during the year with the Directors declaring total dividends of 18.5 cps fully franked in relation to the 2018 financial year. An interim dividend of 8cps was paid in March 2018. A final dividend has been declared post year end of 10.5 cps and will be paid in September 2018.

The full year dividend of 18.5 cps represents an annual payout of 53.8% of NPAT (FY17: 59%), which is within the Company's stated dividend policy (payout ratio of 50% - 75% of annual NPAT, paid semi-annually).



Artist impression of the parklands at Covella - Greenbank

OPERATING FINANCIAL REVIEW CONT.

PORTFOLIO

During FY18, the Company announced that the Donnybrook Joint Venture had entered into a conditional contract to sell its remaining land parcel in Donnybrook, having previously entered into a conditional contract to sell its adjoining parcel. The Company's share of revenue from these sales will be recognised progressively in line with the staged settlements, and will therefore be dependent on timing of Precinct Structure Plan (PSP) approval. The Company expects revenue from these staged sales to commence in 2H20. Income from these staged sales will underpin earnings from FY20 through to FY23.

Following the deployment of capital into acquisitions in FY17, the Company has been selective in acquiring projects to build the pipeline beyond FY19. In FY18, the Company acquired 701 lots, including significant land parcels in Logan and Plumpton, which will provide product continuity for several years in these strong markets.

The Company will continue its selective acquisition approach, with the intention of growing its well-established position in South-East Queensland, in what it considers to be the most undervalued market on the east coast. Capital allocated to New South Wales will be reinvested in that state, enabling the Company to continue to grow its presence through further partnering. The Victorian land bank will be replenished, predominantly through partnerships and structured transactions.

As at 30 June 2018 the Company had a portfolio of 6,191 lots (FY17: 7,832 lots), representing approximately 4-5 years of sales.

THE VILLA WORLD STRATEGY

In May 2018, the Company finalised its new purpose and beliefs, replacing the Mission, Vision and Values. The new purpose, **Helping People Reach Home**, was adopted by the Leadership Team and endorsed by the Board after an extensive and inclusive process of embracing feedback from staff and other business partners.



Artist impression of Arundel Springs Residences - Arundel

For Villa World's people, **Helping People Reach Home** means ensuring they feel "at home" by helping them develop their full potential while providing a safe, healthy and happy workplace.

For our customers, it means helping them find their dream home and making the process of buying that home easy.

For our community, it means we recognise the broader societal contribution Villa World can make to better living, through our commitment to corporate social responsibility, and the communities we create.

For our other external stakeholders, it captures our pride in the partnerships Villa World has forged with companies that share our beliefs and have found their home working with us.

This new purpose is supported by a commitment to core beliefs:

- Put people first
- We do what we say
- Enjoy the ride
- Do it as one team
- Get it done
- Make it easy

The purpose and beliefs are the foundation of the Company's new Strategic Framework, currently being developed for the period 2018-2020. In addition to focusing on key operational fundamentals, the Company has identified other major drivers for future sustainable success including customer centricity, smart growth and strong governance and culture.

KEY RISKS

The Board is responsible for setting the overall risk culture of the business, and has adopted a Risk Appetite Statement. The Company has a risk management framework in place to identify, assess and manage key strategic, financial and operational risks.

While residential market conditions have generally remained buoyant the Company continues to prudently manage sales, development and finance risk, along with risks associated with general warranty claims. The Company continues to monitor government policies, including macroprudential regulation.



OPERATING FINANCIAL REVIEW CONT.

The Company offers well located land, and affordable to mid-priced housing in the growth corridors of east coast Australia, providing greater resilience to market cycles. Consumer confidence and credit availability will continue to influence sales. Economic conditions including interest rates, unemployment and wages directly impact consumer confidence.

The Company has maintained a diversified portfolio and prudent gearing position assisted by structured acquisition deals and a product portfolio that minimises sales risk. The Company's portfolio has well managed project-based risk. In most cases, development approvals are either in place prior to acquisitions, or residential use is allowed and approval risk is mitigated by appropriate due diligence. Risks associated with longer-dated projects, with the opportunity to add value through the planning process, are mitigated through partnering arrangements or appropriately structured acquisition terms. Production-based risk is further mitigated by the diversified portfolio, scalable business model, transparency on development costs and the experience of the Company's development team.

The Company is increasing its focus on broader risks including environmental, social and reputational risks, as it recognises the growing importance of these matters to customers, investors and the community.

Warranty claims and potential litigation are inherent risks in the development and construction industry, and the Company makes general provision for such warranty claims (refer to Note B5 in the 2018 financial statements).

OUTLOOK

The Company will continue to focus on operational delivery and cash settlement of carried forward sales. Sales are expected to remain strong, underpinned by full year contributions from eight flagship projects in sought-after residential corridors in Queensland (North Brisbane, Logan and Gold Coast) and Victoria (North, North-West and South-East Melbourne).

The Company continues to progress its strategy of growing joint venture arrangements. In FY19, these arrangements are expected to contribute in excess of \$6 million to profit before tax comprising development / project management fees, and

share of profit. Joint venture profits will primarily be from the Rochedale and Greenbank joint venture projects, with the Donnybrook and Wollert joint ventures to contribute from FY20.

Development / project management fees will continue to provide a continuing revenue stream, as the Company continues to pursue capital-efficient growth opportunities that provide a strong return on assets.

The FY19 gross margin is expected to be within the range of 24% to 26%.

GUIDANCE

The Company is targeting a statutory profit after tax of approximately \$40 million in FY19, assuming general consumer confidence is maintained, interest rates remain low, consumer credit conditions do not deteriorate, and first home buyer grants remain in place. There remains a possibility that resolution of delays with planning authorities in Victoria may lead to delivery of revenue from certain projects in FY19 rather than FY20. The Company will update the market as necessary.

CURRENT PORTFOLIO



CURRENT PORTFOLIO VIC

MELBOURNE NORTH WEST

Melbourne's North West corridor, centred around the Caroline Springs and Taylors Hill Town Centres, continues to experience consistent growth and housing demand. The area boasts easy freeway access to the CBD and is proving popular with growing families.

In the nearby Plumpton area, the Company has a significant footprint with several projects underway or in planning. Following the sold-out success of **Sienna**, a 166-lot mixed land and homes development, neighbouring **Sienna Rise** is also nearly sold out with only one land stage remaining. This development provided the opportunity to offer a terrace house product which proved to be extremely popular, particularly among first home buyers influenced by the lower price point and quality product.

This success will be repeated at **Sienna North**, a land project with a first stage offering of traditional standard sized lots and the opportunity to offer smaller terrace homes in future stages. Construction of both Sienna Rise and Sienna North is expected to commence in FY19.

During FY18 the Company entered into a development rights agreement over a 15ha site at Plumpton, close to Caroline Springs, which will deliver product diversity in the corridor through a 317-lot subdivision.

The Company will also deliver its core house and land product at the 372-lot **Emerson Green** project, to be launched in FY19.



PLUMPTON PRECINCT STRUCTURE PLAN (PSP)

- | | |
|--------------------------------------|---|
| 1 Town Centre | 7 Sporting fields/oval: Soccer, AFL and Cricket |
| 2 Secondary school | 8 BMX bike track |
| 3 Neighbourhood parks | 9 Aquatic Centre |
| 4 Playgrounds | 10 Designated off leash dog area |
| 5 Walking, running and cycling paths | 11 Sports reserve including tennis multi-courts |
| 6 Fitness Circuit | 12 Community Centre |



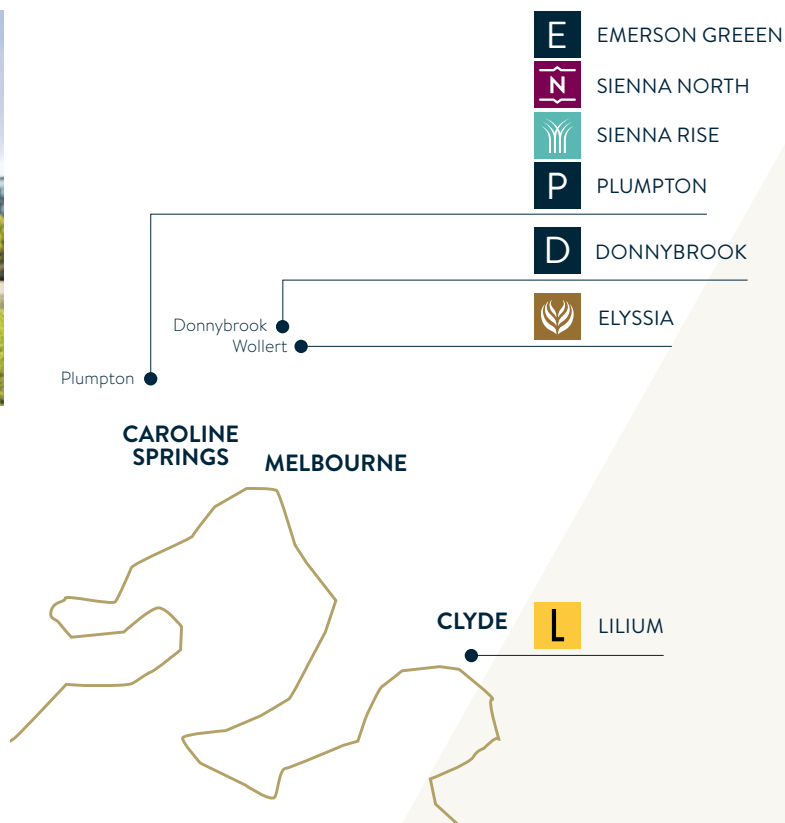
Sienna North is located amidst the approved future amenities of the Plumpton PSP.

Source: Victorian Planning Authority



Caroline Springs

"Melbourne's North West corridor, centred around the Caroline Springs and Taylors Hill Town Centres, continues to experience consistent growth and housing demand."



CURRENT PORTFOLIO VIC

MELBOURNE NORTH

Melbourne's Northern corridor, with its proximity to Melbourne Airport and ease of access to the CBD, continues to attract strong interest from family buyers. Following successful projects at Greenvale, the Company's presence in this market will be maintained with the sales release of the 289-lot **Elyssia** land-only project at Wollert, a joint venture project with Ho Bee Land. With lot prices starting under \$300,000, this development is attracting strong leads and this is expected to intensify with the opening of the sales centre in September 2018.

During FY18, the Company announced that the **Donnybrook** Joint Venture had entered into a conditional contract to sell its remaining land parcel

in Donnybrook, having previously entered into a conditional contract to sell its adjoining parcel. The Company's share of revenue from these sales will be recognised progressively in line with the staged settlements expected from FY20 onwards, dependent on timing of Precinct Structure Plan gazettal.

MELBOURNE SOUTH EAST

Pakenham, around 60km south-east of the Melbourne CBD, offers a distinct semi-rural identity. Land at Villa World's 320-lot **Cardinia Views** project sold out in FY18. The Company's foothold in this corridor continues with **Lilium**, offering 391 land-only lots, including 230 pre-sales with delivery from FY19.





CURRENT PORTFOLIO NSW

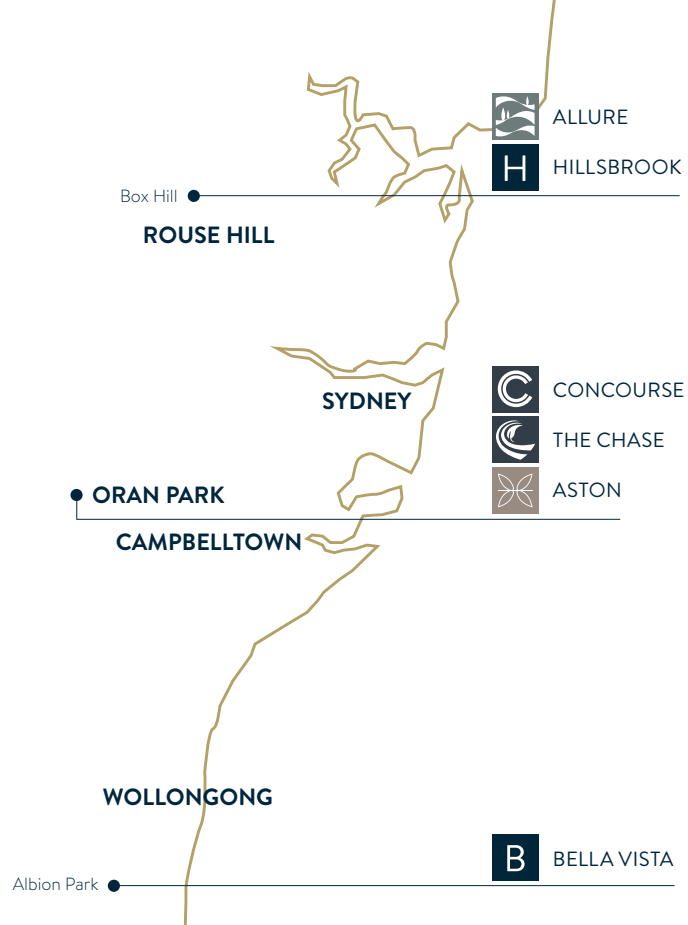
SOUTH WEST SYDNEY

The proposed Western Sydney Airport is driving growth and demand in this region. The new town of Oran Park is a major infrastructure development with a network of interconnected thoroughfares, open space and a variety of urban residential housing options.

The Company has strategically positioned itself in Oran Park with a variety of housing products and precincts. **Concourse**, comprising 61 homes close to the town centre, is under construction and selling. Its partner project, **The Chase**, will add a further 93 townhomes to the Oran Park inventory. This project is being delivered through a development agreement with Greenfield Development Company that will see Villa World construct a combination of terraces and medium density homes. **Aston**, located within 200m of Oran Park Podium, a future park and train station, will feature 33 designer townhomes ranging in size and style. Construction at this project has recently commenced.

NORTH WEST SYDNEY

Western Sydney remains one of Australia's fastest growing residential corridors. The Hills Shire is centrally located in Sydney's North West and is home to the Box Hill Growth Centre Precincts, a major growth area for the Sydney basin. With the new North West Metro Link currently under construction and due to open in 2019, Villa World projects in this market are well placed to take advantage of high demand.



At Box Hill, the Company's new **Allure** project comprises 42 designer homes. With only 29 lots remaining, the project will sell out in FY19. On a neighbouring site is the **Hillsbrook** project, offering a further 34 designer homes, expected to launch in FY19.

ILLAWARRA

The coastal region of Illawarra remains one of the nation's favourite places to live. In Albion Park, south of the Wollongong CBD, the Company's 87-lot land project known as **Bella Vista** has sold-out and will be delivered in the first half of FY19.





Oran Park



Allure - Box Hill

CURRENT PORTFOLIO QLD



LOGAN CITY

An estimated population the size of Cairns will ultimately occupy two largely rural areas of Logan City, including Villa World's largest-ever Queensland project.

The flagship 1502-lot **Covella** community, at Greenbank, is starting to unfold on a 153-hectare semi-rural site in what has been tipped as South East Queensland's new population and employment powerhouse region.

Covella's unveiling in October came just weeks after Villa World launched its 300-lot **Chambers Ridge** project in neighbouring Park Ridge, and the launch late last year of the 714-lot **Killara** community at Logan Reserve.

The three Villa World projects are meeting rapid demand for affordable housing across the Logan corridor, particularly among first home buyers seeking value and lifestyle options.

Chambers Ridge will comprise three and four-bedroom turnkey homes, surrounding a central park. Killara has become Villa World's fastest selling Queensland project with more than 280 sales since launch.

Bushland-fringed Covella will be developed in 27 stages over the next seven years. It comprises 1,502 lots and will eventually be home to 4000 residents with a diverse

range of housing and lifestyle options on lots from 300sqm to 2000sqm.

The three Logan communities promote active and healthy lifestyles with the provision of significant green space, parkland and recreational facilities including bike and walking paths, playgrounds and barbecue areas.

These amenities, and the proximity to major retail and transport infrastructure, are attracting strong support from building partners as well as retail customers.

During FY18 the Company acquired several sites at **Logan Reserve**, near its Chambers Ridge project, which will deliver an estimated 250-lots.





“Villa World projects are meeting rapid demand for affordable housing across the Logan corridor”



SPRINGFIELD

LOGAN

Greenbank

Logan Reserve

Park Ridge



KILLARA



LOGAN RESERVE



CHAMBERS RIDGE



COVELLA



CURRENT PORTFOLIO QLD

GOLD COAST

The Commonwealth Games infrastructure legacy is delivering benefits for Villa World's Gold Coast projects. The Company's most significant project in the central Gold Coast in several years, **Arundel Springs**, is recording strong sales buoyed by the prestige parkland address beside the protected Coombabah Lakelands Conservation Area.

The 391-lot project offers premium homesites plus parks, walking and cycling tracks, exercise and play zones and lush landscapes. Eighty five townhomes will be released during FY19.



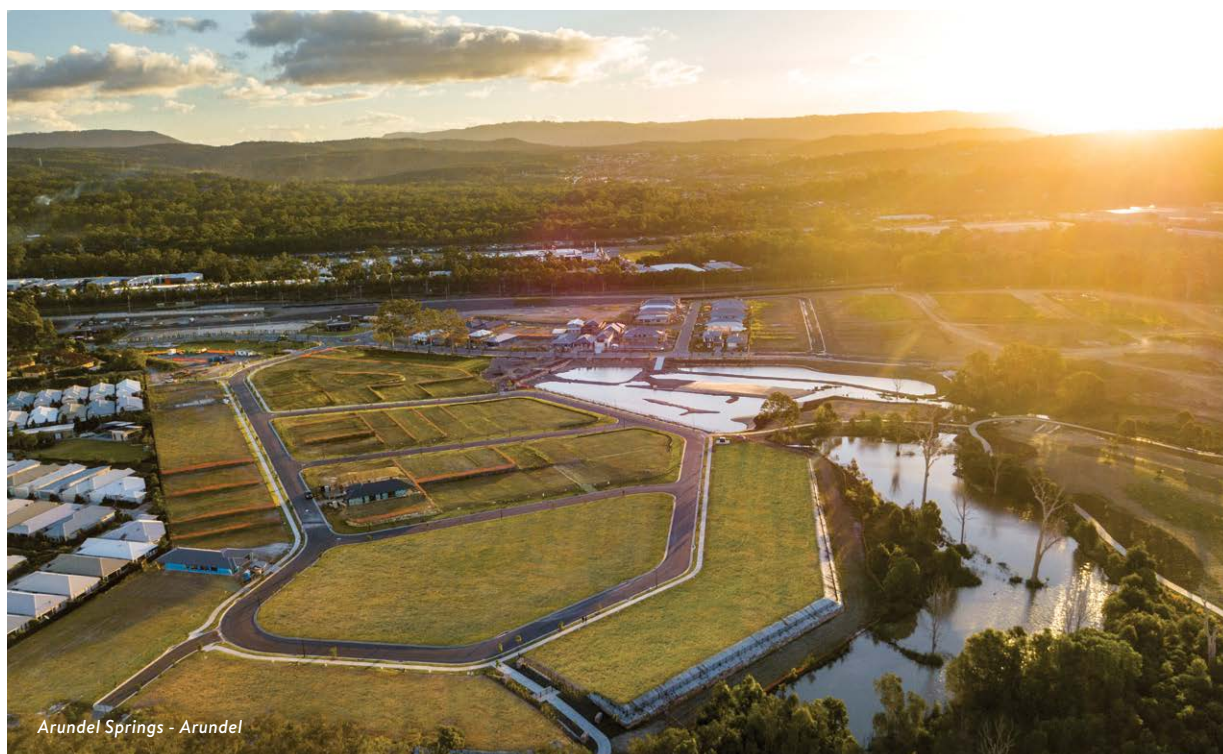
BRISBANE NORTH

Brisbane North has proven a highly successful market for the Company, with strong brand recognition driving continued demand for Villa World homes and land.

Astute land acquisitions in identified growth areas have ensured continuance of supply for the next five years and beyond with approvals in place and construction commenced in the established residential suburb of Strathpine. This new signature address in the Brisbane North region, **The Meadows**, will deliver 393 family sized designer homes predominantly for the owner-occupier market.

Also in this market is a 291-lot land project under planning in **Upper Caboolture**, close to the Caboolture River and a short drive west of the Morayfield retail centre. An additional 450 lots in the neighbouring suburb of **Bellmere** will contribute to sales in FY21 and ensure the Company's continued supply in this market for the medium term.

Silvan Rise, at Dakabin, just five minutes from North Lakes, offers 109 designer homes and is expected to sell out early in FY19. The affordable homes at **Emerald Park**, Burpengary, attracted strong interest and sold out in FY18. The Company has acquired a neighbouring parcel, and will deliver 88 affordable homes.

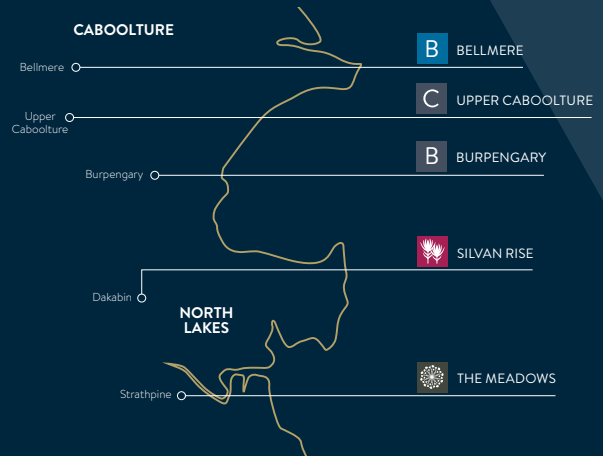




The Meadows - Strathpine



Silvan Rise - Dakabin



The Meadows - Strathpine

Over the past 18 months, the Company has undertaken a significant overhaul of its Core Housing Range. The resulting designs are now being rolled out across new projects including The Meadows at Strathpine and Chambers Ridge at Park Ridge. **The 'Marcoola 22' featured here, is now on display at The Meadows.**



The Meadows - Strathpine



CURRENT PORTFOLIO QLD

BRISBANE SOUTH

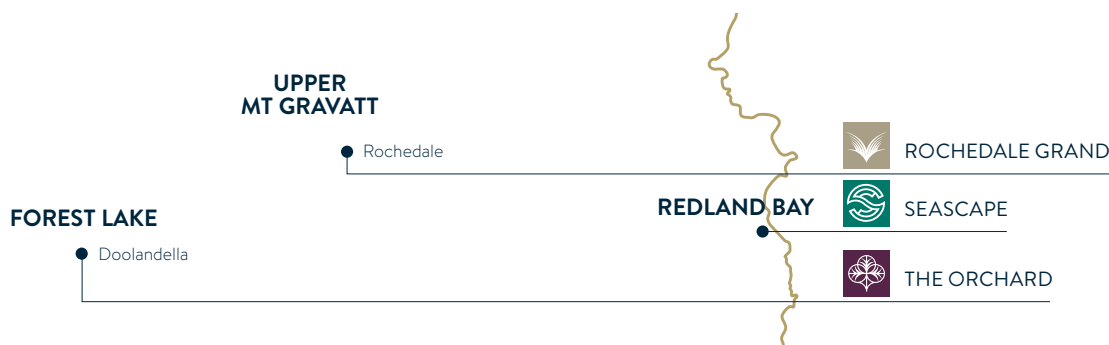
All land has been sold and just 33 townhomes remain at the 149-lot **The Orchard**, located at Doolandella on the northern fringe of the Logan Motorway.

In the blue chip residential suburb of Rochedale, Villa World's flagship address, **Rochedale Grand**, which comprises 167 prestige architect-designed homes within walking distance of the future Rochedale Town Centre, continues to attract strong sales. The Company anticipates completion of this project early in FY19.

BRISBANE BAYSIDE

Redland City, with its bayside lifestyle and family-friendly infrastructure, has proven a highly successful market for the Company during the past few years with several completed and sold-out projects.

Seascope, close to the proposed Weinam Creek marina development, is a key development project offering land and designer townhomes with a community garden, residents' swimming pool and BBQ facilities. Project completion is expected during FY19.





Augustus - Hervey Bay

REGIONAL QUEENSLAND

Villa World continued to record steady sales at its contemporary lifestyle project **Augustus** on the Central Queensland Coast. Set in the picturesque seaside town of Hervey Bay, the project offers affordable homes primarily to first home buyers and downsizers predominantly relocating from interstate.

Little Creek in Gladstone is a 688-lot project which offers a mix of land and homes set around the Little Creek parklands, an established network of parks with playgrounds and recreation facilities.



Augustus - Hervey Bay



Little Creek - Gladstone

VILLA WORLD LIMITED
ABN 38 117 546 326

ANNUAL REPORT

30 JUNE 2018

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These financial statements are the consolidated financial statements of the consolidated entity consisting of Villa World Limited and its subsidiaries. The financial statements are presented in Australian currency.

Villa World Limited is a company limited by shares, incorporated and domiciled in Australia.

Its registered office is:

**Villa World Limited,
Level 1 Oracle West, 19 Elizabeth Avenue,
Broadbeach QLD 4218**

A description of the nature of the consolidated entity's operations and its principal activities is included in the Directors' report on page 34, which is not part of these financial statements.

The financial statements were authorised for issue by the Directors on 14 August 2018. The Directors have the power to amend and reissue the financial statements.

Through the use of the internet, we have ensured that our corporate reporting is timely and complete. All ASX announcements, financial reports and other information are available on our website: www.villaworld.com.au



DIRECTORS' REPORT

Your Directors present their report on the consolidated entity (referred to hereafter as the Company) comprising of Villa World Limited and its subsidiaries and the Company's interest in associates for the year ended 30 June 2018.

PRINCIPAL ACTIVITIES

During the year the principal activities of the Company continued to be the development and sale of residential land, and the development, construction and sale of house and land packages.

DIRECTORS

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



Mark Jewell
BCom CA (SA), GAICD

Non-Executive Director
since 28 November 2013

Chairman
since 28 May 2014

Mark is an independent director with over 30 years' experience in the Australian Property Industry. He is one of Australia's most experienced and respected property industry directors and over his career has held a number of senior executive positions and directorships in listed Australian property companies. His experience as an executive covers the full breadth of property development from land subdivisions to large scale iconic apartment buildings and shopping centres. As a non-executive director and chairman his expertise lies in corporate strategy, culture, capital management and a strong focus on risk and governance.

Board Committee memberships

- Member of the Audit and Risk Committee (since 28 November 2013)
- Member of the Remuneration and Nomination Committee (since 5 February 2015)



Craig Treasure
BASc (Surveying) (QUT), FDIA

Executive Director
17 February 2012 - 1 August 2012

Chairman and Executive Director
1 August 2012 - 5 October 2012

Chairman and Managing Director
5 October 2012 - 28 May 2014

Chief Executive Officer and Managing Director
since 28 May 2014

Craig has more than 30 years' experience in property development, specifically in the residential land and housing sectors along the eastern seaboard of Australia. As a licensed surveyor and licenced property developer Craig has previously held a number of senior executive roles and directorships within the property industry. His experience is both as a business proprietor and at an executive level with publicly listed entities.

As Chief Executive Officer and Managing Director, Craig has been responsible for guiding the Company's growth over recent years. In leading an integrated property company Craig displays strong skills in managing challenging projects with a strong focus on customers and people and culture of the Company. In 2016 Craig completed a high performance leadership program with Oxford University.



David Rennick
BEc, LLB

Non-Executive Director
since 1 September 2014

David is an independent director and senior Melbourne based lawyer with nearly three decades experience in the property industry, having acted for leading developers and institutions as principal legal advisor and on property and business strategy. His area of practice in property includes master planned community projects, property development, corporate real estate, institutional property and retail centre developments and leasing.

DIRECTORS' REPORT

DIRECTORS (CONTINUED)

He is currently a Partner and Head of Australia, for international law firm Pinsent Masons. Prior to that role, he was a property partner and then CEO of national law firm Maddocks where he was responsible for leadership, client and people strategies and management.

Board Committee memberships

- Chair of the Audit and Risk Committee (since 5 November 2015)
- Chair of the Remuneration and Nomination Committee (5 February 2015 - 17 February 2016)
- Member of the Audit and Risk Committee (since 1 September 2014)
- Member of the Remuneration and Nomination Committee (since 17 February 2016)

Other directorships (current and recent)

In the past three years David has served as a Non-Executive Director of:

- The Hester Hornbrook Academy, a school of the Melbourne City Mission (since 31 August 2016)



Donna Hardman
MBA, BCom, GAICD, FAMI

Non-Executive Director
since 17 February 2016

Donna is an independent director and brings a broad skill set and strategic acumen which has been gained through 25 years in senior executive and director level roles, particularly within the international financial services sector.

Donna has a strong human capital focus and risk management mindset and her professional experience includes both senior executive and consultancy roles as a business and IT strategist. Today in both Non-Executive Director and Principal Consultant roles, Donna helps organisations to meet some of today's most complex challenges, leading organisational change, business transformation and digital disruption.

Donna has strong professional, government and community links and well-established networks in relevant sectors and industry groups. She consults on enhancing board performance and building businesses that are at once disruptive and commercially compelling.

Board Committee memberships

- Chair of the Remuneration and Nomination Committee (since 17 February 2016)
- Member of the Audit and Risk Committee (since 17 February 2016)

Other directorships (current and recent)

In the past three years Donna has served as a Non-Executive Director of:

- Quay Credit Union (25 June 2013 - 23 September 2016)
- G&C Mutual Bank (1 September 2016 - 23 September 2016)
- Australian Military Bank (1 July 2017 - 12 February 2018)

COMPANY SECRETARY



Brad Scale
LLB

General Counsel
since 29 October 2012

Company Secretary
since 3 July 2017

Brad joined the Villa World team as General Counsel in October 2012, and was appointed Company Secretary in July 2017. Brad's legal career spans 30 years, much of which was spent in private practice specialising in property law. He was a senior partner of a leading Queensland property firm, where he advised domestic and international developers on major acquisitions and disposals, master-planned residential communities and mixed-use projects. Prior to joining Villa World, Brad had a 4 year in-house role as Chief Legal Officer with a large financial services group, specialising in corporate governance, regulation and compliance, risk management and claims management.

DIRECTORS' INTERESTS

Directors' interests in shares and performance rights of Villa World Limited as at the date of this report		
	Number of ordinary shares	Number of performance rights
Mark Jewell	107,127	-
Craig Treasure	1,334,864	1,088,129
David Rennick	53,260	-
Donna Hardman	28,737	-

Meetings of directors

The number of meetings held by Villa World Limited's Board of Directors and of each Board Committee during the year ended 30 June 2018, including the number of meetings attended by each Director are:

	Board meetings ²		Audit and Risk Committee		Remuneration and Nomination Committee	
	A	B	A	B	A	B
Mark Jewell	17	18	4	4	4	4
Craig Treasure ¹	18	18	-	4	-	4
David Rennick	17	18	4	4	4	4
Donna Hardman	18	18	4	4	4	4

A = Number of meetings attended.

B = Number of meetings held during the time the Director held office or was a member of the committee during the period.

¹ Mr Treasure attends meetings of the committees as an invitee only and is excluded from parts of the meetings as appropriate.

² The Board recognises the importance of developing and implementing the strategy for the Company and during FY18 dedicated three Board meetings for these purposes.

Dividends

The Board declared an interim dividend of 8.0 cents per share fully franked on 13 February 2018. Payment was made to shareholders on 29 March 2018.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Final Dividend

On 14 August 2018 the Board declared a fully franked final dividend of 10.5 cents per share. The ex-dividend date is 3 September 2018 and the record date for this dividend is 4 September 2018. Payment will be made on 28 September 2018.

The balance of the franking account is \$17.5 million and includes franking credits that will arise from the payment of tax recognised as a liability at the reporting date (refer Note A4(c)).

Investment in the Villa Green Joint Venture

On 26 July 2018, equity contributions totalling \$7 million were made by each joint venture partner, with the carrying value of the investment increasing to \$25.2 million. Of the Company's contribution of \$7 million, \$5 million was recognised as a commitment at 30 June 2018 (refer Note B6(b)). The contributions were predominantly for the purpose of funding the joint venture to complete final settlement of the development site.



Review of operations and consolidated results

Group Financial Summary	Consolidated	
	2018 \$'000	2017 \$'000
Revenue from continuing operations		
Revenue from land development, residential building and construction contracts	441,573	386,790
Cost of land development, residential building and construction contracts ¹	(323,975)	(280,537)
Gross Margin	117,598	106,253
Revenue from development and project management fees	11,134	2,427
Other income	1,049	754
Net (impairment) / reversal of impairment of development land	(399)	1,516
Share of profit / (loss) from associates and joint ventures	6,374	3,010
Reversal of impairment of investment in equity accounted investment	-	627
Expenses from ordinary activities	(65,102)	(53,542)
Finance costs	(8,672)	(7,058)
Profit before income tax	61,982	53,987
Income tax expense	(18,348)	(16,151)
Profit for the period	43,634	37,836

¹ In addition to the amounts included here, the total cost of inventory sold includes capitalised interest which is unwound on settlement on a per lot basis through finance costs (refer Note C5) and impairment costs / (reversals) attributable to lots sold. For the year ended 30 June 2018, the total amount of capitalised interest unwound at settlement on a per lot basis is \$5.8 million (30 June 2017: \$4.3 million) and total impairment reversals attributable to lots sold is \$1.3 million (30 June 2017: \$1.8 million). Total cost of inventory sold for the year ended 30 June 2018 is \$328.5 million (30 June 2017: \$286.6 million).

A review of operations for the financial year and the results of those operations are set out in the Operating and Financial Review on page 10.

ENVIRONMENTAL REGULATION

The Company is subject to environmental regulation in respect of its land development and construction activities as set out below:

(i) Land development approvals

Approvals are required for land development from various Councils and other government agencies. Those Councils and agencies will assess environmental factors when issuing approvals and, where applicable, will impose relevant conditions. To the best of the Directors' knowledge, all activities have been undertaken in compliance with the requirements of all development approvals.

(ii) Dwelling construction/building approvals

Building approvals are obtained for the construction of dwellings from the relevant Councils. The construction of dwellings is subject to strict requirements regarding environmental impacts including noise, silt, dust, run off and drainage. To the best of the Directors' knowledge, all construction activities have been undertaken in compliance with the requirements of building approvals, Council requirements and other applicable laws.

CORPORATE GOVERNANCE STATEMENT 30 JUNE 2018

Corporate governance statement

The Board believes that genuine commitment to good corporate governance is essential to the performance and sustainability of the Company's business.

The Board has given due consideration to the ASX 'Corporate Governance Principles and Recommendations', which offer a framework for good corporate governance. The Board has approved the Corporate Governance Statement for the year ended 30 June 2018, which is available in the Corporate Governance section of its website at <http://www.villaworld.com.au/corporate-governance-statement-2018>

ANNUAL STATEMENT BY THE REMUNERATION AND NOMINATION COMMITTEE CHAIR

The Villa World Board acknowledges that Shareholders want remuneration settings that achieve two things: drive consistent, year-on-year performance, and motivate long-term value creation. In combination, these elements contribute to sustainable, consistent performance now and into the future.

Of equal importance is our demonstration of clear linkages between the remuneration setting and the Company strategy and culture. Alignment with culture, motivation and strategic goals will be brought further into focus as the Company moves forward with a new purpose, beliefs and strategic priorities.

Pay for performance FY18

Short-term incentives

The Remuneration and Nomination Committee (the Committee) noted Villa World's FY18 financial performance, with a Net Profit After Tax (NPAT) of \$43.6 million, up 15% on FY17's result of \$37.8 million.

The Villa World Short-Term Incentive (STI) plan subjects a meaningful proportion of executives' remuneration based on the achievement of performance measures linked to the Company's annual business objectives including a range of strategic initiatives, people and culture development and the achievement of financial results, including Earnings Per Share (EPS), gearing and gross margin.

The EPS result for FY18 was 34.4 cps, an increase of 5.8% on EPS for the previous period (FY17: 32.5 cps).

Targets for individual performance measures are not disclosed as some are commercially sensitive. Executives achieved different outcomes in regard to their own specific objectives. Encouragingly, all Key Management Personnel (KMP) delivered in the top half of the performance target range, contributing to continued strong year-on-year financial results.

Long-term incentives

The Villa World Long-Term Incentive plan (LTIP) has been effective in ensuring alignment between the performance of eligible executives to long-term overall company performance. This is an important mechanism to drive the Company's employee ownership culture as executives acquire shares through the vesting of successive performance rights granted under the LTIP. Performance measures are based on relative Total Shareholder Return (TSR) and Return on Assets (ROA). Explanations of the TSR and ROA calculations are provided in the Remuneration Report, along with performance rights granted under the LTIP during FY18. The number and value of performance rights held by executives is disclosed within the report.

Subsequent to year-end, the Board has tested the extent to which performance conditions were satisfied as at 30 June 2018 for the FY16 LTIP allocation to the Chief Executive Officer (CEO) and Chief Operating Officer (COO). Consequently, for the FY16 LTIP allocation to the CEO and COO, the Board has determined that approximately 83% of those performance rights will vest. Performance rights issued to the former Chief Financial Officer (CFO) were forfeited at resignation.

Key Management Personnel

The Committee, with the support of the Board and with Managing Director and CEO Craig Treasure, continued to focus on building Villa World's leadership capability. The appointment of Michael Vinodolac as COO (previously General Manager Operations and an existing KMP) and Lorelei Nieves as CFO demonstrates the Company's long-term strategy of growing the diverse capability potential from within the business. Lorelei Nieves was appointed in April 2018 and recognised as part of the KMP with remuneration reflective of opportunities for future development in the role.

Employee engagement

The Committee acknowledges the correlation between highly engaged employees and a positive culture delivering strong financial returns. The Villa World STI plan includes a range of metrics focused on developing leadership and team capability, identifying and retaining key talent and promoting diversity across the business.

In addition, the Company continues to offer eligible employees the opportunity to purchase Villa World shares using their pre-tax salary, to a value of \$5,000 per annum. This plan offers employees at all levels an opportunity to become a current shareholder, promoting increased motivation to deliver shareholder value and be rewarded for their contribution towards the long-term success of Villa World.

LOOKING FORWARD TO FY19

The Committee will continue its efforts to encourage an open and constructive dialogue with Shareholders and their representatives. We remain conscious that the executive remuneration landscape is evolving and we will continue to consult with Shareholders on any material changes to the Villa World remuneration policy or its implementation.

For FY19, the Committee has reduced the number of STI measures for KMP to focus attention on smart growth opportunities, mastering the fundamentals and "do it differently, do it better" in order to continue to drive long-term sustainability. This also includes a range

of people and customer-centric metrics focused on cementing a purpose-led organisation.

Further consideration of the LTI approach, including additional stakeholder engagement, will be undertaken in FY19.

The Committee expects to continue to play an active governance role through remuneration alignment as a purpose-led organisation as we contribute to transforming the Company to move forward with its new purpose and beliefs. We will maintain our investment in leadership development, creating pathways for high-potential employees and

fostering a pool of succession candidates as Villa World continues **Helping People Reach Home**.

The Committee thanks shareholder representatives and advisers for their feedback and suggestions to improve transparency and readability. We trust that we have produced an improved Remuneration Report that is useful and informative.



Donna Hardman
Chair, Remuneration and Nomination Committee



Craig Treasure and Mark Jewell on-site

REMUNERATION REPORT 2018 (AUDITED)

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REMUNERATION REPORT GLOSSARY

AGM	Annual General Meeting	LTIP	Villa World Limited executive long-term incentive plan
CEO/MD	Chief Executive Officer / Managing Director	NED	Non-Executive Director
CFO	Chief Financial Officer	NPBT	Net profit before tax
EY	Ernst & Young	RNC	Remuneration and Nomination Committee
FY18	The 2018 fiscal year	ROA	Return on assets
KMP	Key Management Personnel	SBP	Share based payments
KPI	Key Performance Indicator, the basis for STI	STI	Short-term incentive
LTI	Long-term incentive	TSR	Total shareholder return

REMUNERATION REPORT 2018 (AUDITED)

SECTION A: INTRODUCTION

The Villa World Limited Board is pleased to present the Remuneration Report for FY18.

The Board is committed to clear and transparent communication of remuneration arrangements. As in previous years, the approach to remuneration remains firmly aligned to delivery against Company strategy and creating sustained growth in shareholder value.

The Company's remuneration strategy, policies and practices are designed to attract and retain the best people and reward employees for supporting Villa World's strategic and operational objectives. Remuneration levels are competitive with executives in comparable companies and roles, and regularly reviewed against performance measures and targets.

This report is presented in accordance with the requirements of the *Corporations Act 2001* (the Act) and its regulations. Information has been audited as required by *Section 308(3C)* of the Act.

SECTION B: WHO IS COVERED BY THIS REPORT?

This report outlines remuneration arrangements in place for Key Management Personnel (KMP) which comprises all Directors (executive and non-executive) and other members of the Villa World Executive who have authority and responsibility for planning, directing and controlling the activities of the Company.

Table A below lists the Company's KMP during the 2018 financial year. The term 'executives' refers to those individuals listed as Executive Directors or as Other KMP in the table below:

Table A: Key Management Personnel

KMP	Position	Term
Non-Executive Directors		
Mark Jewell	Independent Chairman	Full Year
David Rennick	Independent Non-executive Director	Full Year
Donna Hardman	Independent Non-executive Director	Full Year
Executive Director		
Craig Treasure	Chief Executive Officer and Managing Director (CEO/MD)	Full Year
Other KMP		
Michael Vinodolac	Chief Operating Officer (COO)	Full Year
Lorelei Nieves ¹	Chief Financial Officer (CFO)	Part Year
Robyn Valmadre	General Manager - Sales & Marketing	Full Year
Brett Delaney ²	Acting CFO	Part Year
Paulene Henderson ³	Chief Financial Officer and Company Secretary	Part Year

¹ Lorelei Nieves was appointed CFO on 18 April 2018.

² Brett Delaney was temporarily appointed Acting CFO from 3 July 2017 until 18 April 2018.

³ Paulene Henderson resigned as CFO and Company Secretary on 5 June 2017 but remained a KMP until 3 July 2017.

SECTION C: REMUNERATION FRAMEWORK AND LINK TO PERFORMANCE

Villa World's remuneration framework links executive earnings to financial results achieved, while also rewarding executives for creating longer-term shareholder value.

Executive performance is acknowledged within a Short-Term Incentive (STI) structure to improve key financial results year-on-year and are rewarded according to their achievements against pre-determined Key Performance Indicators (KPIs) that are both measurable and outcome-based. Non-financial targets are aligned to core values (including safety and sustainability) and key strategic and growth objectives. A significant proportion of total remuneration potential is aligned to long-term performance related elements consistent with the Company's business strategy.

This combination is designed to attract, retain and motivate executives based on their current skills and experience, as well as their continuous capability development. This in turn encourages a strong focus on performance, supporting the delivery of outstanding returns to shareholders and aligning executive and shareholder interests through share ownership.



REMUNERATION REPORT 2018 (AUDITED)

SECTION C: REMUNERATION FRAMEWORK AND LINK TO PERFORMANCE (CONT.)

Table B summarises the executive remuneration structure in place during FY18.

Table B: Executive remuneration structure

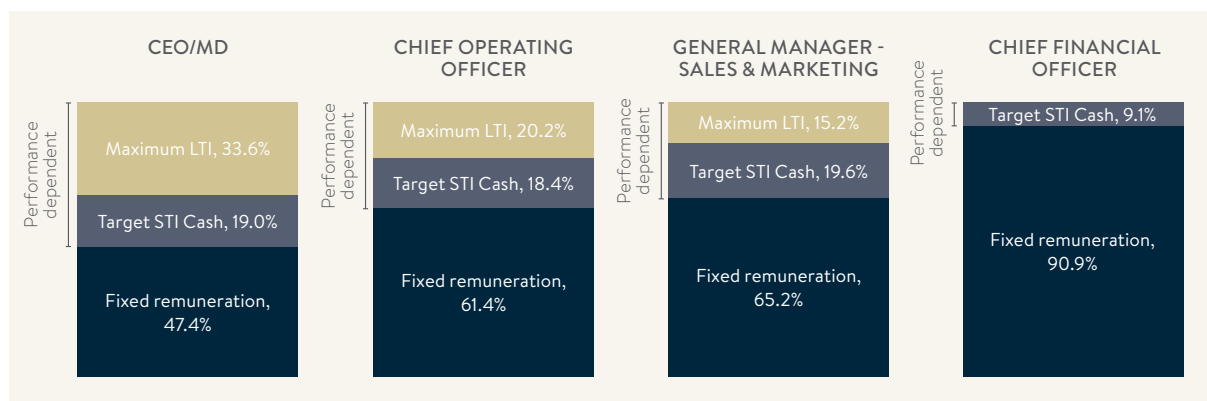
	Component	Performance conditions	Purpose and link to strategy
Fixed Remuneration	Fixed Annual Remuneration (FAR) Salary and other benefits (including statutory superannuation)	Consideration is given to the scope of each individual's role and their level of knowledge, skills and expertise.	Set to attract, retain and motivate the right talent to deliver on strategy and contribute to the Company's financial and operational performance. For executives who are new to their roles, the aim is to set fixed remuneration at relatively modest levels compared to their peers and to progressively increase levels as they gain experience and prove themselves in their roles. In this way fixed remuneration is linked to individual performance and effectiveness.
	Short-Term Incentive (STI) Annual incentive opportunity delivered in cash	STI performance criteria are set by reference to financial and strategic measures and individual performance targets relevant to the specific position. 'Gateway' for achieving STI - minimum Net Profit After Tax (NPAT) threshold performance level that must be achieved before any STI is payable. - the Company must promote and maintain certification of the Health Safety Environment (HSE) Management System under the Australian Standards for safety and international standards for environment. Financial measures - include EPS, gross margin and gearing level and reflect the alignment of business strategy to create sustainable value for security holders. Strategic measures - develop a framework that is brand, customer and people focused while supporting technology, innovation and sustainability. People and culture measures - focus on developing leadership and general capability and identifying and retaining key talent and promoting diversity across the business. Individual performance objectives - aligned to strategic objectives.	Performance conditions are designed to support the financial and strategic direction of the Company (the achievement of which is intended to translate through to shareholder return), and are clearly defined and measureable. A large proportion of outcomes are subject to earnings targets of the Company. Other financial targets ensure strong operational discipline is maintained. Non-financial targets are aligned to core values and key strategic and growth objectives. The Board has discretion to adjust STI outcomes up or down to ensure that individual outcomes are appropriate and are aligned with the Company's values.
At risk remuneration	Long-Term Incentive (LTI) A deferred equity award of conditional rights subject to performance conditions measured over a three year performance period.	Performance conditions which must be satisfied before the conditional right vests include: Relative Total Shareholder Return (TSR) - minimum threshold is 50th percentile. - represents 75% of LTI allocation. Return On Asset (ROA) - minimum threshold is 12%. - represents 25% of LTI allocation. The performance conditions are independent and tested separately. Performance measures are detailed in Section G(a)(i).	Allocation of performance rights encourages executives to have a long-term view. The performance rights are restricted and subject to risk of forfeiture during the vesting/ performance periods. The performance conditions are designed to encourage executives to focus on the key performance drivers which underpin sustainable growth in Shareholder value.

REMUNERATION REPORT 2018 (AUDITED)

SECTION D: OUR FOCUS ON PERFORMANCE

The weighting of at-risk remuneration components reflects the Board's commitment to performance-based reward. Figure (i) below illustrates the mix of remuneration components for the current financial year.

Figure (i): Remuneration mix



SECTION E: FIXED ANNUAL REMUNERATION (FAR) PERFORMANCE MEASURES AND OUTCOMES FOR FY18

(a) Performance measures

Executive salaries are reviewed and revised as appropriate to reflect additional responsibilities, alignment to market as well as continuous capability development. Executive FAR is tested regularly for market competitiveness by reference to appropriate independent and externally sourced comparable benchmark information. This includes benchmarking against comparable ASX-listed companies, and based on a range of size criteria including market capitalisation, taking into account an executive's responsibilities, performance, qualifications, experience and geographic location.

Any adjustments to executive KMP remuneration requires approval by the Board based on Remuneration and Nomination Committee (RNC) and CEO/MD recommendations. The CEO/MD does not participate in his own remuneration appraisal.

(b) Performance outcomes

The CEO/MD's base salary was increased by 4.3% during FY18, aligned with the success of the Company's commercial and financial performance in FY17. Executives received increases (~3% - 6%) in FAR in recognition of high performance, increased responsibilities, changes in roles and delivery of business strategy. These increases ensured competitive compensation in relation to industry peers.



REMUNERATION REPORT 2018 (AUDITED)

SECTION F: SHORT-TERM INCENTIVE (STI) PERFORMANCE MEASURES AND OUTCOMES FOR FY18

(a) Performance measures

The STI plan places a meaningful proportion of executives' remuneration at risk to be delivered based on the achievement of performance measures linked to the Company's annual business objectives.

The structure of STI performance measures for executives in FY18 is determined by the Board at the start of the financial year, with performance assessed against each measure at the end of the year. Actual STI awards can range from 0 - 40% of FAR however the Board has discretion to pay over and above these amounts. A sliding scale element is incorporated into the relevant performance measures to motivate executives to outperform base targets set. Table C summarises the relevant executive performance measures.

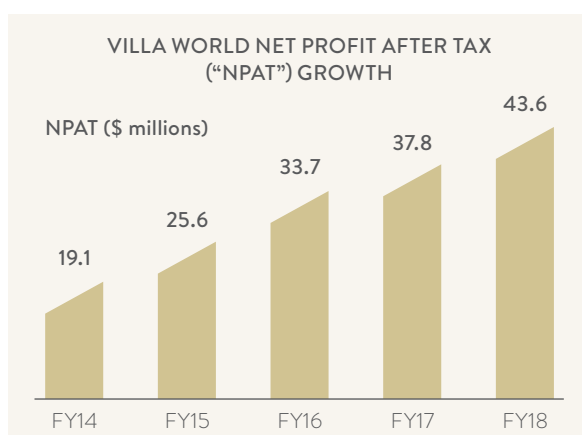
Table C: FY18 STI performance measures

	CEO/MD	COO	GM SALES & MARKETING	CFO
Financial performance	60%	45%	40%	40%
Strategic initiatives	20%	20%	20%	-
People and culture measures	20%	20%	20%	20%
Individual performance objectives	-	15%	20%	40%
Total	100%	100%	100%	100%

STI gateway

Two performance gateways must be achieved in order for executives to attain their target STI. Firstly, Company NPAT must be at least 80% of target. This was achieved for the year to 30 June 2018. Figure (ii) below highlights the consistently strong growth in NPAT achieved during the past five years.

Figure (ii):



To achieve the second hurdle, the Company must promote and maintain certification of the Health Safety and Environment (HSE) Management System under the Australian Standards for safety and International Standard for environment. The nature of the Company's business demands a strong focus on safety and sustainable performance improvement each and every year. The role that safety plays in supporting Company culture is core to business success and to the way that the Company work with and value our business partners and customers. During FY18 the Company obtained two levels of certification due to the strong cultural focus on HSE; Australian Standard 4801 Occupational Health and Safety Management System and ISO 14001 Environmental Management Systems.

(b) Performance outcomes

(i) Financial performance

The overall level of executive compensation takes into account the performance of the Company. A significant portion of the STI outcome for each executive is based on the achievement of financial results which include earnings per share (EPS), gearing and gross margin. The combination of the financial measures and the assessment of the overall financial health of the business ensures that Executives are rewarded for decisions and outcomes that deliver results in the short-term but that are also sustainable (including consideration of the Board Risk Appetite) and in the long-term interests of the Shareholders.

REMUNERATION REPORT 2018 (AUDITED)

SECTION F: SHORT-TERM INCENTIVE (STI) PERFORMANCE MEASURES AND OUTCOMES FOR FY18 (CONT.)

The Company has demonstrated consistently strong performance during the past five years. In that time, the Company's share price increased from \$2.02 (opening share price as at 1 July 2014) to \$2.22 (as at 30 June 2018). The Company reported NPAT of \$43.6 million, up 15% on FY17's result of \$37.8 million and achieved a gross margin of 26.6% (FY17: 27.5%).

EPS increased to 34.4 cps (FY17: 32.5 cps) and NTA increased to \$2.44 (FY17: \$2.27) prior to the Board declaring total full year dividends of 18.5 cents per share fully franked. Gearing at 30 June 2018 was 29.7% which was within the Company's gearing target of 15% to 30%.

Table D below summarises the Company's achievements in the past five years and highlights the areas that drive shareholder wealth.

Table D: Five year company performance

Performance KPI	FY14	FY15	FY16	FY17	FY18
Revenue (\$m)	\$229.5	\$321.6	\$387.0	\$386.8	\$441.6
Net profit after tax (\$m)	\$19.1	\$25.6	\$33.7	\$37.8	\$43.6
Debt (\$m)	\$69.1	\$92.0	\$128.6	\$81.5	\$183.8
Gearing (%)	18.7%	16.9%	25.6%	12.9%	29.7%
NTA per security (\$)	\$1.92	\$2.00	\$2.15	\$2.27	\$2.44
Share price at 30 June	\$2.02	\$2.00	\$2.08	\$2.25	\$2.22
Dividends (relating to the year)					
Interim dividend (cents)	6.0	6.0	8.0	8.0	8.0
Final dividend (cents)	9.0	10.0	10.0	10.5	10.5
Earnings per share (cents)	21.8	25.6	30.6	32.5	34.4

(ii) Strategic initiatives

Strategic Initiatives are focused on developing a framework that is brand, customer and people focused while supporting technology, innovation and sustainability. Measures include implementation of a program to improve customer Net Promoter Score (NPS) ratings, company re-branding of purpose and beliefs and investing in a forward growth strategy across all states of operation.

During FY18 the Company instigated a technology strategy that will enable better informed business decisions through access to more timely and accurate data. This strategic initiative ensures greater consistency of business processes and supports delivery of the Company's broader customer centricity strategy.

Acquisitions and joint venture partnerships were undertaken this year to support the Company's growth strategies in New South Wales and Victoria. Strategic decisions to enter into the sale of selective developments including Donnybrook in Victoria, and Hope Island in Queensland, offer longer-term financial and commercial advantages. In addition the Wollert land parcel was disposed of to a joint venture where the Company has 51% interest and joint control over the project. A land development rebranding strategy and core housing review were completed during the year to ensure delivery of cost effective, innovative design solutions within agreed margins.

(iii) People and culture measures

There is direct correlation between high levels of employee engagement and a positive culture delivering strong security holder returns. The Villa World STI plan includes a range of metrics focused on developing leadership and team capability, identifying and retaining key talent and promoting diversity across the business.

During FY18, the Company began implementing its leadership development framework in order to inform and deliver on broader people and culture development strategies. These strategies focus on growing a purpose-led company culture by creating career pathways for our people. The identification of Board and KMP succession plans supports the strategy to promote internal candidates who are committed to the Company's purpose and beliefs and to recognise the skills, experience and capability that they bring to the Company.



REMUNERATION REPORT 2018 (AUDITED)

SECTION F: SHORT-TERM INCENTIVE (STI) PERFORMANCE MEASURES AND OUTCOMES FOR FY18 (CONT.)

(iii) People and culture measures (cont.)

The appointment of Michael Vinodolac as Chief Operating Officer (previously General Manager Operations and an existing KMP) and Lorelei Nieves as Chief Financial Officer demonstrates the Company's long-term strategy of growing the diverse capability potential from within the business. As long-term employees of Villa World, these meritorious appointments demonstrate the capability and cultural strength within the Company.

Another significant initiative delivered during FY18 was the identification and initial rollout of the Company's new Purpose—"Helping People Reach Home"—supported by six core beliefs. These elements provide the framework for further development and support of people and culture initiatives during FY19 and beyond.

(iv) Individual performance measures

Individual performance measures vary by role and from year-to-year for individuals, and are primarily linked to the successful achievement of strategic objectives relating to long-term company sustainability. Targets for individual performance measures are not disclosed as some are commercially sensitive. Executives have achieved different outcomes in regard to their personal objectives, but all have delivered in the top half of the performance range.

SECTION G: LONG-TERM INCENTIVE (LTI) PERFORMANCE MEASURES AND OUTCOMES

(a) Performance measures

(i) Villa World Limited Executive Long-Term Incentive Plan (LTIP)

The Villa World LTIP is the long-term at-risk incentive component of remuneration for executives. It also applies to other senior managers who are considered to have influence over the long-term performance of the Company. Performance rights are granted but are restricted and subject to forfeiture until the end of the vesting / performance period which is three years from the grant date. Maximum LTI opportunities are equivalent to 120% of fixed remuneration for the CEO/MD and up to 60% of fixed remuneration for other executives.

Performance measures are based on relative Total Shareholder Return (TSR) and Return on Assets (ROA). Details of these performance measures are set out in Table E below:

Table E: Long-term incentive plan performance measures

Purpose	LTI ensures alignment to long-term overall company performance, motivates long-term value creation and is consistent with strategic business drivers and long-term Shareholder return.	
Eligibility	Executives and other eligible employees of the Company who are considered to have the capacity to impact the long-term performance of the Company. Non-executive Directors are not eligible to participate.	
Award vehicle	Performance rights. On vesting, each performance right converts into one share. No dividends/distributions are paid on unvested LTI awards.	
Performance period	Performance measures are tested over a three year period from grant date.	
Vesting date	Vesting occurs following the release of full year results, when the Board determines the extent to which the performance measures have been satisfied for the relevant performance period. The vesting is conditional on the executive remaining employed with the Company and achievement of performance hurdles.	
Opportunity	Maximum LTI opportunities are equivalent to 120% of fixed remuneration for the CEO/MD and up to 60% of fixed remuneration for other executives.	
Performance measures	Relative TSR (75% of the LTI allocation) Relative TSR is used because it is an objective measure of Shareholder value creation and is widely understood and accepted by the various stakeholders.	Absolute ROA (25% of the LTI allocation) ROA is a profitability ratio that measures how well the Company has managed its assets to generate earnings. ROA is calculated by dividing Earnings Before Interest Tax (EBIT) by Average funds employed.

REMUNERATION REPORT 2018 (AUDITED)

SECTION G: LONG-TERM INCENTIVE (LTI) PERFORMANCE MEASURES AND OUTCOMES (CONT.)

(c) Performance outcomes

(i) FY18 LTIP Grant

The third allocation of performance rights under the LTIP to the CEO/MD was approved at the FY17 Annual General Meeting (AGM). Table G shows LTI grants awarded during the year to the CEO/MD and other executives, subject to performance conditions over the three year performance period ending 30 June 2020. Accounting standards require the estimated valuation of the grants be recognised over the performance period. The maximum value is based on the estimated fair value calculated at the time of the grant and amortised in accordance with the accounting standard requirements.

Table G: Performance rights granted during FY18

KMP	Performance measure	Performance rights awarded	Fair value per performance share	Value of performance rights at grant date ¹	Expiry date	Performance period end date	Expected price volatility of shares	Expected dividend yield	Risk free interest rate
Craig Treasure	Relative TSR	287,774	\$1.57	\$451,805	31/08/2020	30/06/2020	21.8%	7.7%	1.9%
	Absolute ROA	95,925	\$2.07	\$198,565	31/08/2020	30/06/2020	21.8%	7.7%	1.9%
Total		383,699		\$650,370					
Michael Vinodolac	Relative TSR	73,432	\$1.57	\$115,288	31/08/2020	30/06/2020	21.8%	7.7%	1.9%
	Absolute ROA	24,477	\$2.07	\$50,668	31/08/2020	30/06/2020	21.8%	7.7%	1.9%
Total		97,909		\$165,956					
Robyn Valmadre	Relative TSR	56,232	\$1.57	\$88,284	31/08/2020	30/06/2020	21.8%	7.7%	1.9%
	Absolute ROA	18,744	\$2.07	\$38,800	31/08/2020	30/06/2020	21.8%	7.7%	1.9%
Total		74,976		\$127,084					

¹ The value of performance rights reflects the fair value at the time of grant.



SECTION G: LONG-TERM INCENTIVE (LTI) PERFORMANCE MEASURES AND OUTCOMES (CONT.)

(ii) FY16 LTIP Grant

The performance conditions for the LTI performance rights granted in November 2015 were measured for vesting as at 30 June 2018.

Vesting of LTI grants is dependent on achieving relative TSR performance and absolute ROA targets over a three year period, with the Board having over-arching discretion to ensure vesting outcomes are appropriately aligned to performance.

ROA Performance

Villa World ROA has been consistent over the past three years and has exceeded the threshold each year.

TSR performance

Villa World achieved a strong relative TSR of 63.49% over the three year performance period ended 30 June 2018, resulting in approximately 77% vesting for the TSR component.

Overall performance

The total rights vesting for Villa World executives for FY16 LTI award is approximately 83%. Vesting occurs following the release of full year results, when the Board determines the extent to which the performance conditions have been satisfied for the relevant performance period.








REMUNERATION REPORT 2018 (AUDITED)

SECTION H: REMUNERATION GOVERNANCE

Villa World's remuneration strategy requires approval by the Board, following recommendations from the Remuneration and Nomination Committee (RNC). The role of the RNC is set out in its charter, which is reviewed annually and can be viewed in the Investor Relations, Corporate Governance section of the Villa World website, <http://www.villaworld.com.au/investor-centre/corporate-governance>

Villa World's Remuneration Objectives

 <p>Remuneration is fair and delivers a competitive advantage in attracting motivating and retaining executive talent</p>	 <p>Creation of reward differentiation to drive performance values and behaviours</p>	 <p>Provide equal opportunity and enhance diversity</p>	 <p>An appropriate balance of fixed and at risk components</p>	 <p>Support strategic direction of Villa World and create sustained growth in shareholder value</p>
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The RNC met on four occasions during FY18 and held numerous informal discussions about broader remuneration issues. In addition to the Committee members, the CEO and other Non-Executive Directors attend meetings as required, except in circumstances where their own remuneration is being discussed.

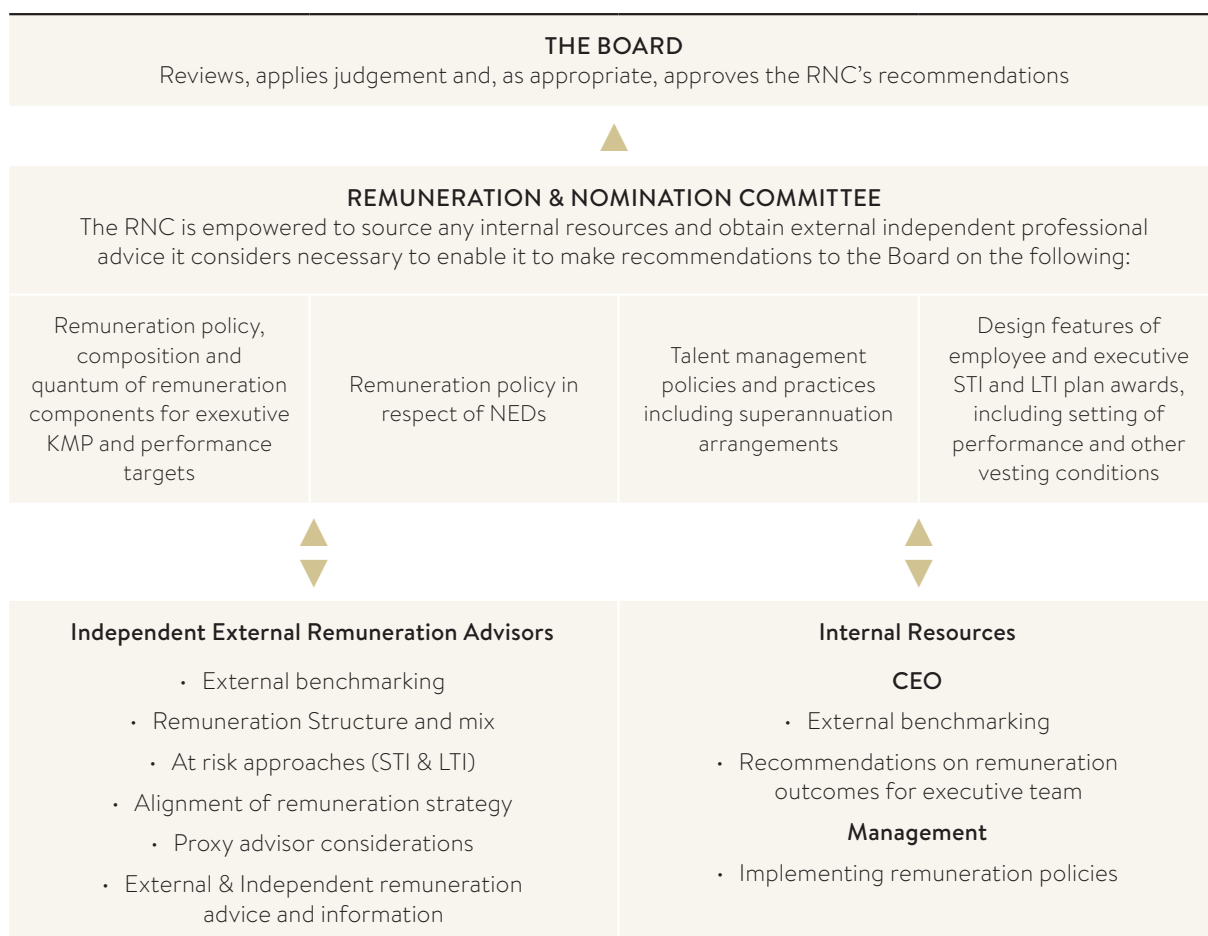
Villa World's remuneration governance is depicted in Figure (iii).



REMUNERATION REPORT 2018 (AUDITED)

SECTION H: REMUNERATION GOVERNANCE (CONT.)

Figure (iii): Remuneration governance structure



(a) Remuneration report approval at the FY17 AGM

Of the eligible votes cast at the Company's AGM held on 24 October 2017, 98.24% were in favour of the remuneration report for FY17. The Company did not receive any specific feedback at the AGM on its remuneration practices. The RNC will continue to encourage an open and constructive dialogue with Shareholders and their representative bodies, and will consult with major Shareholders on any material changes to the remuneration policy or how it is implemented. We are aware that the executive remuneration landscape is evolving and of the potential for change.

(b) Use of Remuneration Advisers

To assist in performing its duties and making recommendations to the Board, the RNC seeks independent advice from external consultants on various remuneration related matters including insights on remuneration trends, regulatory updates and market data in relation to the remuneration of Non-Executive Directors and Villa World executives.

Ernst & Young (EY) are engaged as the Company's independent external remuneration advisor to ensure that it is fully informed when making remuneration decisions and to assist with the review of the overall executive remuneration structure. EY's global governance guidelines and terms of engagement include specific strict guidelines designed to protect their independence, as part of this service to existing audit clients. No remuneration recommendations as defined in Section 9B of the *Corporations Act 2001* were obtained during the financial year ended 30 June 2018.

REMUNERATION REPORT 2018 (AUDITED)

SECTION H: REMUNERATION GOVERNANCE (CONT.)

(c) Clawback of STI and LTIP awards

The Company has a formal Clawback Policy that provides the Board with broad discretion to ensure that no unfair benefit or detriment is derived by any participant in the case of material misstatement in Company financial results or serious misconduct by a participant, including where the Company suffers material reputational damage. This includes discretion to reduce, forfeit or reinstate unvested awards or alter the performance conditions applying to any award.

(d) Securities dealing policy

Consistent with the *Corporations Act 2001*, executives are prohibited under the Company's Securities Dealing Policy from hedging or otherwise reducing or eliminating the risk associated with unvested equity-based incentives. If the executive hedges in breach of this policy, consequences may involve disciplinary action and could result in dismissal and forfeiture of equity based incentives. Conviction of insider trading can attract criminal and civil liability under the *Corporations Act 2001*.

(e) Cessation of employment

If an executive resigns or is terminated for cause, any unvested awards are forfeited unless otherwise determined by the Board. The treatment of vested and unexercised awards will be determined by the Board with reference to the circumstances of cessation.

(f) Executive Employment Agreements

Remuneration and other terms of employment for executives are formalised in employment agreements. Specific information relating to the terms of the agreements for the current executives are set out in table below. Other than statutory entitlements, there are no termination benefits applicable to other current executives. The Board and the RNC must approve all termination payments.

Table H: Executive employment agreements

	Base fee inclusive of superannuation	Term of agreement	Notice period	Review period	Maximum annual cash bonus (%) ¹
CEO/MD					
Craig Treasure	\$725,000	Rolling	6 months	Annual	40%
Other KMP					
Michael Vinodolac	\$370,000	Rolling	3 months	Annual	30%
Lorelei Nieves	\$250,000	Rolling	3 months	Annual	10%
Robyn Valmadre	\$340,000	Rolling	3 months	Annual	30%

¹ Anticipated cash bonus as a proportion of base salary depending on corporate and individual performance.



REMUNERATION REPORT 2018 (AUDITED)

SECTION I: ACTUAL REMUNERATION RECEIVED IN FY18

Table I sets out the value of remuneration received by executive KMP for FY18 and FY17.

Table I: Executive remuneration for FY18

		Short-term benefits		Post-employment	Long-term benefits	Share-based payments ⁶		Termination benefits	TOTAL	Performance related
		Salary and fees	Cash Bonus	Super-annuation contributions	Long service leave ⁵	Share options	Performance Rights			
		\$	\$	\$	\$	\$	\$	\$	\$	%
Non-Executive Directors										
Mark Jewell (Chairman)	2018	159,817	-	15,183	-	-	-	-	175,000	-
	2017	136,986	-	13,014	-	-	-	-	150,000	-
David Rennick	2018	100,457	-	9,543	-	-	-	-	110,000	-
	2017	91,324	-	8,676	-	-	-	-	100,000	-
Donna Hardman	2018	100,457	-	9,543	-	-	-	-	110,000	-
	2017	91,324	-	8,676	-	-	-	-	100,000	-
Total Non-Executive Directors	2018	360,731	-	34,269	-	-	-	-	395,000	-
	2017	319,634	-	30,366	-	-	-	-	350,000	-
Other KMP										
Craig Treasure (CEO and MD) ¹	2018	711,794	278,000	20,049	10,741	-	515,415	-	1,535,999	52%
	2017	689,306	270,000	19,616	16,402	-	297,985	-	1,293,309	44%
Michael Vinodolac	2018	349,951	87,500	20,049	16,842	-	122,227	-	596,569	35%
	2017	341,243	60,000	19,616	19,324	11,958	66,745	-	518,886	27%
Lorelei Nieves ²	2018	41,069	-	3,819	1,876	-	-	-	46,764	-
	2017	-	-	-	-	-	-	-	-	-
Robyn Valmadre	2018	319,951	66,000	20,049	9,351	-	79,288	-	494,638	29%
	2017	310,384	63,000	19,616	2,237	-	36,801	-	432,038	23%
Brett Delaney ³	2018	236,250	-	-	-	-	-	-	236,250	-
	2017	-	-	-	-	-	-	-	-	-
Paulene Henderson ⁴	2018	68,879	-	5,012	-	-	-	269,446	343,337	-
	2017	305,384	75,000	19,616	11,656	-	(39,812)	-	371,844	9%
Total Executive Director and KMP	2018	1,727,894	431,500	68,978	38,810	-	716,930	269,446	3,253,558	-
	2017	1,646,317	468,000	78,464	49,619	11,958	361,719	-	2,616,077	-
TOTAL	2018	2,088,625	431,500	103,247	38,810	-	716,930	269,446	3,648,558	-
	2017	1,965,951	468,000	108,830	49,619	11,958	361,719	-	2,966,077	-

¹ Base salary for Craig Treasure includes a motor vehicle allowance of \$6,843 for the year ended 30 June 2018 (30 June 2017: \$13,922).

² Lorelei Nieves was appointed Chief Financial Officer on 18 April 2018.

³ Brett Delaney was temporarily appointed Acting CFO from 3 July 2017 up to 18 April 2018.

⁴ Paulene Henderson resigned as CFO and Company Secretary on 5 June 2017 but remained a KMP until 3 July 2017.

⁵ Long service leave represents the amount expensed by the Company for the period.

⁶ The amount shown in share-based payments represents the amount expensed by the Company.

REMUNERATION REPORT 2018 (AUDITED)

SECTION J: EQUITY INSTRUMENT DISCLOSURES

(a) Interests in shares and bonds

The Board believes the interests of the KMP should be closely aligned to those of Shareholders through significant exposure to the Company's share price and dividends.

A summary of the current KMPs interests in shares and bonds in Villa World as at 30 June 2018 is shown in the table J below:

Table J: KMP interest in shares and bonds

	Shares						Bonds					
	Balance at the start of the year		Other changes during the year		Balance at the end of the year		Balance at the start of the year		Other changes during the year		Balance at the end of the year	
	Direct holding	Indirect holding	Direct holding	Indirect holding	Direct holding	Indirect holding	Direct holding	Indirect holding	Direct holding	Indirect holding	Direct holding	Indirect holding
Directors												
Mark Jewell	-	107,127	-	-	-	107,127	-	-	-	-	-	-
Craig Treasure	752,432	582,432	-	-	752,432	582,432	-	-	-	-	-	-
David Rennick	2,234	48,737	2,125	-	4,359	48,737	-	-	-	-	-	-
Donna Hardman	-	28,737	-	-	-	28,737	-	-	-	-	-	-
Other KMP												
Michael Vinodolac	49,854	-	2,125	-	51,979	-	-	-	-	-	-	-
Lorelei Nieves	1,321	-	850	-	2,171	-	-	-	-	-	-	-
Robyn Valmadre	428	7,000	-	-	428	7,000	-	-	-	-	-	-
Paulene Henderson ¹	2,662	98,942	(2,662)	(98,942)	-	-	300	-	-	-	300	-
Total	808,931	872,975	2,438	(98,942)	811,369	774,033	300	-	-	-	300	-

¹ Paulene Henderson resigned as CFO and Company Secretary on 5 June 2017 but remained a KMP until 3 July 2017.

(b) Interests in performance rights

A summary of the current KMPs holdings in performance rights in Villa World as at 30 June 2018 is shown in table K below:

Table K: KMP performance rights holding

	Balance at the start of the year	Granted during the year	Exercised during the year	Lapsed/ forfeited during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Directors						
Craig Treasure	704,430	383,699	-	-	1,088,129	-
Other KMP						
Michael Vinodolac	153,920	97,909	-	-	251,829	-
Robyn Valmadre	76,669	74,976	-	-	151,645	-
Total	935,019	556,584	-	-	1,491,603	-

REMUNERATION REPORT 2018 (AUDITED)

SECTION K: NON-EXECUTIVE DIRECTORS' REMUNERATION

(a) Policy and approach to setting fees

Non-Executive Directors receive a base fee for service as a director of the Board, and an additional fee for chairing a committee. The Chairman, taking into account the greater time commitment required, receives a higher fee.

The Board's policy is to pay fees that are competitive with comparable companies (those with a similar market capitalisation), at a level to attract and retain directors of the appropriate calibre and recognising the anticipated time commitments and continual increasing responsibilities of directors to meet market expectations of their role.

In order to maintain independence and impartiality, Non-Executive Directors are not entitled to any form of incentive payments and the level of their fees is not set with reference to measures of Company performance.

(b) Annual review of fees within the maximum approved by shareholders

The Non-Executive Directors' fees (comprising base and committee fees inclusive of superannuation) have been set by the Board within the maximum aggregate amount of \$600,000 per annum as approved by Shareholders at the 2017 AGM.

Non-Executive Director fees are reviewed annually and set and approved by the Board based on independent advice received from external remuneration consultants as required.

A review of Non-Executive Director fees was undertaken during FY18, based on comparative market data provided by external experts. Within the shareholder approved maximum aggregate fee amount, the Board approved increases of ~10%-17% to the base fees for Non-Executive Directors ensuring Villa World remains competitive with comparable companies.

This increase also reflects the calibre, increased time commitment and responsibilities of the Non-Executive Directors as the Company continues to grow and promote greater diversity of thinking and challenging amongst its Board as part of its good to great strategy.

(c) Board and committee fees

Following the review as described above, the Board approved the following base and committee fees (inclusive of statutory superannuation):

Table J: Board and committee fees

Base fees	FY18	FY17
Non-Executive Chair	\$175,000	\$150,000
Non-Executive Directors	\$90,000	\$85,000
Additional fees		
Committee Chair	\$20,000	\$15,000

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

Indemnification

During the year, the Company paid premiums for policies insuring directors and officers of the Company and its related bodies corporate against certain liabilities (subject to certain exclusions and to the extent permitted by law). The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors' and officers' insurance policies as (in accordance with normal practice) such disclosure is prohibited under the terms of the policies.

Insurance premiums

The Company's constitution provides that it must indemnify, on a full indemnity basis and to the full extent permitted by law, officers of the Company and its related bodies corporate for all losses and liabilities incurred by the person in their position as an officer, unless covered by insurance.

The Company has entered into Deeds of Indemnity in favour of each of the Directors referred to in this report who held office during the year and the Company Secretary. Additionally, separate Deeds of indemnity have been entered into with other persons who have been requested to act as directors or officers, as nominees for the purposes of licenses held by the Company, or who are employed in key senior positions. The indemnities in these Deeds operate to the full extent permitted by law and are not subject to a monetary limit. The Company is not aware of any liability having arisen and no claims have been made during or since the financial year under the Deeds of Indemnity.

The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer of the Company or of any related body corporate against a liability incurred as such an officer.

Indemnity of auditors

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

Non-audit services

Details of the amounts paid or payable to the auditor (Ernst & Young) for audit and non-audit services provided during the year are set out in Note E3.

The Audit and Risk Committee reviewed all non-audit services to ensure they did not impact the auditor's impartiality and objectivity.

The Board has considered the position and, in accordance with the advice received from the Audit and Risk Committee, is satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the auditor's provision of non-audit services did not compromise the level of independence required under the Act because none of the services undermine the general principles relating to auditor independence as set out in *APES110 Code of Ethics for Professional Accountants*.

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 57.

Rounding of amounts

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

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



Craig Treasure
Chief Executive Officer and Managing Director

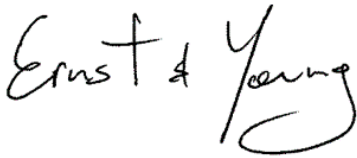
Gold Coast
14 August 2018

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

As lead auditor for the audit of Villa World Limited for the financial year ended 30 June 2018, I declare to the best of my knowledge and belief, there have been:

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

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



Ernst & Young



Ric Roach
Partner
14 August 2018

Annual report - 30 June 2018

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Consolidated statement of comprehensive income
For the year ended 30 June 2018

		Consolidated	
	Notes	2018 \$'000	2017 \$'000
Revenue from continuing operations			
Revenue from land development, residential building and construction contracts	A1(a)	441,573	386,790
Cost of land development, residential building and construction contracts	A1(a)	(323,975)	(280,537)
Gross Margin		117,598	106,253
Revenue from development and project management fees	A1(b)	11,134	2,427
Other income	A1(c)	1,049	754
Net (impairment) / reversal of impairment of development land		(399)	1,516
Share of profit / (loss) from associates and joint ventures	D3	6,374	3,010
Reversal of impairment of investment in equity accounted investment	D3	-	627
Other expenses from ordinary activities			
Property sales and marketing expenses		(25,509)	(21,730)
Land holding costs		(4,559)	(4,086)
Legal and professional costs		(2,515)	(1,693)
Employee benefits		(25,037)	(20,630)
Depreciation and amortisation expense		(710)	(577)
Administration costs and other expenses		(6,772)	(4,826)
Finance costs	C5	(8,672)	(7,058)
Profit before income tax		61,982	53,987
Income tax expense	A5(b)	(18,348)	(16,151)
Profit for the period		43,634	37,836
Profit is attributable to:			
Owners of Villa World Limited		43,634	37,836

		Cents	Cents
Earnings per share for profit attributable to the ordinary equity holders of the Company:			
Basic earnings per share	A2	34.4	32.5
Diluted earnings per share	A2	34.2	32.4

	Notes	Consolidated	
		2018 \$'000	2017 \$'000
Profit for the period		43,634	37,836
Other comprehensive income			
Items that may be reclassified to profit or loss			
Changes in the fair value of cash flow hedges	C3(a)	1,803	1,561
Income tax relating to these items	C3(a), A5(c)	(541)	(468)
Other comprehensive income for the period, net of tax		1,262	1,093
Total comprehensive income for the period, net of tax		44,896	38,929
Total comprehensive income for the period is attributable to:			
Owners of Villa World Limited		44,896	38,929

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

Consolidated balance sheet
As at 30 June 2018

		Consolidated	
		2018	2017
	Notes	\$'000	\$'000
ASSETS			
Current assets			
Cash and cash equivalents		12,645	7,663
Trade and other receivables	B2	130,206	52,628
Inventories	B1	167,590	206,757
Other current assets	B3	4,187	3,347
Total current assets		314,628	270,395
Non-current assets			
Inventories	B1	233,967	271,205
Property, plant and equipment		2,063	1,195
Investments accounted for using the equity method	D3	27,260	24,869
Other non-current assets	B3	10,000	10,000
Total non-current assets		273,290	307,269
Total assets		587,918	577,664
LIABILITIES			
Current liabilities			
Trade and other payables	B4	64,426	165,435
Deferred income		42	467
Current tax liabilities	A5(b)	2,353	10,775
Other financial liabilities		3	-
Employee benefits		1,298	1,053
Service warranties	B5(a)	4,266	4,219
Other provisions		45	130
Total current liabilities		72,433	182,079
Non-current liabilities			
Trade and other payables	B4	13,396	23,760
Borrowings	C4	183,786	81,457
Deferred income		-	84
Deferred tax liabilities	A5(d)	7,979	1,972
Other financial liabilities		59	-
Employee benefits		453	496
Other provisions		92	78
Total non-current liabilities		205,765	107,847
Total liabilities		278,198	289,926
Net assets		309,720	287,738
EQUITY			
Contributed equity	C2	477,611	477,597
Other reserves	C3(a)	241,021	208,511
Accumulated losses		(408,912)	(398,370)
Capital and reserves attributable to owners of Villa World Limited		309,720	287,738
Total equity		309,720	287,738

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

Consolidated statement of changes in equity
For the year ended 30 June 2018

Consolidated	Notes	Attributable to owners of Villa World Limited					Total \$'000
		Contributed equity \$'000	Cash flow hedges \$'000	Other reserves \$'000	Profit Reserve \$'000	Accumulated losses \$'000	
Balance at 1 July 2016		444,271	(2,355)	2,441	190,234	(397,711)	236,880
Profit for the year as reported in the 2017 financial statements		-	-	-	-	37,836	37,836
Movement in hedge reserve (net of tax)		-	1,093	-	-	-	1,093
Total comprehensive income for the period		-	1,093	-	-	37,836	38,929
Securities issued from capital raising	C2	20,000	-	-	-	-	20,000
Securities issued under the share purchase plan	C2	9,997	-	-	-	-	9,997
Transaction costs from capital transactions, net of tax	C2	(590)	-	-	-	-	(590)
Transfer current year profit to profit reserve	C3(a)	-	-	-	38,495	(38,495)	-
Dividends provided for or paid	A4(a), C3(a)	-	-	-	(20,445)	-	(20,445)
Expenses related to share based payments		-	-	405	-	-	405
Employee Share Scheme tax impact	C3(a)	-	-	(1,357)	-	-	(1,357)
Proceeds from exercise of options under the Villa World Limited Option Plan	C2	4,303	-	-	-	-	4,303
Shares acquired by Employee Share Scheme Trust	C2	(384)	-	-	-	-	(384)
		33,326	-	(952)	18,050	(38,495)	11,929
Balance at 30 June 2017		477,597	(1,262)	1,489	208,284	(398,370)	287,738
Balance at 1 July 2017		477,597	(1,262)	1,489	208,284	(398,370)	287,738
Profit for the year as reported in the 2018 financial statements		-	-	-	-	43,634	43,634
Movement in hedge reserve (net of tax)		-	1,262	-	-	-	1,262
Total comprehensive income for the period		-	1,262	-	-	43,634	44,896
Dividends provided for or paid	A4(a), C3(a)	-	-	-	(23,481)	-	(23,481)
Expenses related to share based payments	C3(a)	-	-	793	-	-	793
Employee Share Scheme tax impact	C3(a)	-	-	(236)	-	(4)	(240)
Transfer current year profit to profit reserve	C3(a)	-	-	-	54,172	(54,172)	-
Shares allocated by the Employee Share Scheme Trust	C2	91	-	-	-	-	91
Shares acquired by Employee Share Scheme Trust	C2	(77)	-	-	-	-	(77)
		14	-	557	30,691	(54,176)	(22,914)
Balance at 30 June 2018		477,611	-	2,046	238,975	(408,912)	309,720

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

Consolidated statement of cash flows
For the year ended 30 June 2018

	Notes	Consolidated	
		2018 \$'000	2017 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		396,887	443,559
Receipts from the transfer of development rights		18,951	-
Payments to suppliers and employees (inclusive of goods and services tax)		(292,267)	(254,843)
Net cash flow from trading activities		123,571	188,716
Payments for land acquired		(155,516)	(123,294)
Interest received		358	316
Interest paid		(7,996)	(5,764)
Corporate tax paid	A5(b)	(21,542)	(9,049)
Borrowing costs		(120)	(249)
GST paid		(6,395)	(15,261)
Net cash (outflow) / inflow from operating activities	A6	(67,640)	35,415
Cash flows from investing activities			
Payments for property, plant and equipment		(1,518)	(594)
Payments for equity accounted investments	D3	(23,167)	(5,000)
Distributions received from equity accounted investments	D3	19,636	2,250
Net cash outflow from investing activities		(5,049)	(3,344)
Cash flows from financing activities			
Proceeds from borrowings	C6(c)	225,353	175,454
Repayment of borrowings	C6(c)	(124,215)	(269,486)
Proceeds from issue of Villa World Bonds	C4(a)	-	50,000
Transaction costs arising from issue of Villa World Bonds	C4(a)	-	(1,615)
Proceeds from share capital issue	C2	-	20,000
Proceeds from securities issued under the share purchase plan	C2	-	9,997
Transactions costs from capital transactions	C2	-	(590)
Proceeds from exercise of options under the Villa World Limited Option Plan	C2	-	4,303
Payments for shares acquired by the Employee Share Scheme Trust	C2	(77)	(384)
Proceeds from shares allocated under the Employee Share Scheme Trust	C2	91	-
Dividends paid to Company's shareholders	A4(a)	(23,481)	(20,445)
Net cash inflow / (outflow) from financing activities		77,671	(32,766)
Net increase / (decrease) in cash and cash equivalents		4,982	(695)
Cash and cash equivalents at the beginning of the financial year		7,663	8,358
Cash and cash equivalents at end of period		12,645	7,663
Reconciliation to cash at the end of the year:			
Cash and cash equivalents		12,645	7,663
Cash and cash equivalents at the end of the year:		12,645	7,663

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

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Notes to the consolidated financial statements
30 June 2018 (continued)

RESULTS FOR THE YEAR

A

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	Revenue
A2	Earnings per share
A3	Segment information
A4	Dividends
A5	Taxes
A6	Reconciliation of profit after income tax to net cash inflow from operating activities

A1 Revenue

(a) Gross profit

	Consolidated	
	2018	2017
	\$'000	\$'000
Revenue from land only development	207,617	134,551
Revenue from land development, residential building and construction contracts	233,956	252,239
Revenue from land development, residential building and construction contracts	441,573	386,790
Cost of land only development ¹	142,554	93,086
Cost of land development, residential building and construction contracts ¹	180,919	187,705
Other direct costs ²	502	(254)
Cost of land development, residential building and construction contracts	323,975	280,537
Gross profit¹	117,598	106,253
Gross margin¹	26.6%	27.5%

1. In addition to the amounts included here, the total cost of inventory sold includes capitalised interest which is unwound on settlement on a per lot basis through finance costs (refer Note C5) and impairment costs / (reversals) attributable to lots sold. For the year ended 30 June 2018, the total amount of capitalised interest unwound at settlement on a per lot basis is \$5.8 million (30 June 2017: \$4.3 million) and total impairment reversals attributable to lots sold is \$1.3 million (30 June 2017: \$1.8 million). Total cost of inventory sold for the year ended 30 June 2018 is \$328.4 million (30 June 2017: \$283.1 million).
2. Includes provisions raised for warranty claims or released where warranty term has expired. FY17 includes unused provision in relation to legal claims concluded in 1H17.

(b) Revenue from development and project management fees

	Consolidated	
	2018	2017
	\$'000	\$'000
Joint Venture revenue		
Opportunity fee - Wollert joint venture ¹	7,301	-
Project management fees - Rochedale joint venture	1,921	1,493
Project management fees - Villa Green joint venture	759	-
Commission and other fees - Rochedale joint venture	1,153	934
	11,134	2,427

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

(c) Other income

	Consolidated	
	2018	2017
	\$'000	\$'000
Rebates received	48	14
Other income	1,001	740
	1,049	754

A1 Revenue (continued)

(d) Accounting for revenue

Recognition and measurement

Revenue is measured at the fair value of the consideration received or receivable net of returns, trade allowances, rebates and amounts collected on behalf of third parties. The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that the future economic benefits will flow to the entity and specific criteria have been met for each of the Company's activities as described below.

Land development and residential housing

Significant accounting judgement

Revenue is recognised when the risks and rewards of ownership and effective control have passed to the buyer which requires judgement. In Queensland and Victoria an unconditional sales contract and registration of the land and/or certification of building completion is required for revenue to be recognised.

Cash settlement is therefore not required in Queensland or Victoria to recognise revenue for land only and house and land packages. However cash settlement is required in New South Wales due to section 66K of the *Conveyancing Act 1919* which specifies that risk does not pass to the purchaser until the completion of the sale or possession of the land.

Construction contracts

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments. As soon as the outcome of a construction contract can be estimated reliably, contract revenue is recognised in profit or loss in proportion to the stage of completion of the contract. The stage of completion is assessed internally and based on costs incurred to forecast total costs. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately in the income statement.

Joint venture revenue

The Company is responsible for performing different services under each respective joint venture including project management, sales and marketing and administrative management. Revenue received as consideration for these services is recognised when each respective lot's sale is settled as this is when entitlement arises.

Other rights or services may be provided upon entering into joint venture agreements and are recognised in accordance with the terms of individual agreements, to the extent of the Company's ownership interest. Non ownership interests of these fees are treated in accordance with *AASB 128* whereby they are included in the carrying value of the investment and unwound as each developed lot settles.

A2 Earnings per share

(a) Basic and diluted earnings per share

	Consolidated	
	2018 \$'000	2017 \$'000
Profit attributable to the ordinary equity holders of the Company	43,634	37,836
	Shares '000	Shares '000
Weighted average number of ordinary shares used in calculating basic earnings per share	126,926	116,360
Weighted average number of diluted shares used in calculating diluted earnings per share	127,383	116,798
	Cents	Cents
Basic earnings per share	34.4	32.5
Diluted earnings per share	34.2	32.4

(b) Accounting for earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated on the Company's statutory net profit for the year divided by the weighted average number of securities outstanding, excluding treasury shares.

Notes to the consolidated financial statements
30 June 2018 (continued)

A2 Earnings per share (continued)

(b) Accounting for earnings per share (continued)

(ii) Diluted earnings per share

Diluted earnings per share adjusts the basic earnings per share for the dilutive effect of any instrument, such as performance rights and options, that could be converted into ordinary securities. Refer Note E2(b) for equity instruments outstanding as at 30 June 2018.

A3 Segment information

(a) Identification of reportable operating segments

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

The Company is organised into two reportable segments:

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

The Company and its controlled entities develop and sell residential land and buildings predominately in New South Wales, Victoria and Queensland. The operating segments within 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.

(i) Gross margin from reportable operating segments

The segment information provided to the leadership team for the reportable segments for the year ended 30 June 2018 is as follows:

	Queensland and New South Wales		Victoria		Significant operating segments		Total	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
From continuing operations								
Segment revenue	270,871	302,034	68,647	78,851	102,055	5,905	441,573	386,790
Segment expenses	(203,815)	(220,315)	(51,983)	(55,483)	(68,177)	(4,739)	(323,975)	(280,537)
Gross margin	67,056	81,719	16,664	23,368	33,878	1,166	117,598	106,253
Share of net profit / (loss) from associates and joint ventures	6,505	2,946	(131)	64	-	-	6,374	3,010
Revenue from development and project management fees	3,833	2,427	7,301	-	-	-	11,134	2,427

(ii) Significant operating segments

An operating segment is deemed significant if it has reported revenue of 10% or more of the combined revenue of all operating segments. For the year ended 30 June 2018, two operating segments have produced revenue that is more than 10% of the combined revenue generated in the Queensland and New South Wales operating segment. These two significant operating segments have been disclosed independently in the table below:

	Arundel Springs		Seascope		Total	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
From continuing operations						
Segment revenue	51,885	-	50,170	5,905	102,055	5,905
Segment expenses	(31,520)	-	(36,657)	(4,739)	(68,177)	(4,739)
Gross margin	20,365	-	13,513	1,166	33,878	1,166

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

A3 Segment information (continued)

(b) Segment information provided to the leadership team

(i) Segment Revenue

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

(ii) Segment gross margin

The leadership team assesses the performance of the operating segments based on a measure of gross margin. This measurement basis consists of revenue from land development, residential building and construction contracts less cost of land development, residential building and construction contracts. Segment expenses exclude finance costs and impairment costs / (reversals).

(iii) Other material items

The leadership team assesses the performance of the operating segments by reviewing the share of profit / (loss) from investments in joint venture / associates and any other revenue earned (e.g. project management fees) associated with these investments.

A4 Dividends

(a) Ordinary shares

	Consolidated	
	2018	2017
	\$'000	\$'000
Final fully franked ordinary dividend for the year ended 30 June 2017 of 10.5 cents per fully paid share paid on 29 September 2017 (2016: 10.0 cents per share)		
Final franked dividend based on tax paid at 30.0%	13,327	11,359
Interim dividend for the year ended 30 June 2018 of 8.0 cents per fully paid share (2017: 8.0 cents per fully paid share) paid on 29 March 2018		
Interim franked dividend based on tax paid at 30.0%	10,154	9,086
	23,481	20,445

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

	Consolidated	
	2018	2017
	\$'000	\$'000
In addition to the above dividends, since period end the Directors have recommended the payment of a final dividend of 10.5 cents per fully paid ordinary share (2017: 10.5 cents per fully paid ordinary share) fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 28 September 2018 out of profits reserve at 30 June 2018, but not recognised as a liability at period end, is:		
	13,327	13,327

(c) Franking credits

	Consolidated	
	2018	2017
	\$'000	\$'000
Franking credits available for subsequent reporting periods based on a tax rate of 30.0% (2017 - 30.0%)	15,119	3,641
Franking credits that will arise from the payment of income tax payable as at the end of the financial year	2,353	10,775
	17,472	14,416

The above amounts represent the balance of the franking account as at the end of the reporting period, adjusted for franking debits that will arise from the payment of dividends recognised as a liability at the reporting date and franking credits that will arise from the payment of income tax liabilities recognised at the reporting date.

Notes to the consolidated financial statements
30 June 2018 (continued)

A4 Dividends (continued)

(c) Franking credits (continued)

The consolidated amounts include franking credits that would be available to the Parent entity if distributable profits of subsidiaries were paid as franked dividends.

(d) Accounting for dividends

When determining dividend return to shareholders, the Company considers a number of factors, including the Company's anticipated cash requirements to fund its growth and operational plans and current and future economic conditions. According to these anticipated needs, the Company aims to return to shareholders approximately 50 - 75% of net profit after income tax (NPAT). Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

A5 Taxes

(a) Accounting for taxes

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income.

Current tax expense represents the expense relating to the expected taxable income at the applicable tax rate for the financial year. Deferred tax expense represents the tax expense in respect of the future tax consequences of recovering or settling the carrying amount of an asset or liability.

Comparatives have been adjusted to be consistent with the current period.

Tax consolidation legislation

The Company and its wholly-owned Australian controlled entities are part of a tax consolidated group (TCG) where all members are taxed as if they were part of a single entity. The head entity in the TCG is Villa World Limited.

The entities within the TCG have entered both tax sharing and tax funding arrangements with the head entity. These arrangements limit the joint and several liability between the head entity and the members, and ensure the members pay / receive their share of tax payable / receivable settled via an intercompany loan.

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

	Consolidated	
	2018	2017
	\$'000	\$'000
Profit from continuing operations before income tax expense	61,982	53,987
Tax at the Australian tax rate of 30% (2017 - 30%)	18,595	16,196
Other	(84)	(111)
Adjustments for current and deferred tax of prior periods	(163)	66
	(247)	(45)
Income tax expense	18,348	16,151
Current tax amounts recognised in equity	238	1,357
Movement in temporary differences	(5,466)	(2,552)
Income tax payable for the financial year	13,120	14,956
Income taxes payable at the beginning of the financial year	10,775	4,868
Income taxes paid	(21,542)	(9,049)
Income tax payable at 30 June	2,353	10,775
Income tax expense		
Current tax	12,882	14,030
Deferred tax	5,466	2,552
Adjustments for current tax of prior periods	-	(431)
	18,348	16,151
Movement in deferred income tax included in income tax expense		
(Increase) / decrease in deferred tax assets	(18,692)	7,064
Increase / (decrease) in deferred tax liabilities	24,158	(4,512)
	5,466	2,552

A5 Taxes (continued)

(c) Tax expense relating to items of other comprehensive income

	Consolidated	
	2018 \$'000	2017 \$'000
Cash flow hedges	(541)	(468)
Total tax expense relating to items of other comprehensive income	(541)	(468)

(d) Deferred tax assets and tax liabilities

The balance comprises temporary differences attributable to:

	Deferred tax assets		Deferred tax liabilities		Net	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Inventories	29,306	12,749	(3,976)	(3,549)	25,330	9,200
Accruals	737	500	-	-	737	500
Employee benefits	539	465	-	-	539	465
Provisions	1,307	1,328	-	-	1,307	1,328
Property, plant and equipment	178	292	-	-	178	292
Investments accounted for using the equity method	2,292	165	-	-	2,292	165
Other	318	828	(45)	(63)	273	765
Capital raising costs	219	418	-	-	219	418
Trade debtors	-	-	(38,029)	(13,681)	(38,029)	(13,681)
Other current debtors	-	-	(825)	(1,424)	(825)	(1,424)
Tax assets / (liabilities)	34,896	16,745	(42,875)	(18,717)	(7,979)	(1,972)
Movements						
As at 1 July	16,745	24,024	(18,717)	(23,229)	(1,972)	795
- to profit or loss	18,692	(7,064)	(24,158)	4,512	(5,466)	(2,552)
- through equity	(541)	(215)	-	-	(541)	(215)
As at 30 June	34,896	16,745	(42,875)	(18,717)	(7,979)	(1,972)

Accounting for deferred tax assets and liabilities

Deferred tax is recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- when the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits, or
- when the taxable temporary difference is associated with interest in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Notes to the consolidated financial statements
30 June 2018 (continued)

A5 Taxes (continued)

(e) Critical accounting estimates and assumptions for income taxes

The Company is subject to income taxes in Australia.

The Company recognises liabilities based on the current understanding of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

In addition, the Company recognises deferred tax assets relating to carried forward tax losses to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority.

Utilisation of the tax losses also depends on the ability of the Company to satisfy certain tests at the time the losses are recouped. It is believed that the Company will satisfy those tests in order to utilise any tax losses.

There are no revenue tax losses available for utilisation as at 30 June 2018.

A6 Reconciliation of profit after income tax to net cash inflow from operating activities

	Consolidated	
	2018	2017
	\$'000	\$'000
Profit for the year	43,634	37,836
Depreciation	710	577
Capitalised interest and fees	(510)	1,131
Amortisation of borrowing costs	456	125
Net gain on disposal of property, plant and equipment	(56)	(10)
Share of gain from associate	(6,374)	(3,010)
Net gain on disposal of associate	(85)	-
Impairment / (reversal) of impairment of development land	399	(1,516)
Transactions with equity accounted investment	7,599	-
Hedge ineffectiveness on interest rate swaps	19	(312)
Change in operating assets and liabilities:		
(Increase) / decrease in trade debtors	(77,578)	19,734
Decrease / (increase) in inventories	76,406	(104,266)
(Decrease) / increase in trade payables	(111,374)	96,565
Increase in deferred tax liabilities	6,007	2,767
Increase / (decrease) in other operating assets and liabilities	1,351	(10,440)
(Decrease) in other provisions	(8,244)	(3,766)
Net cash (outflow) / inflow from operating activities	(67,640)	35,415

OPERATING ASSETS AND LIABILITIES

B

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
- B2 Trade and other receivables
- B3 Other assets
- B4 Trade and other payables
- B5 Provisions and contingencies
- B6 Capital and other commitments

B1 Inventories

	Consolidated	
	2018 \$'000	2017 \$'000
Current assets		
Acquisition cost of land held for development and resale	88,077	125,794
Development costs	76,193	78,756
Capitalised interest	4,687	3,930
Impairment of development land	(1,367)	(1,723)
	167,590	206,757
Non-current assets		
Acquisition cost of land held for development and resale	188,821	238,163
Development costs	40,986	30,725
Capitalised interest	10,245	7,693
Impairment of development land	(6,085)	(5,376)
	233,967	271,205
Total inventory	401,557	477,962

Accounting for inventories

Land held for resale and development costs

Land held for resale is stated at the lower of cost and net realisable value. Cost includes the cost of acquisition, development and borrowing costs. When development is completed borrowing costs are expensed as incurred. Other holding costs are expensed as incurred. The cost of land and buildings acquired under contracts entered into but not settled prior to balance date are not taken up as inventories and as liabilities at balance date unless all contractual conditions have been fulfilled and there is certainty of completion of the purchase evident at balance sheet date.

Borrowing costs

Borrowing costs included in the cost of land held for resale are those costs that the Company incurs in connection with the borrowing of funds. Borrowing costs which are directly attributable to the acquisition, construction or production of a qualifying asset such as inventories are capitalised using the interest incurred method. In these circumstances, borrowing costs are capitalised to the cost of the assets whilst in active development until the assets are ready for their intended use or sale. In the event that a development is suspended for an extended period of time the borrowing costs are recognised as expenses. Borrowing costs attributable to the sale of land are capitalised and accounted for within finance costs (refer Note C5) in the income statement.

Critical accounting estimates of net realisable value ('NRV') of inventories

The NRV of inventories is the estimated selling price in the ordinary course of business less estimated costs of completion and cost to sell. The net realisable value amount has been determined based on the current future estimated cash flow of the projects. Realisation is dependent on the ability to meet forecasted / estimated cash flows. These estimates take into consideration fluctuation of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. Consistent with previous periods, key estimates have been reviewed including rates of sale and sale prices, the costs of completion and dates of completion and expected financing costs.



Notes to the consolidated financial statements
30 June 2018 (continued)

B2 Trade and other receivables

Accounting for trade and other receivables

Trade receivables are primarily amounts due from customers from the development or sale of land; or the development, construction and sale of house and land packages in accordance with the Company's revenue recognition policy (refer Note A1(d)). Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method, less an allowance for impairment.

Collectability of trade receivables is reviewed on an ongoing basis and at balance date any specific impairment losses are recorded when there is objective evidence that collection of the receivable is doubtful. Throughout this process, consideration is given to the ageing of the trade receivable, the settlement history, and any other information known regarding the customer.

Trade receivables are generally due for settlement within 30 days (or per the terms of the contract) and therefore are all classified as current. As at 30 June 2018 the balance of trade receivables is \$127.4 million (30 June 2017: \$47.3 million) and they are expected to be received when due. Separate negotiated arrangements outside of the standard collection policy are made on occasion when the purchaser enters into multiple contracts or extensions are required to facilitate settlement. These balances do not contain impaired assets and based on credit history, it is expected that these balances will be received when due.

Other receivables generally arise from transactions outside the usual operating activities of the Company. Interest may be charged at commercial rates where the terms of repayment exceed six months. Collateral is not normally obtained and settlement is generally no more than 60 days from date of recognition.

Accrued income includes interest received and project management fees received from associates and recognised in accordance with the Company's revenue recognition policy.

	Consolidated	
	2018	2017
	\$'000	\$'000
Trade receivables	587	593
Trade receivable properties	126,835	46,735
	127,422	47,328
Other receivables	2,766	2,149
Accrued Income	18	3,151
	2,784	5,300
Total trade and other receivables	130,206	52,628

The Company's credit risk management policy is discussed in Note C6(b).

The ageing of current trade receivables is as follows:

	Consolidated	
	2018	2017
	\$'000	\$'000
0 to 3 months	111,708	41,026
3 to 6 months	7,200	4,021
Over 6 months	8,514	2,281
	127,422	47,328

Past due but not impaired

As of 30 June 2018, the trade receivables of the Company of nil (30 June 2017: nil) were past due but not impaired.

B3 Other assets

Accounting for other assets

Current assets include assets held primarily for trading purposes, cash and cash equivalents and assets expected to be realised in, or intended for sale or use in the course of the Company's operating cycle and within one year of the reporting date. The remaining other assets are classified as non-current.

B3 Other assets (continued)

	Consolidated	
	2018	2017
	\$'000	\$'000
Current assets		
Prepayments	1,339	1,144
Advance commissions	2,751	1,595
Other	97	608
	4,187	3,347
Non-current assets		
Other non-current assets ¹	10,000	10,000
Total other assets	10,000	10,000

1. The Company has entered into a conditional Development Agreement with the owner of approximately 73 hectares of land at Byron Bay. The land was rezoned to residential use by the New South Wales Government in November 2014. The Development Agreement remains subject to the Company receiving satisfactory development approval and a construction certificate for the proposed development, the outcome of which remains uncertain. The landowner will retain a number of the approved lots, to be determined following the outcome of the approval process. The Company has paid an initial \$10 million to the landowner, secured by a first mortgage over the land and fully refundable if the above conditions aren't satisfied. If those conditions are satisfied and the transaction proceeds, the Company is required to construct dwellings on the lots to be retained by the landowner, over a period of up to 10 years.

B4 Trade and other payables

Accounting for trade and other payables

Trade and other payables are initially recognised at fair value less transaction costs and subsequently carried at amortised cost using the effective interest method.

Payables due to sub-contractors and materials are classified as current liabilities and represent the liability for goods and services provided to the Company prior to the end of the financial year which are unpaid. These amounts are unsecured and usually paid within 30 days of recognition.

Land acquisitions represent amounts payable when the Company enters into unconditional contracts with land vendors to secure properties for future development.

Accrued expenses and other payables are unsecured amounts and generally settled within 30 days of recognition.

The Company maintains a rolling cash flow to ensure its operational requirements are met within the contractual terms of the agreements, whilst providing sufficient flexibility to fund growth, working capital requirements and future strategic opportunities.

	Consolidated	
	2018	2017
	\$'000	\$'000
Current liabilities		
Land acquisitions	21,347	116,024
Sub-contractors and materials	3,872	2,927
Total trade payables	25,219	118,951
Other current payables		
Accrued expenses	36,753	42,586
Other payables ¹	2,454	3,898
Total other current payables	39,207	46,484
Total current trade and other payables	64,426	165,435
Non-current liabilities		
Land acquisitions	12,401	23,276
Other payables	995	484
Total non-current trade and other payables	13,396	23,760
Total payables	77,822	189,195

1. Includes derivatives payable of nil (30 June 2017: \$1.8m).

Notes to the consolidated financial statements
30 June 2018 (continued)

B5 Provisions and contingencies

Accounting for provisions

Provisions are recognised when the Company has a present (legal or constructive) obligation as a result of a past event, it is probable the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Critical accounting estimate

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

(a) Service warranties

	Consolidated	
	2018	2017
	\$'000	\$'000
Current liabilities		
Service warranties	4,266	4,219
Total current provisions	4,266	4,219

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

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

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

Management estimates the related provision for future warranty claims based on historical warranty claim information, as well as recent trends that might suggest that past cost information may differ from future claims. The Company includes legal costs in the provision for warranty claims to the extent that it has a present obligation to incur these costs at the end of the reporting period. Estimating this provision requires the exercise of significant judgement and it is therefore possible that actual amounts may differ from this estimate. The assumptions made in relation to the current period are consistent with those in the prior year.

(b) Movement in warranty provisions

	Consolidated	
	2018	2017
	\$'000	\$'000
Current liabilities		
Carrying amount at the start of the year	4,219	14,392
- additional provisions recognised	1,749	1,310
Amounts incurred and paid ¹	(1,592)	(10,840)
- unused amounts reversed ²	(110)	(643)
Carrying amount at end of period	4,266	4,219

1. FY17 includes amounts associated with the conclusion of legal claim as previously announced.

2. Unused provisions released where warranty term has expired.

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

The current provision for employee benefits includes accrued annual leave and long service leave. Long service leave includes all unconditional entitlements where employees have completed the required period of service. Included within the long service leave provision is an amount of \$487,885 (30 June 2017: \$254,745) classified as current, since the Company does not have an unconditional right to defer settlement for this obligation. The non-current long service leave provision covers conditional entitlements where employees have not completed their required period of service, adjusted for the probability of likely realisation.

Critical accounting estimate

Provision for long service leave is based on the following key assumptions: future salary and wages increases; future on cost rates; and future probability of employee departures and period of service.

B5 Provisions and contingencies (continued)

(d) Contingencies

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

The Company has entered into agreements to indemnify certain employees and former employees against all liabilities that may arise as a result of any claims against them by third parties as a result of the Company's building activities. It is impractical to estimate the amount that may arise from these arrangements. There were no claims made against the Company at 30 June 2018 (30 June 2017: nil).

A controlled entity has contractual arrangements that provide for liquidated damages under certain circumstances. It is impractical to estimate the amount of any liability that may arise from these arrangements. There were no claims made against the Company at 30 June 2018 (30 June 2017: nil).

The Company has provided bank guarantees to the total of \$22.7 million (30 June 2017: \$14.9 million) to authorities and councils in relation to certain works to be undertaken or maintained or in support of contractual commitments (refer Note C4(a)).

(ii) Liabilities in respect of other entities

The Company has interests in a number of Joint Ventures and is a Guarantor for the financing facilities of the joint ventures. The guarantee given by Villa World in respect of the financing facilities utilised by the Donnybrook joint venture meets the definition of a financial guarantee contract.

As at 30 June 2018, no liability has been recognised as no amount was received from the joint venture and no outflow is probable.

	Donnybrook Joint Venture		Rochedale Joint Venture		Villa Green Joint Venture	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Total financing facilities	23,985	11,220	1,000	11,500	2,318	-
Facilities utilised at reporting date	22,409	10,750	-	-	-	-
Bank guarantees and surety bonds utilised at reporting date	-	-	589	743	1,795	-
Proportion of the Company's ownership	51%	51%	50%	50%	50%	50%

B6 Capital and other commitments

(a) Capital commitments

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

The call options give Villa World Developments Pty Ltd (or a nominated third party) the option to purchase the lot(s) at a nominated price by the call option expiry date. The put options give the vendor the right to sell to the Company at a nominated price on expiry of the call option. The potential total commitments remaining under the Agreements are \$13.8 million (30 June 2017: \$16.6 million). The commitments are crystallised upon the satisfaction of the conditions under the Agreements and registration of the land by the vendor and will be made available under the terms of the contract. However, some Agreements are severable by development stage and the commitments may be less than the total commitments under the Agreements as outlined below.

	Consolidated	
	2018 \$'000	2017 \$'000
Capital commitments in relation to put and call arrangements		
Opening balance	16,552	13,163
Crystallised and paid commitments	(7,822)	(49,402)
Arrangements entered into during the period	5,044	52,791
Total commitments at 30 June	13,774	16,552

Notes to the consolidated financial statements
30 June 2018 (continued)

B6 Capital and other commitments (continued)

(b) Joint Venture commitments

As at 30 June 2018, the Company has commitments of \$8.1 million (30 June 2017: \$22.5 million). These commitments relate to equity contributions committed under the joint venture agreements with Greenfields Development Company of \$5 million (30 June 2017: \$22.5 million) and Ho Bee Land Limited of \$3.1 million (30 June 2017: nil).

(c) Lease commitments

Accounting for leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Company as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Non-cancellable operating leases

The Company has entered into leases for office space on normal commercial terms with lease terms between three and five years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the lease are renegotiated.

Future commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	Consolidated	
	2018	2017
	\$'000	\$'000
Within one year	410	643
Later than one year but not later than five years	577	948
	987	1,591

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 Capital risk management
- C2 Contributed equity
- C3 Other reserves
- C4 Borrowings
- C5 Finance costs
- C6 Financial risk management

C1 Capital risk management

Capital is defined as the combination of shareholders' equity, reserves and net debt. The Board is responsible for monitoring and approving the capital management framework within which management operates. Capital management is an integral part of the Company's risk framework and seeks to safeguard the ability of the Company to continue as a going concern while maximising shareholder value through optimising the level and use of capital resources and the mix of debt and equity funding.

In order to maintain or adjust the capital structure, the group will consider a range of alternatives which may include:

- raising or reducing borrowings
- adjusting the dividend policy
- issue of new securities
- return of capital to shareholders
- sale of assets.

Capital strength remains a strategic focus and allows the Company to:

- pursue growth opportunities through the development of the existing portfolio
- reinvest in the business through value accretive acquisitions
- grow dividends
- strengthen the balance sheet.

Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as total debt divided by total assets adjusted for cash on hand. Total debt is calculated as borrowings (including "interest bearing liabilities" and "other financial commitments" as shown in the balance sheet).

The Company's policy is to continue to manage debt levels and maintain the gearing ratio between 15% and 30%. As at 30 June 2018, the gearing ratio was 29.7% (30 June 2017: 12.9%).

The Company has complied with the financial covenants of its borrowing facilities during the 2018 and 2017 reporting periods.

	Notes	Consolidated	
		2018 \$'000	2017 \$'000
Total borrowings (excluding bank guarantees)	C4(a)	183,786	81,457
Less: Cash and cash equivalents		(12,645)	(7,663)
Net debt		171,141	73,794
Total assets		587,918	577,664
Less: Cash and cash equivalents		(12,645)	(7,663)
		575,273	570,001
Gearing ratio		29.7%	12.9%

Notes to the consolidated financial statements
30 June 2018 (continued)

C2 Contributed equity

	2018	2017	2018	2017
	Shares	Shares	\$'000	\$'000
	'000	'000		
Ordinary shares				
Opening balance	126,907	110,344	477,597	444,271
Proceeds from exercise of options under the Villa World Limited Option Plan	-	3,400	-	4,303
Shares acquired by the Employee Share Scheme Trust	(32)	(169)	(77)	(384)
Shares allocated by the Employee Share Scheme Trust	39	-	91	-
Shares issued as part of the capital raising	-	8,889	-	20,000
Shares issued as part of the share purchase plan	-	4,443	-	9,997
Transaction costs from capital transactions, net of tax	-	-	-	(590)
	126,914	126,907	477,611	477,597

(a) Ordinary shares

Ordinary shares in Villa World Limited are classified as contributed equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote and upon a poll each share is entitled to one vote. Ordinary shares have no par value and Villa World Limited does not have a limited amount of authorised capital.

(b) Treasury shares

Treasury shares refer to those shares issued to Villa World Ltd Employee Share Scheme Pty Ltd as trustee for Villa World Ltd Employee Share Scheme Trust. The shares are fully paid ordinary shares in the capital of the Company and rank equally with all other existing shares from the date issued. Under the accounting standards, the Company is deemed to control the Villa World Employee Share Scheme and the shares (and associated transactions) are eliminated on consolidation, thereby deducting these issued shares from issued capital whilst held by the Trustee. As these shares are deemed not to have been issued by the consolidated entity, they are not included in the Company's earnings per share and statements regarding the gross value of dividends, unless transacted by the Employee Share Scheme outside of the group. No gain or loss on treasury shares is recognised in profit and loss. Upon disposal, any gain will be recognised in profit and loss. As at 30 June 2018, the total number of Treasury Shares on hand is 12,500 (30 June 2017: 19,350).

(c) Share-based equity instruments

Information relating to performance rights issued, exercised and forfeited / lapsed during the financial year, is set out in the Remuneration report and in Note E2(b).

C3 Other reserves

(a) Movements in other reserves

		Consolidated	
	Notes	2018 \$'000	2017 \$'000
(i) Profits reserve			
Opening balance		208,284	190,234
Transfer current year profit		54,172	38,495
Dividends provided for or paid	A4(a)	(23,481)	(20,445)
Closing balance		238,975	208,284
(ii) Hedging reserve - cash flow hedges			
Opening balance		(1,262)	(2,355)
Revaluation - gross		1,803	1,561
Deferred tax	A5(c)	(541)	(468)
Closing balance		-	(1,262)
(iii) Share-based payments			
Opening balance		1,489	2,441
Share-based payments expense	E2(c)	793	445
Employee Share Scheme tax impact		(236)	(1,357)
Performance rights forfeited / lapsed	E2(c)	-	(40)
Closing balance		2,046	1,489
Total other reserves		241,021	208,511

(b) Nature and purpose of other reserves

(i) Profits reserve

The profits reserve represents opening retained profits and current year profits transferred to a reserve to preserve the characteristic as a profit and not allocate 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. Profits are determined and transferred on an entity basis. Losses are retained by the entity.

(ii) Cash flow hedges

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge, considered an effective hedge, that are recognised in other comprehensive income. Amounts are reclassified to profit or loss when the associated hedged transaction affects profit or loss (for instance when the forecast transaction that is hedged takes place).

(iii) Share-based payments

The share-based payments reserve is used to recognise the fair value of performance rights issued to key management personnel and executives. Equity instrument disclosures relating to key management personnel can be found in Note E2(c) and within the Remuneration Report section of the Directors' Report.

C4 Borrowings

Accounting for borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred and are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Interest expense is accrued at the effective interest rate.

Notes to the consolidated financial statements
30 June 2018 (continued)

C4 Borrowings (continued)

Accounting for borrowings (continued)

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(a) Financing arrangements

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

30 June 2018	Facility amount \$'000	Utilised amount \$'000	Bank guarantees utilised \$'000	Available amount \$'000	Effective interest rate %
Financing arrangements					
Bank loans - secured (i)	190,000	135,013 ¹	22,694	32,293	7.3%
Villa World Bonds - unsecured (ii)	50,000	48,773 ²	-	-	7.2%
	240,000	183,786	22,694	32,293	
1. Net of transaction costs and amortisation as at 30 June 2018.					
2. Net of transaction costs and amortisation as at 30 June 2018. Refer Note C4(a)(ii).					

30 June 2017	Facility amount \$'000	Utilised amount \$'000	Bank guarantees utilised \$'000	Available amount \$'000	Effective interest rate %
Financing arrangements					
Bank loans - secured (i)	190,000	33,005 ¹	14,860	142,135	9.5%
Villa World Bonds - unsecured (ii)	50,000	48,452 ²	-	-	7.2%
	240,000	81,457	14,860	142,135	
1. Net of transaction costs and amortisation as at 30 June 2017.					
2. Net of transaction costs and amortisation as at 30 June 2017. Refer Note C4(a)(ii).					

(i) Bank Loan - secured

The Company's Club Financing Arrangement with Australia and New Zealand Banking Group Limited (ANZ) and Westpac Banking Corporation (Westpac) remains at \$190 million (30 June 2017: \$190 million). The Club Financing Arrangement provides funding for the Company's ongoing core business. It comprises a facility of \$140 million with ANZ and a facility of \$50 million with Westpac.

The maturity of the ANZ facility has been staggered, with \$90 million expiring on 31 October 2020, \$40 million expiring on 31 October 2021, and \$10 million expiring on 31 March 2022. The \$50 million Westpac facility expires on 31 March 2021.

As at 30 June 2018 the facility was drawn exclusive of bank guarantees at \$135 million (30 June 2017: \$33 million). Bank guarantees issued total \$22.7 million (30 June 2017: \$14.9 million). The bank guarantees are also disclosed in Note B5(d).

No restrictions have been imposed on this facility by the financiers during the year ending 30 June 2018 and drawdowns continue to be made in the ordinary course of business. All covenants under the facility were met within the required timeframes during the 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 (refer to Note C6(d)(ii)). The swap contract matured on 12 June 2018.

To manage exposure to future interest rate risk, the Company has executed two interest rate caps totalling \$50 million with a forward start date of 2 July 2018. The interest rate cap contracts will cap the Company's floating interest rate at a maximum of 3% on \$50 million until 2 July 2020 and \$25 million thereafter until 4 July 2022.

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

Notes to the consolidated financial statements
30 June 2018 (continued)

C4 Borrowings (continued)

(a) Financing arrangements (continued)

(ii) Villa World Bonds - unsecured

The Company issued 500,000 bonds with a face value of \$100 per bond on 21 April 2017 (ASX: VLWHA). The bonds are unsecured and interest-bearing at a variable rate of interest of 4.75% margin over the 3 month bank bill swap rate, paid quarterly in arrears and have a maturity date of 21 April 2022.

Under the terms of the Bonds, the Company is required to maintain two covenants. The negative pledge (secured gearing ratio) is calculated based on total secured debt divided by total assets. Under the negative pledge the Company must maintain a secured gearing ratio of no greater than 40%. As at 30 June 2018 the secured gearing ratio is 21.3% (30 June 2017: 4.2%).

The limitation on debt incurrence covenant (gearing ratio) is calculated as total debt divided by total assets adjusted for cash on hand. Total debt is calculated as borrowings (including "interest bearing liabilities" and "other financial commitments" as shown in the balance sheet). For the purposes of the covenant, the Company must maintain a gearing ratio of no greater than 50%. As at 30 June 2018, the gearing ratio is 29.7% (30 June 2017: 12.9%), refer Note C1.

The fair value of Villa World bonds is the quoted market value (ASX: VLWHA) of a bond which at 30 June 2018 was \$104.50 per bond (30 June 2017: \$101.50) (Level 1).

The bonds are presented in the Balance Sheet as follows:

	Consolidated	
	2018	2017
	\$'000	\$'000
Villa World Bonds	50,000	50,000
Transaction and finance costs	(1,549)	(1,615)
Amortisation of borrowing costs	322	67
Non-current liability	48,773	48,452

Interest is payable based on a 4.75% margin over the 3 month bank bill swap rate. The fifth interest instalment was paid on 23 July 2018 at an interest rate of 6.82%.

	Consolidated	
	2018	2017
	\$'000	\$'000
Accrued interest expense	635	623
	635	623

(b) Assets pledged as security

The carrying amounts of assets pledged as security are set out below:

	Consolidated	
	2018	2017
	\$'000	\$'000
Total inventory:		
Current inventory	167,590	206,757
Non-current inventory	233,967	271,205
Aggregate carrying amount	401,557	477,962

(c) Guarantors

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



C5 Finance costs

Accounting for finance costs

The interest incurred method is currently utilised for all Villa World projects. Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale.

Interest allocation which relates to non-qualifying assets is expensed. For each accounting settlement the actual capitalised interest is then expensed / (unwound) on a per lot basis through finance costs. Once an asset has been impaired or development activity has ceased, then subject to detailed review and Board approval, capitalisation of interest may cease and the borrowing costs will be expensed in the month incurred.

	Consolidated	
	2018	2017
	\$'000	\$'000
Loan interest and charges		
Financial institutions	7,960	7,311
Unwind of discount deferred consideration	196	844
Interest payable on Villa World Limited Bonds	3,254	623
Borrowing costs	576	374
Fair value loss / (gain) on interest swap cash flow hedge	19	(312)
	12,005	8,840
Amount capitalised ¹	(9,091)	(6,105)
Unwind of amount capitalised ²	5,758	4,323
Total finance costs included within the income statement	8,672	7,058

1. The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 7.3% for club facility borrowings (30 June 2017: 9.5%) and 7.2% for borrowing costs associated with Villa World Bonds (30 June 2017: 7.2%).
2. Capitalised interest on sale of land unwound at settlement on a per lot basis (refer Note A1).

C6 Financial risk management

The Company has exposure to the following financial risks:

Risk	Exposure arising from	Measurement	Management
Market risk - interest rate risk	Borrowings at variable rates	Cash flow forecasting, sensitivity analysis	Interest rate swaps, interest rate caps
Credit risk	Cash and cash equivalents, derivative financial instruments, deposits with banks and financial institutions, credit exposure of outstanding receivables	Ageing analysis, credit ratings, management of deposits	Ongoing management review, contractual arrangements
Liquidity risk	Borrowings and other liabilities	Management of cash flows and forecasts, gearing analysis	Availability and flexibility of financing facilities

It is the responsibility of the Board and management to ensure that adequate risk identification, assessment and mitigation practices are in place for the effective oversight and management of these risks. The Board provides written principles for overall risk management as well as written policies covering specific items, such as mitigating interest rate and credit risks, use of derivative financial instruments and investing excess liquidity. Risk management is carried out by the finance department under oversight from the Board.

C6 Financial risk management (continued)

The Company holds the following financial instruments:

		Consolidated	
		2018	2017
	Valuation basis	\$'000	\$'000
Financial assets			
Cash and cash equivalents	Amortised cost	12,645	7,663
Trade and other receivables	Amortised cost	130,206	52,628
Financial liabilities			
Trade and other payables	Amortised cost	39,597	142,228
Borrowings	Amortised cost	135,013	33,005
Bonds	Amortised cost	48,773	48,452
Derivative payable	Fair value	-	1,783

(a) Market risk

Market risk is the risk that the fair value or future cash flows of a financial asset or financial liability will fluctuate because of changes in market prices. The Company's market risk arises from its interest rate risk.

(i) Interest rate risk

The Company's primary investment strategy is closely aligned to economic cycles and interest rates. Interest rate risk refers to the risk that the value of a financial instrument or the associated cash flows will fluctuate due to changes in market interest rates.

The Company's interest rate risk primarily arises from borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk. Under the Company Policy, a maximum of 50% of debt with a maturity of less than five years can be hedged. The Company operated within this range during the financial year ended 30 June 2018.

The Company has managed its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Under these contracts, the Company agrees to exchange, at specified intervals, the difference between fixed and variable interest rate interest amounts calculated by reference to an agreed notional principal amount. These swaps are designated to hedge interest costs associated with underlying debt obligations.

The Company entered into interest rate swap contracts in June 2014 to fix the interest rate on \$90 million of borrowings (2017: \$90 million). The swap contract matured on the 12 June 2018. To manage exposure to future interest rate risk, the Company has executed two interest rate caps totalling \$50 million with a forward start date of 2 July 2018. The interest rate cap contracts will cap the Company's floating interest rate at a maximum of 3% on \$50 million until 2 July 2020 and \$25 million thereafter until 4 July 2022.

As at the end of the reporting period, the Company had the following variable rate borrowings and interest rate swap contracts outstanding:

Consolidated	30 June 2018		30 June 2017	
	Variable		Variable	
	interest rate %	Balance \$'000	interest rate %	Balance \$'000
Club facility ¹	2.1%	135,013	1.7%	33,005
Villa World Bonds ²	2.1%	50,000	1.7%	50,000
Interest rate swaps - syndicated loans	-%	-	3.7%	(90,000)
Net exposure to cash flow interest rate risk		185,013		(6,995)

1. Variable rate for Club facility is 30 day BBSY at 29 June 2018 and does not include any margin and line fees applicable under the loan agreement.

2. Variable rate for Villa World Bonds is 90 day BBSW at 29 June 2018 and does not include any margin.

An analysis by maturities is provided in Note (c).

Sensitivity analysis

At 30 June 2018, if interest rates had changed by +/- 40 basis points from the year end rates with all other variables held constant, post-tax profits for the year, would have been \$0.04 million lower/higher (30 June 2017: \$0.1 million lower/higher on +/- 25 basis points), mainly as a result of higher/lower interest expense from interest bearing liabilities.

The assumed movement in basis points for the interest rate sensitivity analysis is based on the currently observable market environment, showing a significantly higher volatility than in prior years.

C6 Financial risk management (continued)

(b) Credit risk

Credit risk is the risk associated with a counterparty defaulting or failing to perform their contractual obligations. Credit risk is managed on a consolidated basis.

The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of the following financial assets.

(i) Cash and deposits

Credit risk from derivative financial instruments and cash arises from balances held with counterparty financial institutions. To manage this risk, the Company restricts dealings to highly rated counterparties approved within its credit limit policy. For cash and deposits held with banks and financial institutions, only independently rated parties with a minimum rating of "AA-" are accepted.

Given the high credit ratings of the Company's counterparties at 30 June 2018, it is not expected that any counterparty will fail to meet its obligations.

(ii) Trade and other receivables

The Company's primary source of revenue is from the development and sale of residential land, and the development, construction and sale of house and land packages to customers (refer Note A1(d)). To mitigate the Company's exposure to credit risk, trade receivables arising from the sale of properties are secured by legal title until settlement when sale proceeds are received.

Credit risk arising on trade and other receivables is monitored on an ongoing basis mitigating exposure to bad debts (refer Note B2). Based on the credit history of trade and other receivables, it is expected that these amounts will be received. The Company does not hold any collateral in relation to these receivables.

The Company did not recognise any trade receivable impairment losses in the current year (30 June 2017: nil).

The credit risk associated with trade receivables from joint venture entities is monitored through management's review of project feasibilities and the Company's ongoing involvement in the operations of those entities.

Owing to the short-term nature of the ageing of the balance and balances secured against property, the credit risk of trade receivables is considered to be low.

(c) Liquidity risk

Liquidity risk is the risk the Company will not be able to meet its financial obligations as and when they fall due. The Company addresses this risk by reviewing rolling cash flow forecasts throughout the year and by assessing and monitoring availability of funding, ensuring there is sufficient headroom against facility limits and compliance with banking covenants.

The Company operates a \$190 million financing facility with ANZ and Westpac which provides funding for the Company's core business. The Company has unused borrowing facilities which further reduces liquidity risk. At 30 June 2018 the Company has unutilised borrowing facilities of \$32.3 million (30 June 2017: \$142.1 million) (refer Note C4(a)). The proceeds from a \$50 million bond issue in April 2017, provides the Company with additional financial capacity and diversifies the Company's debt, supporting the Company's growth objectives and extending the maturity of borrowings.

The Company aims at maintaining flexibility in funding by regularly updating and reviewing its cash flow forecasts to assist in managing its liquidity.

Reinforcing the Company's commitment to effective cash flow management, at 30 June 2018, 845 sales contracts were carried forward at a value of \$278.1 million (including GST) with 31.5% of contracts (266 lots valued at \$108.4 million) due to settle in 1H19 (refer Operating Financial Review page 12). These strong carried forward sales, when combined with the Company's capital management policy further assist in managing liquidity.

The Company's policy is to minimise its exposure to liquidity risk by managing its refinancing risk. Refinancing risk may be reduced by reborrowing prior to the contracted maturity date, effectively switching liquidity risk for market risk. This is subject to credit facilities being available at the time of the desired refinancing.

C6 Financial risk management (continued)

(c) Liquidity risk (continued)

(i) Maturities of financial liabilities

The table below analyses the Company's financial liabilities including derivatives into relevant maturity groupings based on the period remaining to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows and therefore may not reconcile with the amounts disclosed on the Balance Sheet. For interest rate swaps the cash flows have been estimated using forward interest rates applicable at the reporting date.

Contractual maturities of financial liabilities	Less than 6 months	6 - 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying amount (assets) / liabilities
At 30 June 2018	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Non-derivatives							
Commitments	-	5,044	-	8,730	-	13,774	-
Trade payables	19,824	5,395	14,108	270	-	39,597	37,620
Villa World Bonds	1,720	1,710	3,440	56,861	-	63,731	48,773
Club facility	3,636	3,591	7,248	140,262	-	154,737	135,013
Total non-derivatives	25,180	15,740	24,796	206,123	-	271,839	221,406
Derivatives							
Net settled (interest rate swaps)	-	-	-	-	-	-	-
Total derivatives	-	-	-	-	-	-	-
At 30 June 2017							
Non-derivatives							
Commitments	-	7,822	-	8,730	-	16,552	-
Trade payables	110,180	8,771	6,194	17,083	-	142,228	142,228
Villa World Bonds	1,627	1,600	3,228	58,887	-	65,342	48,452
Club facility	1,657	1,643	7,809	32,286	-	43,395	33,005
Total non-derivatives	113,464	19,836	17,231	116,986	-	267,517	223,685
Derivatives							
Net settled (interest rate swaps)	919	864	-	-	-	1,783	1,783
Total derivatives	919	864	-	-	-	1,783	1,783

The Company expects to meet its financial liabilities through the various available liquidity sources, including sale contracts carried forward, cash deposits, undrawn committed borrowing facilities and, in the longer-term, debt refinancings.

(ii) Changes in liabilities arising from financing activities

The below table provides a reconciliation between the opening and closing balances on the face of the Balance Sheet for liabilities arising from financing activities. The major changes in the Company's liabilities arising from financing activities are due to financing cash flows.

	1 July 2017	Cash inflows	Cash outflows	Other ¹	30 June 2018
Consolidated	\$'000	\$'000	\$'000	\$'000	\$'000
Non-current borrowings	81,457	225,353	(124,215)	1,191	183,786

1. Other includes non-cash transaction costs associated with non-current borrowings.

(d) Fair value measurement of financial instruments

(i) Critical accounting estimate - fair value measurement

The carrying amounts and estimated fair values of the Company's financial instruments recognised in the financial statements are materially the same.

C6 Financial risk management (continued)

(d) Fair value measurement of financial instruments (continued)

(i) Critical accounting estimate - fair value measurement (continued)

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 observable 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).

During the year, there were no transfers between level 1, level 2 and level 3 fair value categories.

(ii) Fair values disclosed

(A) Carrying amount approximates fair value

The carrying amounts of receivables, other current assets and payables are assumed to approximate their fair values due to their short-term nature. The fair value of non-current borrowings (other than the simple corporate bond) is estimated by discounting the future contractual cash flows at the current market interest rates that are available to the Company for similar financial instruments.

(B) Measured at fair value

(I) Bonds

In April 2017, the Company issued \$50 million of simple corporate bonds. The Bonds were issued in order to diversify the Company's capital structure, extend debt maturity and support growth objectives (refer Note C4(a)). The bonds are traded on the Australian Stock Exchange (ASX: VLWHA). The fair value of a Villa World Bond is the quoted market value which at 30 June 2018 was \$104.50 per bond (30 June 2017: \$101.50 per bond). The Villa World simple corporate bonds are classified as level 1 under the fair value hierarchy.

(II) Derivative financial instruments

The Company uses derivative financial instruments to hedge its exposure to fluctuations in interest rates. In accordance with the Company's financial risk management policies, the Company does not hold or issue derivative financial instruments for trading purposes.

It is policy to protect part of the Company's borrowings of \$240 million from exposure to fluctuating interest rates. The Company entered into interest rate swap contracts in June 2014 to fix the interest rate at 3.69% (excluding the margin and line fees applicable under the loan agreement) on \$90 million of borrowings. Interest payments for interest rate swaps are net settled every 30 days. The interest rate swap contract is designated as a cash flow hedging instrument.

The swap contract matured on 12 June 2018. To manage exposure to future interest rate risk, the Company has executed two interest rate caps totalling \$50 million with a forward start date of 2 July 2018. The interest rate cap contracts will cap the Company's floating interest rate at a maximum of 3% on \$50 million until 2 July 2020 and \$25 million thereafter until 4 July 2022.

Total borrowings for the Company bears an average variable interest rate of 7.3% (including line and facility fees) (30 June 2017: 9%).

The fair value of the interest rate swap liability at 30 June 2018 was nil (30 June 2017: \$1.8 million).

The fair value of the interest rate 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 and is classified as level 2 under the fair value hierarchy.

C6 Financial risk management (continued)

(d) Fair value measurement of financial instruments (continued)

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. Accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Accounting for cash flow hedges

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 within finance costs. There was no material ineffectiveness for the year ended 30 June 2018.

The amount accumulated in equity is retained in other comprehensive income and reclassified to profit or loss in the same period or periods during which the hedged item affects profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, the hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the amount accumulated in equity is amortised via profit and loss.



Notes to the consolidated financial statements
30 June 2018 (continued)

GROUP STRUCTURE



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

In this section:

- D1 Subsidiaries
- D2 Deed of cross guarantee
- D3 Investments accounted for using the equity method
- D4 Parent entity financial information

D1 Subsidiaries

Accounting for subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of all subsidiaries at 30 June 2018. Subsidiaries are all entities (including structured entities) over which the Company has control. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the entity's activities. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities within the Company are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Investments in subsidiaries are accounted for at cost in the individual financial statements of the Company. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

Significant investments in subsidiaries

Name of entity	Country of incorporation	Class of shares	Equity holding	
			2018 %	2017 %
Parent entity				
Villa World Limited ¹				
Controlled entities of Villa World Limited				
Villa World Developments Pty Ltd ¹	Australia	Ordinary	100	100
Villa World ESS Pty Ltd as trustee for Villa World Employee Share Scheme Trust	Australia	Ordinary	100	100
Villa World Rochedale Pty Ltd	Australia	Ordinary	100	100
Villa World Byron Pty Ltd	Australia	Ordinary	100	100
Villa World Yatala Pty Ltd	Australia	Ordinary	100	-
Villa World Properties Pty Ltd ¹	Australia	Ordinary	100	100
Villa World Seascope Pty Ltd ¹	Australia	Ordinary	100	100
Villa World Thornlands Pty Ltd ¹	Australia	Ordinary	100	100
Villa World (Vic) Pty Ltd	Australia	Ordinary	100	100
Villa World Realty (NSW) Pty Ltd	Australia	Ordinary	100	-
Villa World Realty Pty Ltd	Australia	Ordinary	100	100
GPDQ Pty Ltd ¹	Australia	Ordinary	100	100
Villa World Strathpine Pty Ltd ¹	Australia	Ordinary	100	100
Villa World Redlands Pty Ltd ¹	Australia	Ordinary	100	100
Villa World Heritage Pty Ltd	Australia	Ordinary	100	-
Hervey Bay (JV) Pty Ltd ¹	Australia	Ordinary	100	100
Villa World Wollert Pty Ltd	Australia	Ordinary	100	-
Villa World Plumpton Pty Ltd	Australia	Ordinary	100	100
Ature Pty Ltd	Australia	Ordinary	100	-

1. These companies are parties to the Deed of Cross Guarantee and members of the Closed Group as at 30 June 2018. They have been granted relief from the necessity to prepare financial reports in accordance with ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 issued by the Australian Securities and Investments Commission (refer Note D2).

Notes to the consolidated financial statements
30 June 2018 (continued)

D2 Deed of cross guarantee

Villa World Limited, and certain wholly-owned companies (the 'Closed Group'), identified in Note D1, are parties to a Deed of Cross Guarantee (the 'Deed'). The effect of the Deed is that the members of the Closed Group guarantee to each creditor, payment in full of any debt, in the event of winding up of any of the members under certain provisions of the *Corporations Act 2001*.

ASIC Corporations (Wholly-owned Companies) Instrument 2016/785, provides relief to parties to the Deed from the *Corporations Act 2001* requirements for preparation, audit and lodgement of Financial Reports and Directors' reports, subject to certain conditions as set out therein. This Class Order does not apply to trusts.

Pursuant to the requirements of this Class Order, a summarised consolidated Statement of Comprehensive Income for the year ended 30 June 2018, a summary of the movements in consolidated retained earnings and consolidated Balance Sheet as at 30 June 2018, comprising the members of the Closed Group after eliminating all transactions between members are set out below.

(a) Consolidated statement of comprehensive income

	Closed Group	
	2018	2017
	\$'000	\$'000
Revenue from continuing operations		
Revenue from land development, residential building and construction contracts	440,794	386,790
Cost of land development, residential building and construction contracts	(323,975)	(280,537)
Gross Margin	116,819	106,253
Revenue from development and project management fees	9,981	1,493
Other income	1,048	753
Net (impairment) / reversal of impairment of development land	(399)	1,516
Share of profit / (loss) from associates and joint ventures	1,132	(67)
Other expenses from ordinary activities		
Property sales and marketing expenses	(24,708)	(21,454)
Land holding costs	(4,256)	(4,086)
Legal and professional costs	(2,495)	(1,667)
Employee benefits	(25,139)	(21,022)
Depreciation and amortisation expense	(710)	(577)
Administration costs and other expenses	(6,829)	(4,820)
Finance costs	(8,673)	(7,047)
Profit before income tax	55,771	49,275
Income tax expense	(16,000)	(14,929)
Profit for the period	39,771	34,346
Other comprehensive income		
Items that may be reclassified to profit or loss		
Changes in the fair value of cash flow hedges	1,803	1,561
Income tax relating to these items	(541)	(468)
Other comprehensive income for the period, net of tax	1,262	1,093
Total comprehensive income for the period	41,033	35,439

(b) Summary of movements in consolidated retained earnings

	Closed Group	
	2018	2017
	\$'000	\$'000
Retained earnings at the beginning of the financial year	(18,054)	(14,447)
Profit for the year	39,771	34,346
Transfer current year profit to profits reserve	(53,376)	(37,953)
Retained earnings at the end of the financial year	(31,659)	(18,054)

Notes to the consolidated financial statements
30 June 2018 (continued)

D2 Deed of cross guarantee (continued)

(c) Consolidated balance sheet

	Closed Group	
	2018	2017
	\$'000	\$'000
Current assets		
Cash and cash equivalents	12,641	7,652
Trade and other receivables	130,171	72,718
Inventories	158,149	206,757
Other current assets	3,854	3,280
Total current assets	304,815	290,407
Non-current assets		
Inventories	211,787	241,626
Property, plant and equipment	2,069	1,195
Receivables	52,227	-
Investments accounted for using the equity method	5,740	13,391
Total non-current assets	271,823	256,212
Total assets	576,638	546,619
Current liabilities		
Trade and other payables	64,065	137,344
Other financial liabilities	3	-
Current tax liabilities	2,834	10,775
Employee benefits	1,298	1,053
Service warranties	4,266	4,219
Other provisions	45	130
Total current liabilities	72,511	153,521
Non-current liabilities		
Trade and other payables	13,395	23,760
Borrowings	183,786	81,457
Deferred tax liabilities	7,281	1,403
Other provisions	92	78
Employee benefits	453	496
Intercompany loan payable	-	4,950
Other financial liabilities	59	-
Total non-current liabilities	205,066	112,144
Total liabilities	277,577	265,665
Net assets	299,061	280,954
Equity		
Contributed equity	96,346	96,347
Other reserves	234,374	202,661
Accumulated losses	(31,659)	(18,054)
Total equity	299,061	280,954

(d) Guarantor

The parent entity has provided a financial guarantee for the financing facilities of the Closed Group. The parent has also provided guarantees as disclosed in Note B5(d).

D3 Investments accounted for using the equity method

A joint venture is an arrangement where the Company has joint control over the activities and joint rights to the net assets. The Company initially records the joint venture at the cost of the investment and subsequently accounts for them using the equity method. Under the equity method, the Company's share of joint venture's profit or loss is added to / deducted from the carrying amount each year. Distributions received or receivable are recognised by reducing the carrying amount of the joint venture.

When transactions between the Company and its joint venture create an unrealised gain, the Company eliminates the unrealised gain relating to the Company's proportional interest in the joint venture. Unrealised losses are eliminated in the same way unless there is evidence of impairment, in which case the loss is realised.

Notes to the consolidated financial statements
30 June 2018 (continued)

D3 Investments accounted for using the equity method (continued)

The principal place of business for all joint venture entities is Level 1, Oracle West, 19 Elizabeth Avenue, Broadbeach, Qld, 4218.

The Company has the following interests in jointly controlled entities.

Name of Entity	Notes	% Owned	Purpose
Eynesbury Holdings Pty Ltd		50	The owner of the Eynesbury Development Joint Venture Land, Victoria, as Trustee. The entity is in the process of being de-registered.
Eynesbury Pastoral Trust		50	The owner of the Eynesbury Development Joint Venture Land, Victoria. The trust has now been terminated.
Eynesbury Golf Pty Ltd		50	The golf course and homestead hospitality business. The entity is in the process of being de-registered.
Eynesbury Development Joint Venture	D3(a)	50	Residential development at Eynesbury, Victoria. The joint venture is in the process of being de-registered.
Expression Homes Pty Ltd		50	Residential development and construction projects primarily in Victoria. The entity was de-registered on 6 June 2018.
Donnybrook JV Pty Ltd	D3(b)	51	Residential development at Donnybrook, Victoria.
Villa World Rochedale Pty Ltd and Ausin Rochedale Pty Ltd as trustee for Ausin Rochedale Trust	D3(c)	50	Residential development at Rochedale, Queensland.
Villa Green Pty Ltd	D3(d)	50	Residential development at Greenbank, Queensland.
Wollert JV Pty Ltd	D3(e)	51	Residential development at Wollert, Victoria.

The carrying amounts of these joint ventures at balance date were:

Joint Venture		Opening balance \$'000	Cash contrib- ution \$'000	Impair - ment reversal \$'000	Gain on disposal \$'000	Oppor - tunity fee ¹ \$'000	Share of net profit/(loss) \$'000	Distributions received \$'000	Total \$'000
Eynesbury	2018	51	-	-	85	-	-	(136)	-
	2017	1,580	-	627	-	-	94	(2,250)	51
Donnybrook	2018	8,429	-	-	-	-	(21)	(5,100)	3,308
	2017	8,459	-	-	-	-	(30)	-	8,429
Rochedale	2018	11,426	-	-	-	-	5,242	(14,400)	2,268
	2017	8,443	-	-	-	-	2,983	-	11,426
Villa Green	2018	4,963	12,000	-	-	-	1,263	-	18,226
	2017	-	5,000	-	-	-	(37)	-	4,963
Wollert	2018	-	11,167	-	-	(7,599)	(110)	-	3,458
	2017	-	-	-	-	-	-	-	-
Total	2018	24,869	23,167	-	85	(7,599)	6,374	(19,636)	27,260
	2017	18,482	5,000	627	-	-	3,010	(2,250)	24,869

1. Represents 51% share of the opportunity fee received from the Wollert joint venture to be unwound over time as lots settle. The transaction is only recognised to the extent that the Company's share of profit is not recognised being 49%.

(a) Eynesbury joint venture

During the period ended 30 June 2018, the process for de-registering the Eynesbury joint venture entities commenced. Payments totalling \$136,000 (30 June 2017: \$2.3 million) have been received by the Company for the year ended 30 June 2018.

The equity accounted investment in the Company's Eynesbury joint venture as at 30 June 2018 is nil (30 June 2017: \$51,000).

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

Notes to the consolidated financial statements
30 June 2018 (continued)

D3 Investments accounted for using the equity method (continued)

(b) Donnybrook joint venture

On 20 December 2017, the Company announced the Donnybrook joint venture had entered into a conditional contract to sell its remaining parcel at 960 Donnybrook Road, having previously entered into a conditional contract to sell its adjoining parcel at 1030 Donnybrook Road to Slatterley Property Group Pty Ltd. The site comprises ~208ha, with the Donnybrook joint venture to retain certain portions of the site including non-residential components. The purchaser is 960 Blueways Pty Ltd, a wholly owned subsidiary of Blueways Holding Pty Ltd. The Company's share of revenue from the sale is \$50 million which will be recognised progressively in line with the staged settlements, and will therefore be dependent on timing of Precinct Structure Plan approval. This sale underpins forecast earnings from FY20 - FY23.

The equity accounted investment in the Company's Donnybrook joint venture as at 30 June 2018 is \$3.3 million (30 June 2017: \$8.4 million).

Summarised financial information of the Company's investment in the Donnybrook joint venture is set out below:

	Consolidated	
	2018	2017
	\$'000	\$'000
Assets including inventories \$28.3m (2017: \$26.6m); cash and cash equivalents \$0.2m (2017: \$0.5m); trade debtors and other receivables \$0.4m (2017: \$0.4m)	28,942	27,489
Total assets	28,942	27,489
Current liabilities including trade and other payables \$0.1m (2017: \$0.2m); bill facility \$22.4m (2017: nil)	22,455	211
Non-current liabilities including bill facility nil (2017: \$10.7m)	-	10,750
Total liabilities	22,455	10,961
Equity	6,487	16,528
Proportion of the Company's ownership	51%	51%
Equity attributable to the investment	3,308	8,429
Revenue	118	121
Cost of sales	-	-
Administrative expenses	(183)	(179)
Finance costs	(79)	-
Loss before income tax	(144)	(58)
Income tax benefit	102	-
Loss for the period	(42)	(58)
Proportion of the Company's ownership	51%	51%
Loss attributable to the investment	(21)	(30)

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

D3 Investments accounted for using the equity method (continued)

(c) Villa World Rochedale Pty Ltd and Ausin Rochedale Pty Ltd as trustee for Ausin Rochedale Trust

The equity accounted investment in the Company's Rochedale joint venture as at 30 June 2018 is \$2.3 million (30 June 2017: \$11.4 million).

Summarised financial information of the Company's investment in the Rochedale joint venture is set out below:

	Consolidated	
	2018 \$'000	2017 \$'000
Assets including inventories \$1.8m (2017: \$18.4m); cash and cash equivalents \$3.3m (2017: \$4m); trade debtors and other receivables \$1.6m (2017: \$1.6m)	6,734	23,949
Total assets	6,734	23,949
Liabilities including trade and other payables \$2.2m (2017: \$1.1m)	2,198	1,096
Total liabilities	2,198	1,096
Equity	4,536	22,853
Proportion of the Company's ownership	50%	50%
Equity attributable to the investment	2,268	11,426
Revenue	35,922	28,027
Cost of sales	(21,914)	(19,546)
Administrative expenses	(2,818)	(1,949)
Finance costs	(707)	(566)
Profit before income tax	10,483	5,966
Income tax expense	-	-
Profit for the period	10,483	5,966
Proportion of the Company's ownership	50%	50%
Profit attributable to the investment	5,242	2,983

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

Notes to the consolidated financial statements
30 June 2018 (continued)

D3 Investments accounted for using the equity method (continued)

(d) Villa Green joint venture

The equity accounted investment in the Company's Villa Green joint venture as at 30 June 2018 is \$18.2 million (30 June 2017: \$5 million).

Summarised financial information of the Company's investment in Villa Green joint venture is set out below:

	Consolidated	
	2018	2017
	\$'000	\$'000
Assets including inventories \$61.9m (2017: \$50.2m); cash and cash equivalents \$6.3m (2017: \$0.7m); trade debtors and other receivables \$11m (2017: nil)	79,202	50,906
Total assets	79,202	50,906
Liabilities including trade and other payables \$8.8m (2017: \$2.9m); real estate purchases \$34m (2017: \$38m)	42,751	40,980
Total liabilities	42,751	40,980
Equity	36,451	9,926
Proportion of the Company's ownership	50%	50%
Equity attributable to the investment	18,226	4,963
Revenue	12,966	12
Cost of sales	(7,740)	-
Administrative expenses	(1,411)	(87)
Finance costs	(237)	-
Profit / (loss) before income tax	3,578	(75)
Income tax expense	(1,051)	-
Profit / (loss) for the period	2,527	(75)
Proportion of the Company's ownership	50%	50%
Profit / (loss) attributable to the investment	1,263	(37)

In undertaking the land component of the development, the joint venture partners are to contribute equal capital contributions and share profits on a 50/50 several liability basis. The Company's ownership interest in the development is a joint arrangement with joint control and is classified as a joint venture under *AASB 11 Joint Arrangements*. Under *AASB 11*, the Company accounts for the investment using the equity method in accordance with *AASB 128 Investments in Associates and Joint Ventures*.

Notes to the consolidated financial statements
30 June 2018 (continued)

D3 Investments accounted for using the equity method (continued)

(e) Wollert joint venture

On 20 December 2017, the Company entered into a joint venture with Ho Bee Limited to develop the ~15.76ha site located in Wollert, Victoria, 25km north of Melbourne CBD. The joint venture will deliver an approximate 289 lot land community at an average sales price of approximately \$295,000. The joint venture will obtain project specific financing for the development in due course. In undertaking the development, the joint venturers are to contribute capital and share profits on the basis of 51% (Villa World) and 49% (Ho Bee). The Company will receive fees for development management and sales and marketing coordination; and has the potential to receive a performance fee. During the year, the Company received an opportunity fee of \$14.9 million (recognised only to the extent that the Company's share of profit is not recognised being 49%) as well as a reimbursement of project costs previously incurred. These amounts are described in the consolidated statement of cash flows as 'receipts from the transfer of development rights'.

The equity accounted investment in the Company's Wollert joint venture as at 30 June 2018 is \$3.5 million (30 June 2017: nil).

Summarised financial information of the Company's investment in the Wollert joint venture is set out below:

	Consolidated
	2018
	\$'000
Assets including inventories \$31.2m (2017: nil); cash and cash equivalents \$0.8m (2017: nil) trade and other receivables \$0.1m (2017: nil)	32,143
Total assets	32,143
Liabilities including trade and other payables \$10.5m (2017: nil)	10,462
Total liabilities	10,462
Equity	21,681
Proportion of the Company's ownership	51%
Equity attributable to the investment¹	11,057
Revenue	9
Cost of sales	-
Administrative expenses	(316)
Finance costs	-
Loss before income tax	(307)
Income tax benefit	92
Loss for the period	(215)
Proportion of the Company's ownership	51%
Loss attributable to the investment	(110)

1. Includes 100% of the upstream transaction with the Company.

The Company's ownership interest in the development is a joint arrangement with joint control and is classified as a joint venture under *AASB 11 Joint Arrangements*. The joint venture partners will contribute capital and share profits on the basis of 51% (Villa World) and 49% (Ho Bee). Under *AASB 11* the Company accounts for the investment using the equity method in accordance with *AASB 128 Investments in Associates and Joint Ventures*.

(f) Critical accounting judgements for equity accounted investments

(i) Joint control of equity accounted investments

In relation to the joint ventures of Donnybrook and Wollert, management has assessed there is joint control as the parties share the agreed control of the arrangement including the unanimous consent of the parties sharing control for the decision making.

(ii) Impairment of equity accounted investments

Joint ventures are tested for impairment at the end of each reporting period, and impaired if necessary by comparing the carrying amount to the recoverable amount. The recoverable amount is calculated as the estimated present value of future distributions to be received from the joint venture and from its ultimate disposal. Estimating these future cash flows of the joint venture requires significant judgement and therefore actual amounts may differ from an impairment estimate.

At 30 June 2018, none of the equity accounted investments were considered to be impaired.

Notes to the consolidated financial statements
30 June 2018 (continued)

D4 Parent entity financial information

The financial information for the Parent entity, Villa World Limited, has been prepared on the same basis as the consolidated financial statements. Investments in controlled entities are carried in the Company's financial statements at the lower of cost or recoverable amount. Villa World Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation (refer Note A5(a)).

(a) Summary financial information

The individual financial statements for the parent entity, Villa World Limited, show the following aggregate amounts:

	Consolidated	
	2018	2017
	\$'000	\$'000
Balance sheet		
ASSETS		
Current assets	61,928	45,299
Total assets	222,667	252,202
LIABILITIES		
Current liabilities	2,998	11,380
Total liabilities	51,469	59,329
Net assets	171,198	192,873
EQUITY		
Issued capital	160,957	160,957
Reserves	17,149	40,076
Retained earnings	(6,908)	(8,160)
Total equity	171,198	192,873
Profit / (loss) for the period	1,252	(1,113)

(b) Guarantees entered into by the parent entity

The parent entity has provided a financial guarantee in respect of the Club Facility with Australia and New Zealand Banking Group and Westpac Banking Corporation as well as the guarantees disclosed in Notes B5(d) and D2.

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 Basis of preparation
- E2 Key management personnel disclosures
- E3 Remuneration of auditors
- E4 Events occurring after the reporting period
- E5 Other accounting policies

E1 Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. Villa World Limited is a for-profit entity for the purpose of preparing the financial statements.

Certain comparative items have been reclassified in the financial statements to align with the 30 June 2018 year end disclosures.

(i) Compliance with IFRS

The consolidated financial statements of Villa World Limited also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(ii) Historical cost convention

These financial statements have been prepared under the historical cost convention, except for derivative financial instruments which are measured at fair value through profit or loss.

(iii) Critical accounting estimates and judgements

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. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed within the relevant Note. Estimates and underlying assumptions are reviewed on an ongoing basis. The resulting accounting estimates will by definition, seldom equal the related actual results. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The areas involving a higher degree of estimation or judgement are discussed in the following Notes:

	Note
Revenue	A1
Taxes	A5
Inventories	B1
Warranty claims	B5
Fair value measurement	C6
Investments accounted for using the equity method	D3
Share-based payments	E2

(iv) Functional and presentation currency

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

E2 Key management personnel disclosures

(a) Key management personnel compensation

In accordance with the requirements of *AASB 124 Related Party Disclosures*, the KMP comprise all Directors (executive and non-executive) and those other members of the Villa World Executive who have authority and responsibility for planning, directing and controlling the activities of the Company. A summary of KMP compensation is set out in the table over:

Notes to the consolidated financial statements
30 June 2018 (continued)

E2 Key management personnel disclosures (continued)

(a) Key management personnel compensation (continued)

	Consolidated	
	2018	2017
	\$	\$
Short-term employee benefits	2,520,125	2,433,951
Post-employment benefits	103,247	108,830
Long-term benefits	38,810	49,619
Termination benefits	269,446	-
Share-based payments	716,930	373,677
	3,648,558	2,966,077

Information regarding the compensation of individual KMP and some equity instrument disclosures as required by *Corporation Regulation 2M.3.03* is provided in the Remuneration Report section of the Directors' Report.

(b) Equity instrument disclosures relating to key management personnel

Villa World operates a security based compensation scheme, the Villa World Limited Executive Long-Term Incentive Plan (LTIP). Under the LTIP, eligible employees, including executive directors, are paid or incentivised for their performance in part through rights over shares.

(i) Villa World Limited Executive Long-Term Incentive Plan

The Villa World Executive LTIP was introduced in November 2015, and under the plan executives and other eligible senior employees are invited to receive performance rights in the Company. The third allocation of performance rights under the LTIP to the CEO / Managing Director was approved at the Company AGM held in November 2017.

The key driver for LTIP is to provide a variable remuneration component that is competitive and is aligned to shareholder returns over a longer period. It has been structured to appropriately incentivise executives and promote retention. Detailed remuneration disclosures including the link between the LTIP and shareholder wealth are provided in the Remuneration Report section of the Directors' Report.

Under the LTIP each performance right enables the participant to acquire a share in Villa World Limited, at a future date and exercise price, subject to conditions. The number of performance rights allocated to each participant is set by the Board and based on individual circumstances and performance. Vesting conditions are subject to performance hurdles which are based on Villa World's TSR (75%) and ROA (25%) performance over a three-year period.

Vesting occurs following the release of full year results, when the Board determines the extent to which the performance conditions have been satisfied for the relevant performance period.

The LTIP is accounted for as equity-settled share-based payments (SBP). The fair value is estimated at grant date and recognised over the vesting period as an expense in the SBP reserve.

Judgement in calculating fair value of share-based payments

To calculate the expense for equity settled SBPs, the fair value of the equity instruments at grant date has to be estimated. The fair value is determined using the binomial pricing model. Key assumptions and judgements are set out below. These judgements and assumptions relating to fair value measurement may impact the SBP expense taken to profit or loss and reserves.

Grant date	30 Nov 2015	30 Nov 2016	30 Nov 2017
Performance rights granted	485,916	778,962	634,647
Performance rights forfeited / lapsed	(112,676)	(150,969)	-
Total performance rights granted as compensation at 30 June	373,240	627,993	634,647
Grant date share price (\$)	1.98	2.23	2.54
Volatility (%) ¹	27.00	25.00	21.79
Dividend yield (%)	7.60	8.15	7.69
Risk-free rate (%)	2.10	1.87	1.85
Weighted average fair value (\$)	1.06	1.44	1.70
Performance period end date	30 June 2018	30 June 2019	30 June 2020

1. The volatility assumption is based on annualised historical daily volatility over the three year period to the valuation date.

The performance period has been satisfied for the performance rights awarded on 30 November 2015. Subject to Board approval, the performance rights will vest on or around the 14 August 2018.

Notes to the consolidated financial statements
30 June 2018 (continued)

E2 Key management personnel disclosures (continued)

(b) Equity instrument disclosures relating to key management personnel (continued)

(i) Villa World Limited Executive Long-Term Incentive Plan (continued)

Judgement in calculating fair value of share-based payments (continued)

Set out below is a summary of movements in the number of performance rights under the LTIP at the end of the financial year:

	2018 Number of performance rights	2017 Number of performance rights
As at 1 July	1,001,233	485,916
Granted during the year	634,647	778,962
Vested during the year	-	-
Forfeited / lapsed during the year	-	(263,645)
As at 30 June	1,635,880	1,001,233

The weighted average remaining contractual life at 30 June 2018 was 1.32 years (30 June 2017: 2.32 years).

(c) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	Consolidated	
	2018 \$'000	2017 \$'000
Expense arising from share-based payment transactions	793	445
Forfeited share-based payment transactions	-	(40)
	793	405

(d) Transactions with KMP

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

(e) Loans to KMP

For the financial year ended 30 June 2018, there were no loans to key management personnel (30 June 2017: nil).

E3 Remuneration of auditors

During the year, the following fees were paid or payable for services provided by the Lead Auditor, Ernst & Young of the consolidated entity and its related practices:

	Consolidated	
	2018 \$	2017 \$
Audit and other assurance services		
Audit and review of financial statements	197,252	184,404
Other assurance services ¹	8,500	55,750
Total remuneration for audit and other assurance services	205,752	240,154
Other non-audit services		
Other accounting advice	46,825	343,441
Taxation services	-	29,369
Total remuneration for other services	46,825	372,810
Total remuneration of Ernst & Young	252,577	612,964

1. Assurance related services include accounting support provided in relation to adoption of AASB 15 and accounting services associated with the Villa World share purchase plan.

Notes to the consolidated financial statements 30 June 2018 (continued)

E3 Remuneration of auditors (continued)

The statutory audit requirements for the Company vary from year to year and can have an impact on the level of audit fees. The Company may decide to engage the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company is important. These assignments relate to other non-audit services including accounting advice and tax advice and capital debt market advice.

The majority of non-audit fees in FY17 relate to services provided during the issuance of the Simple Corporate Bond. The costs associated with this assignment were paid to the Ernst & Young Capital and Debt Advisory Team. The auditor has provided an independence declaration and the Committee is satisfied that the work performed on non-audit services was conducted by a team separate from the audit team and does not impact the independence of the auditor.

E4 Events occurring after the reporting period

Final dividend

On 14 August 2018 the Board declared a fully franked final dividend of 10.5 cents per share. The ex-dividend date is 3 September 2018 and the record date for this dividend is 4 September 2018. Payment will be made on 28 September 2018.

The balance of the franking account is \$17.5 million and includes franking credits that will arise from the payment of tax recognised as a liability at the reporting date (refer Note A4(c)).

Investment in the Villa Green Joint Venture

On 26 July 2018, equity contributions totalling \$7 million were made by each joint venture partner, with the carrying value of the investment increasing to \$25.2 million. Of the Company's contribution of \$7 million, \$5 million was recognised as a commitment at 30 June 2018 (refer Note B6(b)). The contributions were predominantly for the purpose of funding the joint venture to complete final settlement of the development site.

E5 Other accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below unless disclosed within the individual Notes. These policies have been consistently applied to all the periods presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Villa World Limited and its subsidiaries.

(a) Expense recognition

Expenses are recognised in the income statement on an accrual basis.

(b) Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

Depreciation is calculated on a straight-line or diminishing value basis to write off the net cost of each item of property, plant and equipment, including leased equipment, over its expected useful life to the consolidated entity. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. The expected useful lives of property, plant and equipment are:

- Vehicles	3 - 5 years
- Plant and equipment	3 - 10 years
- Leasehold improvements	2 - 8 years
- Information technology	4 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

(c) Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the consolidated balance sheet.

E5 Other accounting policies (continued)

(d) Impairment of assets

Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount of an asset is the higher of its fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash generating units. Assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

(e) Employee benefits

(i) Short-term obligations

Liabilities for salaries and wages, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised as provisions in respect of employees services up to the reporting date and are measured as the amounts expected to be paid when the liabilities are settled.

(ii) Other long-term employee benefit obligations

The Company's net obligation in respect of long-term employee benefits is the amount of future benefits that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognised in profit or loss in the period in which they arise. The obligations are presented as current liabilities in the consolidated balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

(iii) Bonus plans

The Company recognises a liability and an expense for bonuses. The Company recognises a liability where it is contractually obliged or where there is a past practice that has created a constructive obligation.

(iv) Termination benefits

Termination benefits are expensed at the earlier of when the Company can no longer withdraw the offer of those benefits and when the Company recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the end of the reporting period, then they are discounted.

(f) Goods and Services Tax (GST)

Revenues, expenses and assets / liabilities (other than receivables) are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as a current asset or liability in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(g) Rounding of amounts

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

(h) New accounting standards and interpretations

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Company for the annual reporting period ended 30 June 2018. The Company's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Company are set out below.

New standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2017 have been adopted by the Company. The Company is in the process of assessing the impact of the following new standards and interpretations, most relevant to the Company are set out over:

Notes to the consolidated financial statements
30 June 2018 (continued)

E5 Other accounting policies (continued)

(h) New accounting standards and interpretations (continued)

(i) AASB 9 Financial Instruments

AASB 9 Financial Instruments includes requirements for the classification, measurement and derecognition of financial assets. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of *AASB 139*. The standard is not applicable to the Company until 1 July 2018 but is available for early adoption. The adoption of *AASB 9* is not expected to have a material impact on the Company.

(ii) AASB 16 Leases

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

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

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

This new standard is applicable to annual reporting periods beginning on or after 1 January 2019, with early application permitted. The Company is currently assessing the impact of the new guidance and expects to adopt this standard for the year ended 30 June 2020.

(iii) AASB15 Revenue from Contracts with Customers

AASB 15 Revenue from contracts with customers was issued in December 2014, and amended in May 2016. The new revenue standard will supersede all current revenue recognition requirements under Australian Accounting Standards and permits either a full or modified retrospective approach on transition.

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

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

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

Whilst the directors believe the Company's assessment of the impact of *AASB 15* to be consistent with how other companies in the Property Development and Construction industry are intending to apply the new accounting standard, it is noted that there are still specific legal clauses within sales contracts in certain jurisdictions that are being considered as to application under *AASB 15* which may cause a change in the impact assessment described below.

Impact

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

The Company has assessed and evaluated the potential impact of *AASB 15* on its consolidated financial statements. Under *AASB 15*, the Company considers that performance obligations are satisfied at settlement irrespective of geographical location as this is when control of the asset transfers to the customer.

This represents a change from the Company's existing revenue recognition policy for Queensland and Victoria sales whereby revenue is currently recognised when there is an unconditional sales contract and registration of the land and / or certification of building completion.

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

Development and project management fees will be addressed on a per contract basis and are not expected to have any significant impact. *AASB 15* will be applied by the Company for the financial year ended 30 June 2019. Villa World is adopting the modified retrospective approach. Under this approach, comparatives (the year ended 30 June 2018) will not be restated.

E5 Other accounting policies (continued)

(h) New accounting standards and interpretations (continued)

(iii) AASB15 Revenue from Contracts with Customers (continued)

The presentation and disclosure requirements in *AASB 15* are more detailed than under current Australian Accounting Standards and will increase the volume of disclosures required in the financial statements. Many of the disclosure requirements in *AASB 15* are new, including disclosure of significant judgements made and the disaggregation of revenue recognised from contracts with customers into categories that depict how the nature, timing and uncertainty of revenue and cash flows are affected by economic factors.

Summarised impact for 1 July 2018:

Revenue item	Nature of change	Financial impact of adoption
House and land, and land only contracts in Queensland and Victoria.	The assessment of control under <i>AASB 15</i> results in revenue recognition at cash settlement. As a result, revenue (and associated costs of sales) recognised on contracts which were unconditional but not settled as at 30 June 2018 under the Company's existing revenue recognition policy will be reversed through an adjustment to retained earnings on transition and corresponding balance sheet accounts will also be impacted. In addition, as the Company's associates and joint ventures apply consistent accounting policies, corresponding adjustments are made which impact retained earnings and investments accounted for using the equity method.	As detailed in the table below: Trade receivables will decrease by \$127.1 million. Inventory will increase by \$91.7 million. Other current assets will increase by \$0.8 million. Investment accounted for using the equity method will decrease by \$1.4 million. Deferred tax assets will increase by \$1.0 million. Trade and other payables will decrease by \$4.7 million. Deferred income will increase by \$0.02 million. Service warranties provision will decrease by \$0.2 million. Deferred tax liabilities will decrease by \$8.0 million. Retained earnings will decrease by \$22.2 million.

Estimated cumulative impact on consolidated balance sheet

The cumulative estimated effect of the changes that will be made to the Company's consolidated 1 July 2018 balance sheet for the adoption of *AASB 15 Revenue from contracts with customers* will be as follows:

Notes to the consolidated financial statements
30 June 2018 (continued)

E5 Other accounting policies (continued)

(h) New accounting standards and interpretations (continued)

(iii) AASB15 Revenue from Contracts with Customers (continued)

Estimated cumulative impact on consolidated balance sheet (continued)

	Balance 30-Jun-18 \$'000	AASB 15 adjustment \$'000	Restated balance 1-Jul-18 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	12,645	-	12,645
Trade and other receivables	130,206	(127,103)	3,103
Inventories	167,590	91,662	259,252
Other current assets	4,187	762	4,949
Total current assets	314,628	(34,679)	279,949
Non-current assets			
Inventories	233,967	-	233,967
Property, plant and equipment	2,063	-	2,063
Investments accounted for using the equity method	27,260	(1,375)	25,885
Deferred tax assets	-	1,030	1,030
Other non-current assets	10,000	-	10,000
Total non-current assets	273,290	(345)	272,945
Total assets	587,918	(35,024)	552,894
LIABILITIES			
Current liabilities			
Trade and other payables	(64,426)	4,667	(59,759)
Deferred income	(42)	(18)	(60)
Current tax liabilities	(2,353)	-	(2,353)
Other current liabilities	(3)	-	(3)
Employee benefits	(1,298)	-	(1,298)
Service warranties	(4,266)	177	(4,089)
Other provisions	(45)	-	(45)
Total current liabilities	(72,433)	4,826	(67,607)
Non-current liabilities			
Trade and other payables	(13,396)	-	(13,396)
Borrowings	(183,786)	-	(183,786)
Deferred tax liabilities	(7,979)	7,979	-
Other financial liabilities	(59)	-	(59)
Employee benefits	(453)	-	(453)
Other provisions	(92)	-	(92)
Total non-current liabilities	(205,765)	7,979	(197,786)
Total liabilities	(278,198)	12,805	(265,393)
Net assets	309,720	(22,219)	287,501
EQUITY			
Contributed equity	477,611	-	477,611
Other reserves	241,021	-	241,021
Accumulated losses	(408,912)	(22,219)	(431,131)
Total equity	309,720	(22,219)	287,501

There are no other standards that are not yet effective and that are expected to have a material impact on the Company.

Directors' declaration
30 June 2018


In the Directors' opinion:

- (a) the financial statements and notes set out on pages 58 to 104 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 30 June 2018 and of its performance for the 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.

Note E1 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

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



Craig Treasure
Chief Executive Officer and Managing Director

Gold Coast
14 August 2018



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

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Villa World Limited (the Company), and its subsidiaries (collectively the Group), which comprises the consolidated balance sheet as at 30 June 2018, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2018 and of its consolidated financial performance for the year ended on that date; and
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

1. Net Realisable Value (“NRV”) of inventories

Refer to Note B1 of the financial report

Why significant

The NRV of inventories is heavily influenced by movements in the property market in Australia and other uncertain elements such as availability of finance for home-owners and investors. As described in Note B1 to the financial report, the Group undertakes a review of its inventories to ensure each individual project is valued at the lower of cost or NRV in accordance with Australian Accounting Standards.

This is significant to our audit as it is material to the Group and the extent of judgements and estimates applied in determining the NRV of projects. The NRV is based on future cash flows, which depend on key assumptions relating to sales rates, land pricing, the expected date of completion, the level of debt used to finance the project, and estimated future development costs.

How our audit addressed the key audit matter

We obtained the assessment of NRV for the Group's inventory portfolio and performed the following:

- ▶ Compared the Group's current cash flow forecast assumptions to recent actual project performance, including sales prices, sales rates and margins achieved during the period;
- ▶ Enquired of the development managers to understand changes in:
 - key feasibility assumptions since the NRV assessment in the prior year and the original feasibility,;
 - changes in strategy adopted for revised feasibilities and then examined supporting documentation for these changes;
- ▶ For a sample of projects, we assessed the key assumptions in the feasibilities by agreeing to supporting documentation such as development approvals and sales data to support sales prices. We also involved our real estate specialists to assist with the assessment of a sample of feasibilities and key assumptions;
- ▶ For projects which had a reversal of previous NRV write-downs during the period, we considered the underlying changes in the feasibilities by evaluating recent actual performance of the project and agreeing to supporting documentation and calculations provided by the Group;
- ▶ For a sample of inventory costs capitalised during the year we agreed these to supporting documentation; and
- ▶ Assessed the adequacy of the Group's disclosures in the financial report regarding inventories.

2. Revenue recognition

Refer to Note A1 of the financial report

Why significant

Revenue is a key audit matter because judgment is involved in determining the point in time there is sufficient certainty for revenue to be recognised. This is particularly important for cases when revenue is recognised prior to settlement of the land or house and land sale.

The accounting policy for revenue recognition is described in Note A1 to the financial report.

How our audit addressed the key audit matter

In obtaining sufficient audit evidence, we:

- ▶ Assessed the effectiveness of relevant controls over the timing of revenue recognition;
- ▶ Tested revenue cut-off by selecting a sample of sales transactions taking place before and after the balance sheet date and checking whether those transactions were recognised in the correct period by agreeing to supporting documentation such as sales contract, proof of land registration and proof of building completion performed by an independent party;
- ▶ For revenue recognised prior to settlement we assessed, on a sample basis, whether the recognition complied with Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board;
- ▶ Tested key reconciliations and revenue journal entries posted to the system manually and checked that the journals were appropriately approved and had supporting evidence; and
- ▶ Assessed the adequacy of the Group's disclosures in respect of the accounting policies on revenue recognition.

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's 2018 Annual Report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

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

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Audit of the Remuneration Report

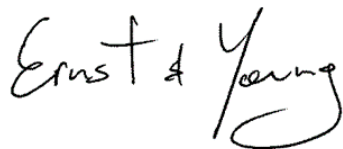
Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 40 to 55 of the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Villa World Limited for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



Ernst & Young



Ric Roach
Partner
Brisbane
14 August 2018

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ASX Additional Information

Additional information requested by the Australian Securities Exchange Limited Listing Rules and not disclosed elsewhere in this report are set out below:

Shareholdings (as at 1 August 2018)

The following holdings were listed in the register of substantial shareholders:

	No of shares held
Dimensional	7,622,612
Brazil Farming Pty Ltd	7,097,286

Distribution of Shareholders (as at 1 August 2018):

Range	Total holders
1 – 1,000	1,042
1,001 – 5,000	1,955
5,001 – 10,000	977
10,001 – 100,000	1,367
100,001 and over	80
Total	5,421

There were 256 shareholders with less than a marketable parcel of 231 shares.

Unquoted equity securities

As at 30 June 2018, there were 1,635,880 performance rights (with the potential to take up ordinary shares) issued to 4 participating employees under the Villa World Limited Executive Long-Term Incentive Plan.

There are no voting rights attached to the performance rights.

Quoted equity securities

As at 1 August 2018 there were 5,421 shareholders (31 July 2017: 5,333).

The voting rights attaching to the ordinary shares are:

- (a) On a show of hands, each shareholder present has one vote and
- (b) on a poll, one vote for each fully paid share held.

For details of registered office and share registry details refer to inside front cover – Shareholder Information.



Top 20 Shareholders (as at 1 August 2018)

Name	Units	% of Units
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	15,960,921	12.57
CITICORP NOMINEES PTY LIMITED	9,461,092	7.45
J P MORGAN NOMINEES AUSTRALIA LIMITED	7,671,501	6.04
BRAZIL FARMING PTY LTD	7,515,457	5.92
PERSHING AUSTRALIA NOMINEES PTY LTD <YNOMINEE A/C>	5,071,222	4.00
NATIONAL NOMINEES LIMITED	3,929,171	3.10
CVC LIMITED	3,151,683	2.48
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	1,846,658	1.45
BNP PARIBAS NOMS PTY LTD <DRP>	1,823,170	1.44
MR MALCOLM JOHN ROSS + MRS JUNE ROSS	1,780,424	1.40
BRISPOT NOMINEES PTY LTD <HOUSE HEAD NOMINEE A/C>	1,600,694	1.26
COOLTRAC PTY LTD	1,044,370	0.82
TOBAKA PTY LTD <TOBAKA EMPLOYEES S/F A/C>	879,898	0.69
NATIONAL NOMINEES LIMITED <DB A/C>	800,960	0.63
HORRIE PTY LTD <HORRIE SUPERANNUATION A/C>	700,000	0.55
ECAPITAL NOMINEES PTY LIMITED <ACCUMULATION A/C>	673,495	0.53
DEBUSCEY PTY LTD	644,235	0.51
GEOMAR SUPERANNUATION PTY LTD <CHAPMAN SUPER FUND A/C>	610,935	0.48
BRAZIL FARMING PTY LIMITED	600,000	0.47
CRAIG G TREASURE PTY LTD <TREASURE SUPER FUND A/C>	582,432	0.46
Totals: Top 20 holders of FULLY PAID ORDINARY SHARES (TOTAL)	66,348,318	52.27

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VILLA WORLD



HELPING PEOPLE REACH HOME

