# ANNUAL FINANCIAL REPORT

30 June 2014

VILLA WORLD LIMITED
ABN 38 117 546 326

# SHAREHOLDERS INFORMATION

## VILLA WORLD LIMITED

Villa World Limited ABN 38 117 546 326

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**Shareholder information and enquiries**

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Mailing address: GPO Box 2975EE, Melbourne VIC 3000

Telephone: 1300 651 684 or +61 3 9415 4000 (outside Australia)

Fax: +61 3 9473 2500 (within & outside Australia)

Website: www.computershare.com.au

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Company Secretary: Paulene Henderson

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# VILLA WORLD VISION, MISSION AND VALUES

## VISION

Villa World's vision is to be the company of choice for people to achieve success through property.

## MISSION

Villa World's mission is to create property solutions where demand meets opportunity as we deliver value and positive experiences across all our relationships.

## VALUES

### PERFORMANCE

We efficiently deliver effective and quality outcomes to achieve financial objectives.

### AGILITY

We are agile in how we run the business, we adapt quickly and initiate change.

### INTEGRITY

Our people are accountable, make ethical decisions and are socially responsible.

### KNOWLEDGE

Our team applies high level skills to achieve positive outcomes.

### UNITY

We are a team – we care for and empower our people, support each other and recognise achievements.

### RESPECT

We value and appreciate our people, partners and customers.


Park Vista – Mango Hill, Brisbane


Cascades – Clyde North, Melbourne

# KEY HIGHLIGHTS

Strong performance, profit before tax exceeded guidance at $22.6 million (25.8 cps).

**Statutory net profit after tax of $19.1 million (EPS: 21.8 cps) (FY13: $13.5 million loss, (18.2cps)).**

Total shareholders return[1] of 92%

**Full year dividend of 15 cps, fully franked; full year payout ratio at 74% of NPAT**

$141.5 million in carried forward sales[2] at projects completing in FY15 & FY16

**Revenue growth of 35% to $229.5 million (FY13: $169.4 million)**

Gearing[3] of 18.7% at 30 June 2014 (FY13: 24.4%)

**$32.2 million capital raising at $1.60 per share in September 2013**

Sales growth of 36% to 829 (FY13: 610)

**Acquisition success with 3,925 lots in the Development Portfolio at August 2014, an increase of 48% compared to prior year**

$155 million bank facility in place until 1 September 2016; $87 million in cash on hand and unused capacity at 30 June 2014

**Continue to invest wisely for the future; $89.5 million invested in new projects throughout the year, $67 million through working capital (inclusive of capital raising) and debt and the balance through the "capital lite" model**

1. Share price growth of 79% from $1.13 at 30 June 2013 to $2.02 30 June 2014 plus 15 cps dividend
2. Represents Gross Sales Price inclusive of GST.
3. (Interest bearing liabilities – Cash) / (Total assets – cash)

# CHAIRMAN'S ADDRESS

**It is a pleasure to present my first report following my appointment as Independent Chairman of Villa World in May 2014. The separation of the Executive Chairman and Managing Director roles highlights the Board's commitment to implementing a higher level of corporate governance for Villa World. This includes an intention to appoint another non-executive Board member during 1H15.**

Despite mixed economic conditions throughout FY14, Villa World has maintained its momentum for achieving success through property.

I am pleased to report a statutory after tax profit of $19.1m for the year. This result, together with Villa World's strong operating cash flow, has enabled the Board to declare dividends of 15 cents per share for the year, in line with the Board's dividend policy of paying out 50% to 75% of net profit after tax. Continued shareholder support has further been rewarded with a significant increase in our share price over the year.

The balance sheet is in a strong position with a net asset value of $1.92 per share. The Company has a low gearing ratio of 18.7% with cash and headroom on its debt facility of $87 million. The Company completed a $32.2 million capital raising during the year which has been applied towards working capital and funding acquisitions.

An amount of $89.5 million was paid out for new acquisitions during the year. The Company's development pipeline has increased to 3,925 lots in proven regions as well as new geographies, representing 4.7 years supply of sales. Our robust balance sheet together with strong project cash flows, will enable Villa World to continue building the project pipeline in FY15 and beyond with particular focus on the south east Queensland and Melbourne markets and to a lesser extent New South Wales.

Looking forward we are determined to leverage our key market advantages - **location, price, product design, and delivery capability** - to capitalise on opportunities in the Australian residential property market. The Board will maintain Villa World's strategy of low risk development of land and housing in the affordable to mid-market range.

We will continue to locate the majority of Villa World's developments in growth **locations** that are close to employment and amenities. This reduces development risk and helps to maintain buyer demand in more difficult market conditions.

A **competitively priced** core product is at the heart of our portfolio – allowing us to capitalise on the market's focus on value for money. Last year we actively marketed this point of difference. We will continue to target traditional end-user buyers as well as local investors to a lesser extent.

Our product **design** is constantly reviewed to ensure we are meeting the needs of our buyers and delivering a well-designed quality finished product. We have responded to the trend of open plan, functional sized homes on low maintenance lots and will soon be rolling out a new range of designs.

For over 25 years, Villa World has proven its **capability in delivering** land and house construction. We have built over 17,000 houses and have established sound building systems and strong long term relationships with suppliers and sub-contractors that enable us to deliver quality products at affordable prices.

The Board is confident that these key market advantages, combined with our strong balance sheet, will increase shareholder value and promote growth in the future years.

This promising future is largely due to our strong management team under the capable leadership of Craig Treasure, our CEO and Managing Director. I would like to take this opportunity to thank Craig and his dedicated team for the outstanding results they have produced and for creating a strong platform for the future.

**Mark Jewell**
Chairman

Circa - Nudgee, Brisbane

# CHIEF EXECUTIVE OFFICER AND MANAGING DIRECTOR'S REVIEW

**The Company has achieved outstanding results throughout the past year. We remained committed to delivering on our targets, and finished the year with strong full year results exceeding our profit guidance. I am particularly proud that we achieved significant growth in sales, operating profit after tax and were able to recommence paying dividends to shareholders.**

Maintaining our focus on four key strategic pillars – acquisitions, sales, delivery and capital management – throughout FY14 has allowed the Company to deliver superior results. We look forward to building on this success with a continued focus on our strategic pillars in the year ahead.

## DELIVERING VALUE TO OUR SHAREHOLDERS

Shareholders have seen some very strong results with the share price increasing by 79% for the year to 30 June 2014. This result, combined with the interim and final dividend gives our shareholders total returns of 92% – an outstanding result.

The statutory result for the year was a net profit after tax of $19.1 million (EPS: 21.8 cps) compared to a net loss after tax of $13.5 million the previous year.

There was a significant growth in revenue from land development and residential building to $229.5 million, a 35% increase on the previous year. Operating profit before tax was $22.6 million, in excess of the guidance released in May 2014. Revenue growth of 35% compared to prior year was attributed to the higher level of accounting settlements as well as an increase in the average revenue per lot.

Our strong financial position saw the return to dividends, with a total 15 cents per share fully franked, declared in relation to FY14.[4] This represents a payout ratio of 74% of Net Profit after Tax, and is at the higher end of the Board's stated dividend policy of paying out 50% to 75% of Net Profit after Tax.

## ACQUISITIONS TO LAY THE FOUNDATION FOR SUCCESS

In FY14, our focus was on acquisitions of projects in new areas to provide geographic diversification, as well as replacement projects for completed or near completed projects.

As at August 2014 we had a portfolio of 3,925 lots, representing approximately 4.7 years of sales.

Sales success in Queensland has prompted us to acquire replacement projects for Circa and Park Vista. Villa World will return to the Gold Coast in 2015 with Parkside, a 108 lot project in Coomera, and shortly thereafter, with a 107 lot project in Jacob's Well. Bayside acquisitions Era and Waterline will also commence sales in the coming year.

The Victorian land bank was bolstered over the course of the past year, with 902 lots acquired over six projects. To date, we have acquired one project at Lacosi Hill Estate in north western Sydney. This project is selling well, and is expected to contribute to revenue in the coming year. This project will allow the Company to re-establish our Sydney operations in a controlled manner. Acquisitions will continue to be a priority in the year ahead. Our strategy is to create a land bank of five to six years supply, with Queensland and Victoria representing an equal weighting in our portfolio, as well as establishing an initial presence in New South Wales. This will be achieved by targeting projects with a short to medium life cycle balanced with some longer dated projects that have the right strategic fit, structured as joint ventures or staged payment transactions.

4. Final Dividend, fully franked, of 9 cents per share was declared post 30 June 2014.

**Shareholders have seen some very strong results with the share price increasing by 79% for the year to 30 June 2014. This result, combined with the interim and final dividend gives our shareholders total returns of 92% – an outstanding result.**


Cardinia Views – Pakenham, Melbourne


Parkside – Coomera, Gold Coast


Lacosi Hill – Schofields, North West Sydney

## MAINTAINING SALES MOMENTUM

For the second consecutive year, the Company has enjoyed strong sales. Against a backdrop of mixed economic conditions, our broad sales strategy is on track and delivering strong results. Sales to the end of June 2014 were 829 compared with 610 twelve months ago – a robust performance from our sales team.

We will continue to broaden our sales strategy to target three key customer groups – our traditional retail buyers, first home buyers and to a lesser extent investors.

## DELIVERING TO MEET DEMAND

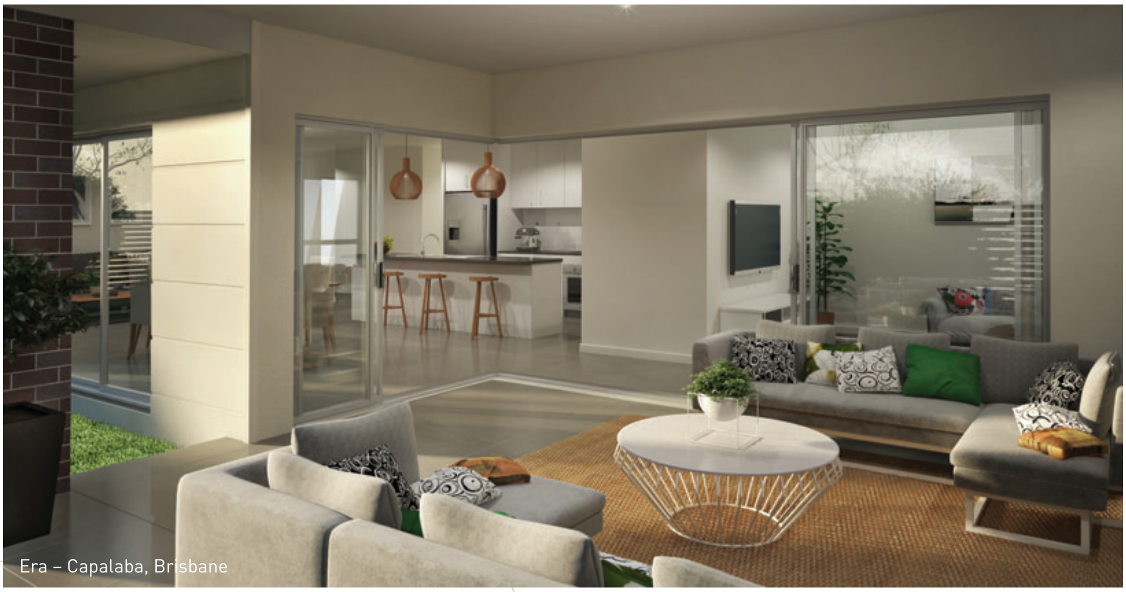
In the past financial year, we have produced 193 lots of land only product, and built 425 homes on registered lots. We also celebrated a major milestone with our first Villa World homes completed in Victoria, at our Cascades on Clyde project.

With strong sales across many projects in FY14, and a number of projects brought forward to satisfy market demand, a key challenge for the first half of FY15 will be replenishing our stock of completed or near completed product. We expect this sharpened focus on delivery will allow for a marked increase in sales in the second half of FY15.

## SOUND CAPITAL MANAGEMENT

Throughout the past year, the Company has successfully completed a capital raising of $32.2 million, at $1.60 per share and has increased our debt facility to $155 million.

In keeping with our commitment to being an accessible and transparent company throughout the year we have conducted roadshows, investor visits and site tours across Brisbane, Sydney and Melbourne, speaking with current and prospective investors and analysts, as well as institutional and retail stock brokers.



Era – Capalaba, Brisbane

# CHIEF EXECUTIVE OFFICER AND MANAGING DIRECTOR'S REVIEW (CONTINUED)

We end the year with the support of many institutional shareholders. We are confident that our investor relations strategy should benefit all shareholders by providing stock liquidity and allowing for a better share valuation.

The first tranche of the Eynesbury Project, of which the Company holds a 50% interest, settled in June 2014. After settling some debt held by the Joint Venture, $9 million was returned to each partner in July 2014. These monies will be reallocated to acquisitions with a short to medium-term life cycle. We expect the second tranche of Eynesbury to settle in the second half of FY15.

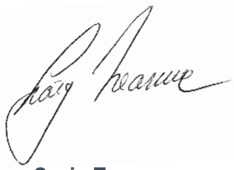
## OUTLOOK

Assuming general consumer confidence is maintained, interest rates remain low and first home buyer grants remain in place, we are confident the next year will be a year of continuing success through property. Our focus will remain on delivering and settling carried forward sales, increasing the level of available stock and bringing to market recently acquired projects, while continuing the search for new acquisition opportunities.

## A DEDICATED TEAM

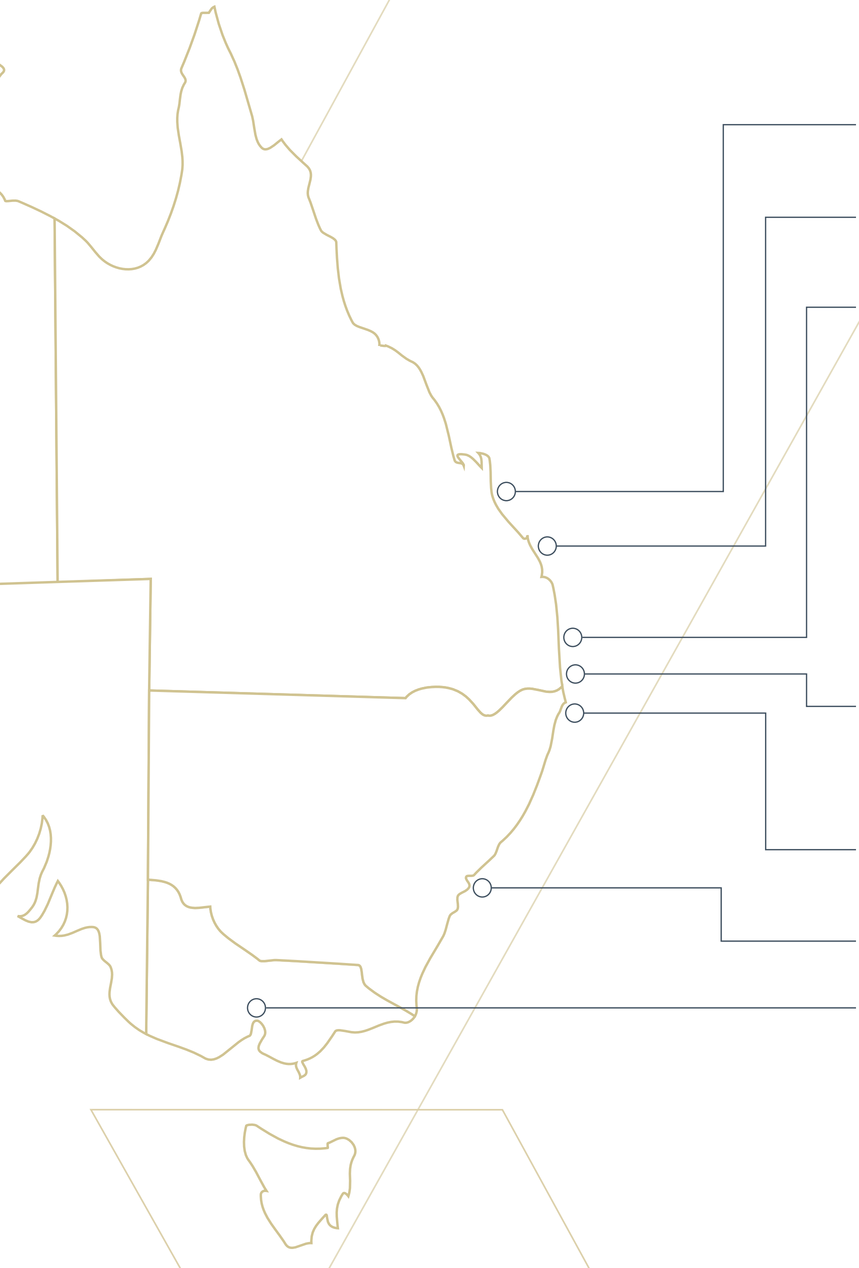
Villa World is committed to strengthening the capacity of our team to deliver. As well as the appointment of Mark Jewell as Independent Chairman, we continued to strengthen our corporate governance team, welcoming Gerry Lambert as Chairman of the Audit and Risk Committee in June 2014. Gerry brings a wealth of experience as a director of both private and listed companies.

I would like to close out the year by extending my thanks to members of my executive team and our staff for their hard work in achieving an outstanding result for Villa World, our customers and investors. We have strived to develop a positive team culture and I am confident that every member of our team is focused on supporting our Company's growth.



**Craig Treasure**
CEO and Managing Director

East Ridge – Thornlands, Brisbane



CURRENT PROJECTS

ACQUISITIONS

**GLADSTONE**
Little Creek - Gladstone, QLD
Parkside at Little Creek - Gladstone, QLD

**HERVEY BAY**
Augustus - Hervey Bay, QLD
The Domain - Hervey Bay, QLD

**BRISBANE**
Astonbrook - Carindale, QLD
Bay Road - Burpengary, QLD
Circa - Nudgee, QLD
Circa Metro - Nudgee, QLD
East Ridge - Thornlands, QLD
Mt Cotton Village - Mt Cotton, QLD
Orana - Mango Hill, QLD
Park Vista - Mango Hill, QLD
Era - Capalaba, QLD
Nudgee, QLD
Mango Hill, QLD
Redland Bay, QLD
Rochedale, QLD
Waterline - Thornlands, QLD

**BRISBANE GOLD COAST CORRIDOR**
Brookside - Ormeau, QLD
Longhill Rise - Gilston, QLD
Jacobs Well, QLD
Parkside - Coomera, QLD

**TWEED COAST**
First Light - Casuarina, NSW
Seaside Village - Casuarina, NSW

**NORTH WEST SYDNEY**
Lacosi Hill Estate - Schofields, NSW

**VICTORIA**
Cascades on Clyde - Clyde North, VIC
Eynesbury - Eynesbury, VIC
Cardinia Views - Pakenham, VIC
Greenvale, VIC
Parkview - Truganina, VIC
Plumpton 1, VIC
Plumpton 2, VIC
Roxburgh Park Central - Roxburgh Park, VIC

# OPERATING FINANCIAL REVIEW

The statutory financial result for FY14 was a net profit after tax of $19.1 million, compared to a net loss after tax of $13.5 million in FY13. Revenue increased by 35% to $229.5 million, with strong performances at Park Vista, Circa, Brookside, First Light and Cascades on Clyde. Revenue was achieved through very strong sales during FY14 combined with $80.8 million of carried forward sales contracts from 30 June 2013. Thirteen projects contributed to the FY14 result, steady on FY13.

There were 721 accounting settlements[5] during FY14, a 12% increase on FY13. Of these, 662 accounting settlements were Villa World lots, and contributed to the revenue of $229.5 million. The balance of 59 accounting settlements, related to Villa World's 50% share of lots settled at its joint venture Eynesbury; these are reflected in the financial results for the year through Share of Joint Venture Profit.

Revenue growth of 35% year on year was attributed to the higher level of accounting settlements as well as an increase in the average revenue per lot to $347,000 (FY13: $278,000). The revenue per lot of both house and land, and land only product increased over the period, due to some sales price increases, as well as the settlement of higher price point projects over the period (such as the premium housing product at Circa and premium beachside land at First Light). Further, the product mix shifted toward house and land product over the year (FY14: 78%; FY13 59%).

| **Accounting Settlements - No. of Lots** | **FY13** | **FY14** | |
|---|---|---|---|
| House & Land | 276 | 447 | ▲ |
| Land Only | 334 | 215 | ▼ |
| | **610** | **662** | ▲ |
| Joint Ventures | 37 | 60 | ▲ |
| TOTAL | 646 | 721 | ▲ |

| **Revenue ($million)** | **FY13** | **FY14** | |
|---|---|---|---|
| House & Land | 99.1 | 179.9 | ▲ |
| Land Only | 70.3 | 49.5 | ▼ |
| TOTAL REVENUE | **169.4** | **229.5** | ▲ |

| **Average Revenue ($k/lot)** | **FY13** | **FY14** | |
|---|---|---|---|
| House & Land | 360 | 403 | ▲ |
| Land Only | 210 | 230 | ▲ |
| AVERAGE REVENUE | **278** | **347** | ▲ |

## CASH FLOW

Strong operating cash flows as well as a capital raising in September 2013 enabled the Company to expend $89.5 million on the acquisition of new land, whilst ending the year in a strong cash and debt position. During the year, $67.7 million in cash was generated from operating activities. This cash generation was reasonably consistent throughout the year, approximately $5.6 million per month. The Placement and Share Purchase Plan raised $32.2 million at $1.60 per share and introduced many new institutions to the share register.

5. Accounting settlements require cash settlement in New South Wales. In Queensland and Victoria, cash settlement is not required; rather an unconditional sales contract and for land only, land registration or for house and land, land registration and a certificate of building completion is required.

## GROSS MARGIN

The gross margin for FY14 was $56.9 million, an increase of 21% on FY13 (FY13: $47.0). As a percentage, the gross margin was 24.8% (FY13: 27.7%). During the period, additional costs and provisions were incurred in relation to previously announced warranty issues at Thornleigh and Silverstone. On a normalised basis, the gross margin was 27.0%, within our target range.

In the coming year, the gross margin is expected to lie at the lower end of the target range of 26% to 29%. A balance will continue to be struck between margin and sales volume.

## SALES CONTRACTS CARRIED FORWARD

At 30 June 2014, the Company carried forward 335 sales contracts (worth $141.5 million[6]). Of these, 239 contracts worth $107.1 million[6] will settle in 1H15. These include lots at Astonbrook, Cascades on Clyde, East Ridge, Park Vista and Mount Cotton. Parkview, Orana and a portion of Lacosi Hill, will be delivered in 2H15, and 67 contracts worth $25.2 million[6] are anticipated to settle in that half. The balance of Lacosi Hill will be delivered in 1H16, with 29 contracts worth $9.2 million[6] settling then.

## SALES

The Company recorded its second year of strong sales growth, with 829 sales recorded during FY14 an increase of 36% on the 610 sales recorded in FY13. Seventeen projects across the three eastern seaboard states contributed to sales this year (FY13: 13 projects). Although Queensland remained the dominant contributor to sales (with 12 projects making up 63% of sales) recent acquisitions have improved geographic diversity with 24% of sales attributed to three Victorian projects, and two opportunistic acquisitions in New South Wales contributing to 13% of sales.

Cascades on Clyde and Park Vista recorded the highest sales during FY14, while Mt Cotton Village and Circa performed consistently across the year.

Three short lived projects delivered quick returns and boosted sales in the first half of FY14. First Light and Astonbrook, as well as Brookside, which began selling in FY13, all came close to selling out in the first half of FY14.

In the second half of the financial year, the release of the second stage at East Ridge saw a strong pickup in sales. The townhouse developments of Orana and Circa Metro were released mid-year, and sales gained momentum throughout the second half of FY14. Two boutique acquisitions, Parkview and Lacosi Hill Estate, were released and were close to being sold out in the second half of FY14.

While sales in FY14 were stronger than those in FY13 and demand remained strong throughout the year, sales in the second half were reduced by lower levels of completed stock.


Orana at Park Vista – Mango Hill, Brisbane

6. Represents Gross Sales Price inclusive of GST

# OPERATING FINANCIAL REVIEW (CONTINUED)

## FY15 SALES OUTLOOK

Market demand for Villa World product is expected to remain strong in the coming year. Inventory levels will be lifted by mid FY15 to meet this demand. Given the timing of delivery, sales will be weighted to the second half.

Civil construction of the final stages at Park Vista commenced in 2H14. The release of these lots throughout FY15 should continue the sales success at this project. Other projects in and around Brisbane are expected to remain strong in FY15. With construction well underway and the opening of display units imminent at both Orana and Circa Metro, sales at these townhouse developments are expected to accelerate. Upon sell out, sales demand at Circa will flow to a newly acquired neighbouring parcel of land. Reliable sales at Mount Cotton are expected to continue, with construction of the balance of the land commencing in the 2H14. The sales strength experienced at East Ridge in 2H14 is expected to remain with the release of the balance of the project in early FY15. Demand in this region is expected to boost sales at the nearby house and land project Era and the premium land only estate Waterline when they are released for sale in early FY15. Following on from the recent success of Brookside, a house and land offering at Parkside in Coomera will be released in 1H15.

Brookside – Ormeau, Gold Coast

Augustus – Hervey Bay, Queensland

Inventory levels at Cascades on Clyde will be low, with production of the balance of the project to occur late in FY15, however the demand for land product in the area will be channeled to nearby Cardinia Views which will be released in 1H15. The Company's first acquisition in Greenvale, Melbourne's northern growth corridor, will be released for sale in the 2H15.

The Company's delivery team is focused on bringing product to the market, with in excess of 800 lots, including over 650 houses to be delivered in FY15. Based on current sales release dates, sales in FY15 will be weighted towards the second half.

## SALES AND MARKETING COSTS

Sales and marketing costs were well managed during the year and represented 6.5% of revenue in FY14, compared to 7.5% in FY13. The more buoyant domestic property market reduced the need to attract sales through more expensive investment channels.

## EMPLOYEE COSTS

In order to meet the growing demand for our product, the Company increased the number of full time equivalent employees from 58 in FY13 to 80 in FY14. This increased capacity was within our operations team. The recognition of staff bonuses and the increase in headcount saw a 45% increase in staff costs over the prior period. However, staff costs remain at 5% of revenue, similar to the prior year and well within the industry benchmarks. The full year salary contribution of the new employees hired in FY14, as well as a small number of new employees anticipated in FY15 will result in a 20% increase in staff costs in FY15.

## TAX POSITION

The effective tax rate was 15% for FY14, due to the recognition of the deferred tax asset of $4.21 million relating to carried forward losses of $14.02.

Carried forward unused tax losses of $34.6 million remain at 30 June 2014 of which $20.3 million have been recognised. The remaining tax losses of $14.3 million will be recognised through Board assessment and in accordance with accounting standards in due course.

## ASSETS AND NTA

The gross assets have increased to $317 million as at 30 June 2014, as a result of the implementation of the successful acquisition strategy.

The NTA at 30 June 2014 was $1.92 per share, prior to the declaration of the 9 cent dividend.

## OTHER REVENUE AND SHARE OF PROFIT FROM EQUITY ACCOUNTED INVESTMENTS

Other revenue included $2.8 million from project management fees and commissions received from the Eynesbury project. Of this $1.32 million was associated with the sale of the project to the Hyde Group. This revenue stream will not continue in FY15.

The share of profit recognised from the Eynesbury joint venture was $3.76 million in FY14. This was due to a higher recovery rate on the sale of stock on hand compared to the previously impaired balances, as well as deferred interest and reimbursements received, due to the deferred contract arrangement with the sale to the Hyde Group. It is estimated that approximately $1 million will be received from the share of profit in the Eynesbury Joint Venture during FY15, mainly due to the recognition of deferred interest charges for the settlement of tranche two of the sale to the Hyde Group.

## CAPITAL MANAGEMENT

During the year, the Company's loan facility with ANZ was increased to $155 million from $110 million. The facility was successfully extended for a further two years to 1 September 2016.

At 30 June, the cash on hand and headroom[7] was $87 million (30 June 2013: $44.7 million). The gearing ratio[8] was 18.7% compared to 24.4% in FY13. Strong project related cash flows and the capital raising of $32.2 million enabled this position to be maintained year on year whilst investing $89.5 million in new projects. The unused capacity in the facility will enable the continued execution of the acquisition strategy throughout FY15.

The average cost of debt for the year ending 30 June 2014 was 7.8%. A $70 million fixed interest rate swap at 3.5%[9] remains in place through to June 2015. During the second half of FY14 a three year, $90 million fixed interest swap at 3.69%[9] was entered into, due to commence in June 2015.

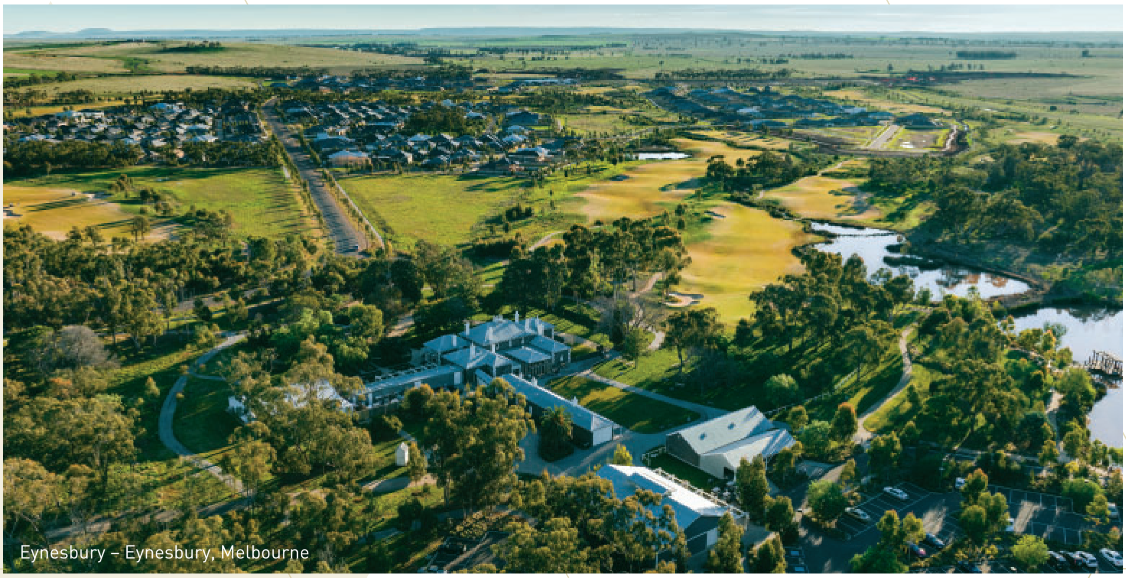
## DIVIDENDS

Dividends were recommenced in February 2014, with an interim dividend of 6 cents per share fully franked paid in April 2014. A final dividend has been declared by the Board of 9 cents fully franked, to be paid in September 2014. Together with the interim dividend, this represents an annual payout ratio of 74% of NPAT and is within the stated dividend policy of a payout ratio of 50% to 75% of NPAT, paid semi-annually.

## ACQUISITION

In FY14, the Company continued to execute on its acquisition strategy. Since 1 July 2012, 2,168[10] lots have been purchased[11] over 19 projects. Significantly, the acquisitions have allowed the Company to expand its footprint in Victoria, re-enter the Sydney market and replace strong selling projects in Queensland.

Although there is ample capacity to fund acquisitions through up-front payment, some of the acquisitions have been prudently structured, utilising deferred payment terms and "capital lite" solutions (payment out of third party settlement proceeds). 246 lots representing 11.3% of lots acquired have been structured through this "capital lite" model.



Eynesbury – Eynesbury, Melbourne

7. Headroom is the unused capacity in the facility.
8. Gearing ratio is (interest bearing liabilities – cash )/ (total assets – cash).
9. Prior to margin and line fees.
10. Includes acquisitions announced post 30 June 2014.
11. Contracted.

# OPERATING FINANCIAL REVIEW (CONTINUED)

At 30 June 2014, payments due for land acquisitions comprise $30.4 million in trade creditors and $38.5 million in capital commitments ("capital lite" acquisitions). Post year end, a further $58.6 million in commitments have been entered into.

## THE VILLA WORLD STRATEGY

Villa World's proven business model and solid financial platform, low gearing and strong operating cash flows, should enable it to continue to create shareholder value through the implementation of its strategic objectives.

Operating in the affordable to mid residential housing market the Company's strategy is low risk. The delivery approach is easily scaled in line with market demand.

The Company will continue to acquire developable land, with a view to maximising shareholder returns through capital efficient deal structures. Anticipated acquisitions will boost our land bank to five to six year's supply across the eastern seaboard.

The sales strategy will continue to focus on the traditional retail buyer, whilst tailoring product and process to attract first home buyers and investors. The Company will work with all existing partners to enhance the customer experience by introducing a contemporary approach to on site displays and educating sales teams (both internal and external) in order to lift conversion rates and reduce selling costs.

Our end product continues to be developed with changing market needs. Urban design is moving towards open plan, functional, sizeable homes, on low maintenance lots, with a strong focus on value for money. The Company will roll out a new range of home designs in the next 12 to 18 months which will suit smaller blocks while creating greater living spaces through smarter design practices.

## KEY RISKS

The key risks for FY15 include sales risk, development risk, risks associated with the general warranty claims and provisions and financing risk.

Sales risk is largely impacted by consumer confidence. Economic conditions including interest rates, unemployment and wages directly impact consumer confidence. Villa World's well diversified portfolio, low gearing position assisted by structured acquisition deals, and product portfolio minimise sales risk.


Roxburgh Park Central – Roxburgh Park, Melbourne


Greenvale, Melbourne

The Company's portfolio has minimal project based risk. Development approvals are either in place prior to acquisitions, or residential use is allowed and approval risk is mitigated by appropriate due diligence. The well diversified portfolio combined with our scalable business model, transparency on development costs and very experienced development team minimises production based risk.

Warranty claims and potential litigation are inherent risks in the development and construction industry. The Company is currently subject to litigation involving two matters.

Thornleigh – (refer to note 20 Provisions in the 2014 Financial statements) is a 129 lot townhouse project located in Thornleigh, New South Wales, which was completed in 2005. Construction was carried out by a third party builder. Certain aspects of the recent Referee's determination will be challenged in Court by the Company, and may be challenged by other parties. There will be cost orders made by the Court against the Company. Whilst the Company has made an assessment of the likely outcome of the Court hearing and provided for these costs, there is some risk that the financial outcome for the Company may differ from the amount of the provision.

Silverstone – (refer to the Note 26 Contingencies in the 2014 Financial statements) is a 27 apartment complex located in Tweed Heads, New South Wales which was completed in 2009. This litigation involves building defects and is in the early stages. The matter is complex and involves numerous parties. In the short term, there will be ongoing expenditure by the Company on legal fees and experts' costs (for which provision has been made). In the longer term, whilst the Company is defending the proceedings and has joined other parties, there is a risk of an adverse financial outcome for the Company. The likelihood and amount of that outcome cannot presently be reliably estimated and no provision has been made.

Financial risk has been mitigated given the debt facility has been increased during FY14 and is in place until 1 September 2016. It is anticipated that all covenants associated with the facility will be complied with.

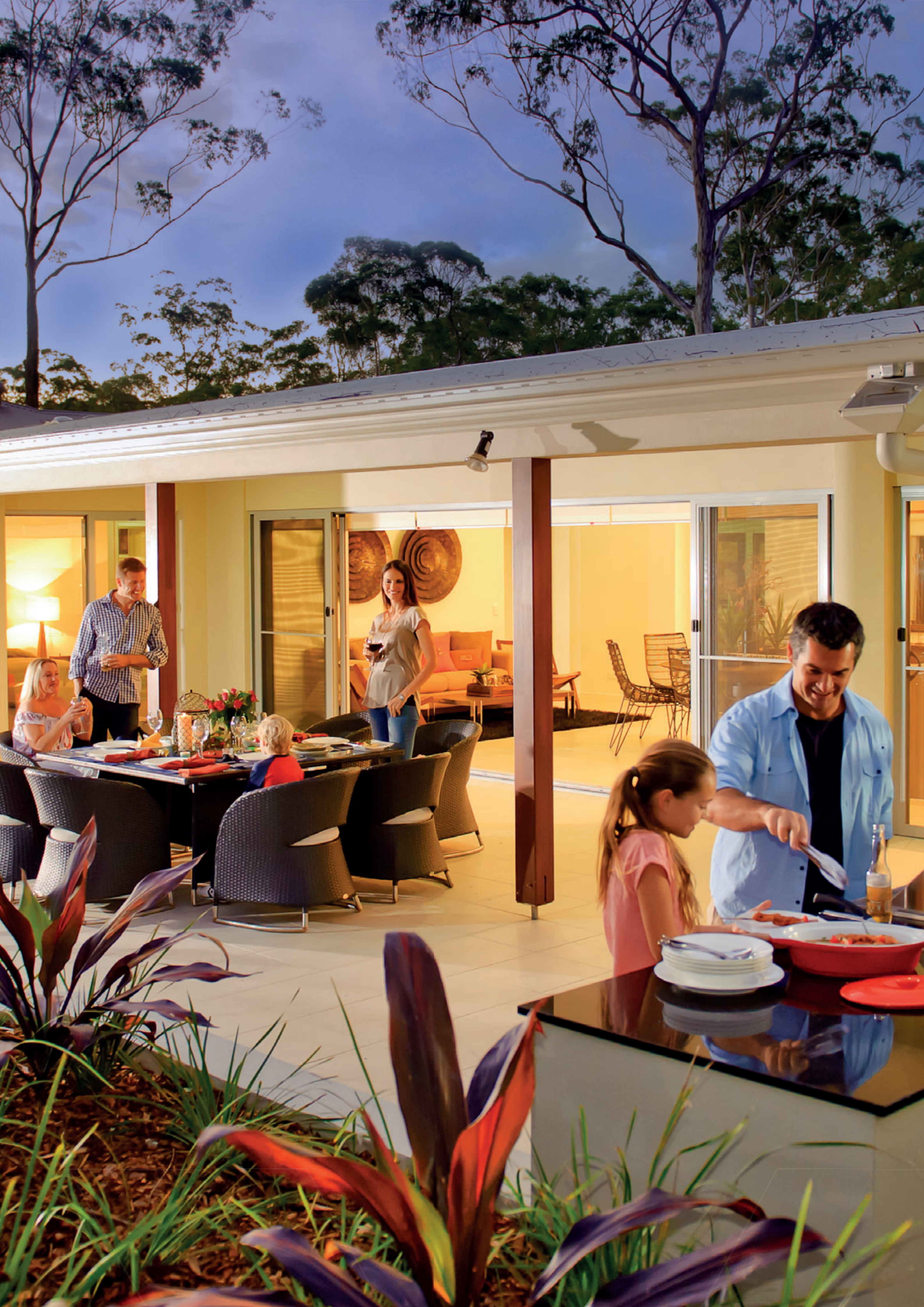
## GUIDANCE

In FY15 the Company will focus on delivering and settling a significant level of carried forward sales as well as restocking through the pull forward of future stages of existing projects and bringing to market recently acquired projects. Acquisition opportunities will continue to be pursued which will build the portfolio for FY16 and beyond.

Assuming general consumer confidence is maintained, interest rates remain low and first home buyer grants remain in place, the Company is targeting in excess of 5% growth in operating profit before tax for FY15. Sales and profits are expected to be weighted to the second half of FY15. Further upside is dependent on market conditions and product delivery.

The effective tax rate is expected to be similar to that of FY14, although this is not certain.

The Board maintains its policy of paying out 50% - 75% of NPAT in dividends over the course of the year.



# Villa World Limited
# ABN 38 117 546 326
# Annual report - 30 June 2014

## CONTENTS



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 18, which is not part of these financial statements.

The financial statements were authorised for issue by the Directors on 26 August 2014. 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 2014.

## Directors

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

Mark Jewell BCom CA (SA)
Non-Executive Director since 28 November 2013
Independent Chairman since 28 May 2014

Mark is a senior property executive with more than 25 years' experience in the Australian development industry. He has held a number of directorships and senior positions with ASX listed development companies.

Board Committee memberships

– Member of the Audit and Risk Committee (since 28 November 2013)

Other directorships (current and recent)

In the past three years Mark has served as an executive director of Aveo Group Limited (20 July 2011 - 20 August 2012) and a non-executive director of PBD Developments Limited (21 July 2011 - 3 April 2013).

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 Treasure has more than 29 years' experience in property development, specifically in land, housing and apartment development along the eastern seaboard of Australia. Craig has previously held a number of executive roles and directorships within the property sector.

Board Committee Membership

– Member of the Audit and Risk Committee (17 February 2012 – 12 February 2013)

Alexander (Sandy) Beard BCom (UNSW), FCA, AICD
Non-Executive Director since 11 April 2011
Chairman 25 January 2012 - 31 July 2012

Alexander Beard is the Managing Director of CVC Limited and an experienced financier of growth companies. CVC has been an active participant in the property sector, undertaking investments ranging from real estate development to passive financing positions. Alexander has gained considerable industry experience through his investee board roles.

Other directorships (current and recent)

Alexander is currently an Executive Director of CVC Limited (since 31 August 2000), Director of CVC Property Managers Limited as Responsible Entity for CVC Property Fund (since 23 December 2005), Non-Executive Chair of Cellnet Limited (since 15 December 2006) and a Non-Executive Director of Mnemon Group Limited (since 7 June 2007). In the past three years Alexander has also served as a Non-Executive Director of Amadeus Energy Limited (14 October 2009 - 29 March 2013).

Board Committee membership

– Member of the Audit and Risk Committee (11 April 2011 - 28 May 2014)

## Company Secretary

Paulene Henderson B Bus Acc MBA CA
Chief Financial Officer / Company Secretary

Paulene has 26 years' experience within the accounting profession. This experience has been gained through working within the profession, most recently with Ernst and Young, as well as senior financial positions within RCI Pacific Pty Ltd and Wyndham Vacation Resorts South Pacific Ltd as Responsible Entity for the Worldmark South Pacific Club, both entities being subsidiaries of Wyndham Worldwide (a Fortune 500 company listed on the New York Stock exchange).

Appointed Company Secretary 19 November 2012.

Troy Harry BBus
Non-Executive Director from 26 February 2009 - 31 March 2014

Troy Harry has been involved in stockbroking and investment management for 22 years. This included experience at several different stockbroking firms over 10 years before establishing his own business, Trojan Investment Management in 2003. Troy is experienced in financial analysis, structuring and in advising and managing investment companies.

Other directorships (current and recent)

Troy currently holds no other public company directorships. In the past 4 years, Troy has served as Managing Director of Trojan Equity Limited (resigned 18 March 2013) and as a Director of DMX Corporation Limited (resigned 27 February 2013).

Board Committee Memberships

– Chairman of the Audit and Risk Committee (11 February 2013 - 31 March 2014)
– Member of the Audit and Risk Committee (26 February 2009 – 11 February 2013)

## Independent Chair of Audit and Risk Committee

Gerald (Gerry) Lambert BCom (Hnrs), ACA, GAICD

Gerald commenced as the Chair of the Audit and Risk Committee on 18 June 2014. The directors have appointed Gerry as an independent consultant to perform this specific compliance role. Gerry is an experienced company director of both private and listed companies, and is currently a non-executive director of Boystown and Cudeco Limited. He was previously an Executive Director of Villa World from 2000 to 2005 at which time he was CFO and General Manager.

## Directors' interests

| Directors' interests | 2014 |
|---|---|
| Mark Jewell | 100,958 |
| Alexander (Sandy) Beard[1] | - |
| Craig Treasure | 800,000 |

[1]Alexander (Sandy) Beard is the Managing Director of CVC Limited which owns 15,185,484 shares (2013: 17,593,604 shares).

Directors' Report
30 June 2014 (continued)

## Meetings of directors

The number of meetings of Villa World Limited's Board of Directors and of each Board Committee held during the year ended 30 June 2014, including the number of meetings attended by each Director are:

| | Board meetings | | Audit and Risk committee | |
|---|---|---|---|---|
| | A | B | A | B |
| Mark Jewell | 8 | 8 | 2 | 2 |
| Craig Treasure | 15 | 15 | 2 | 3 |
| Alexander (Sandy) Beard | 15 | 15 | 2 | 2 |
| Troy Harry | 13 | 13 | 2 | 2 |

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

## 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.

## Review of operations and consolidated results

| Company Financial Summary | Consolidated 30-Jun-14 $'000 | Consolidated 30-Jun-13 $'000 |
|---|---|---|
| Revenue[1] | 236,656 | 154,038 |
| Expenses | (206,462) | (159,948) |
| Finance costs | (7,625) | (7,986) |
| Profit before income tax | 22,569 | (13,896) |
| Income tax expense | (3,503) | 403 |
| Profit for the period | 19,066 | (13,493) |
| Profit is attributable to: | | |
| Owners of Villa World Limited | 19,066 | (13,493) |

[1]Includes revenue from land and development, residential building and construction contracts, other income and share of profit/(loss) from associates. Refer to the Consolidated Income Statement.

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

## Dividends

The Board recommenced the payment of dividends, declaring an interim dividend of 6.0 cents per share fully franked on 13 February 2014. Payment was made to shareholders on 2 April 2014.

## Matters subsequent to the end of the financial year

### Final Dividend

On 26 August 2014 the Board declared a fully franked final dividend of 9.0 cents per share. The ex-dividend date is 1 September 2014 and the record date for this dividend is 3 September 2014. Payment will be made on 30 September 2014.

As at 30 June 2014, an amount of $16.7 million is held as franking credits in the Company.

### Investment in the Eynesbury Joint Venture

As previously disclosed the Company has entered into unconditional contracts for the sale of the Eynesbury project (in which the Company holds a 50% interest). On 27 June 2014 the first tranche (comprising part of the land and the golf course business) was completed at a sale price of $30.0 million plus GST.

As at 30 June 2014 the equity accounted investment in the Eynesbury Joint Venture was $18.0 million. On 7 July 2014 $9.0 million was repaid to each Joint Venture partner, with the carrying value of the investment reducing to $9.0 million.

### Acquisition - Victoria

On 14 July 2014, the Company announced that it had entered into a Put & Call Option in relation to a site located at Greenvale in the northern suburbs of Melbourne, well serviced by key infrastructure and amenities.

The land owner is required to deliver completed vacant lots, for the Company to construct dwellings and sell house and land packages. The transaction totals $26.2 million (including GST) and is to be paid progressively to the land owner from the settlement proceeds of the house and land sales.

The site is expected to yield approximately 131 residential lots, comprising traditional Villa World housing designs on a variety of lot sizes.

## Remuneration report

The Directors are pleased to present the Remuneration Report for FY14 which details compensation arrangements in place for the Company's key management personnel as defined in AASB124 "Related Party Disclosures" (KMPs). This report is presented in accordance with the requirements of the *Corporations Act 2001* (the Act) and its regulations. This information has been audited as required by section *308(3C)* of the Act.

Directors' Report
30 June 2014 (continued)

## Remuneration Report (continued)

### Directors and key management personnel disclosed in this report

The KMPs comprise the executive and non-executive Directors of Villa World Limited and the Company's senior executives being:

| | |
|---|---|
| Mark Jewell[1] | Independent Chairman |
| Alexander (Sandy) Beard | Non-executive Director |
| Troy Harry[2] | Non-executive Director |
| Craig Treasure[3] | Chief Executive Officer and Managing Director |
| Scott Payten | Chief Operating Officer |
| Paulene Henderson | Chief Financial Officer |

*[1]Mark Jewell was appointed non-executive director on 28 November 2013 and Chairman on 28 May 2014.*
*[2]Troy Harry resigned 31 March 2014.*
*[3]Craig Treasure resigned as Chairman on 28 May 2014.*

### Remuneration policy and strategy

The Board is responsible for determining the remuneration for the directors and other KMPs. The Board's objective is to ensure that remuneration policies and structures are fair and competitive and aligned with the long term interests of the Company.

The Company's remuneration framework is structured to:

- Attract and motivate high quality talent to deliver superior long term returns for shareholders.
- Align shareholders' and employees' interests and create value for shareholders by ensuring a reasonable proportion of senior employees' remuneration is based on growth in total shareholder returns ("TSR").
- Be fair and consistent.
- Manage total rewards with emphasis on the "at risk" element as a motivator for senior executives.

#### Remuneration strategy for non-executive directors

Fees and payments to non-executive directors reflect the demands which are made on and the responsibilities of the directors. Non-executive directors receive a fixed fee for their services. Fees are reviewed annually by the Board, taking into account amounts paid to non-executive directors with comparable roles in the external market.

Fees are determined within an aggregate directors' fee pool limit which is periodically recommended for approval by shareholders. Shareholders have approved maximum aggregate Board and committee fees payable to non-executive directors of $600,000.

The total of non-executive directors' fees paid for the year ended 30 June 2014 was $188,084 (30 June 2013: $159,140).

Non-executive directors' remuneration is inclusive of additional fees paid to directors who sit on committees with an additional fee payable for chairing committees. Non-executive remuneration is set by reference to comparable entities listed on the Australian Securities Exchange.

### Service Agreements

On appointment to the Board all non-executive directors enter into a letter of appointment with the Company. The letter of appointment sets out the term of the appointment, service to be provided, remuneration and corporate policies and codes of conduct to be complied with.

### Remuneration strategy for executive directors and other KMPs

The objective of the Company's executive remuneration framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework provides a mix of fixed and variable pay including appropriate incentives.

Executive directors do not participate in discussions relating to their own remuneration. Remuneration for the Chief Executive Officer and Managing Director and KMPs includes a combination of fixed remuneration and key performance related incentives that enable the Company to attract and retain a suitable calibre of personnel.

The framework aligns executive rewards with the creation of value for shareholders. Performance based rewards are linked to the achievement of individual performance criteria and may be adjusted at the discretion of the Board. The remuneration package for the Chief Executive Officer and Managing Director and KMPs is determined by the Board and assessed against the broader market.

### Components of executive remuneration

### Total fixed remuneration

Total Fixed Remuneration ("TFR") is a market related base salary including superannuation contributions. TFR is determined by reference to the TFRs offered by the average to top quarter of comparator industry employers and is subject to annual benchmarking. TFR is reviewed annually and upon change of role or responsibility.

### Short-term incentives

KMPs have a target short term incentive ("STI") opportunity depending on the accountabilities of the role and impact on the Company's performance. Actual STI awards can range from 0-40% of TFR. These are awarded based on the successful achievement of pre-determined Board approved Key Performance Indicators ("KPIs"). A sliding scale element is incorporated into relevant KPIs to motivate the KMPs to outperform base targets set. However, the Board has the discretion to pay over and above these amounts.

Each year the Board considers the appropriate targets and KPIs to link to the STI plan and the level of cash disbursement if targets are met for the KMPs. This may include setting any maximum payout under the STI plan and minimum levels of performance to trigger payment of STI.

The KPIs are set by reference to four criteria, which are shown below:

- Financial targets based on the achievement of Board approved budgets, forecasts and compliance with bank target ratios.
- Business growth targets including the development and implementation of long-term strategic planning.
- People and process improvements across the Company.
- Maintenance and enhancement of work health and safety, corporate compliance and product quality platforms within the Company.

For the CEO and Managing Director, the financial and business growth targets account for 40% of his STI for FY14.For the FY13 and FY14 years, the KPIs were linked to STI plans and were based on very similar criteria.

Directors' Report
30 June 2014 (continued)

Remuneration Report (continued)

## Long-term incentives

The Company operates long-term incentives ("LTIs") in the form of the Villa World Limited Option Plan, approved by shareholders at the Company's AGM on 30 October 2013. For options that have been issued to date, the options vest at the completion of three years' service from the grant date. Under the terms of the options granted to date, if the participating employee leaves the Company before the vesting date, the options are cancelled, although the Board may waive this restriction at its discretion.

The chart below shows the mix between TFR, STI and LTI for the executive KMPs for the financial years ending 30 June 2014 and 2013.

| | Total remuneration package components | | | | | |
|---|---|---|---|---|---|---|
| | TFR | | STI - at risk | | LTI | |
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Executive Directors | | | | | | |
| Craig Treasure | 52% | 100% | 21% | - | 27% | - |
| John Potter | - | 100% | - | - | - | - |
| Other executive KMPs | | | | | | |
| Scott Payten | 70% | 77% | 18% | 23% | 12% | - |
| Paulene Henderson | 75% | 83% | 19% | 17% | 6% | - |

## Termination Benefits

Other than statutory entitlements, there are no termination benefits applicable to the current executive KMPs.

## Employment Agreements

Remuneration and other terms of employment for the executive KMPs are formalised in employment agreements. The key provisions of the agreements for the year ended 30 June 2014 relating to remuneration are set out in the table below:

| | Base fee inclusive of superannuation | Term of agreement | Notice period | Review period | Anticipated annual cash bonus (%)[1] |
|---|---|---|---|---|---|
| Chief Executive Officer and Managing Director | | | | | |
| Craig Treasure | $500,000 | Rolling | 6 months | Annual | 40% |
| Other executive KMPs | | | | | |
| Scott Payten | $400,000 | Rolling | 6 months | Annual | 25% |
| Paulene Henderson | $250,000 | Rolling | 3 months | Annual | 25% |

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

### Consequences of performance on shareholder wealth

The Company ties incentives to share price growth indirectly, and other measureable KPIs that drive results and shareholder value creation. In considering the Company's performance and benefits for shareholder wealth the Board also has regard to the following criteria in respect of the current financial year and the previous four financial years.

| Performance KPI | FY10 $m | FY11 $m | FY12 $m | FY13 $m | FY14 $m |
|---|---|---|---|---|---|
| Revenue | $272.2 | $110.8 | $146.5 | $169.4 | $229.5 |
| Debt | $93.1 | $62.4 | $74.2 | $70.0 | $69.1 |
| Gearing | 24.3% | 23.5% | 27.6% | 24.4% | 18.7% |
| NTA per security (cents) | 174.3 | 178.1 | 201.0 | 185.0 | 192.0 |
| Dividends (relating to the year) | | | | | |
| Interim dividend (cents) | - | - | - | - | 6.0 |
| Final dividend (cents) | 5.0 | - | - | - | 9.0 |
| Earnings per share (cents) | 24.6 | 11.4 | 10.1 | (18.2) | 21.5 |
| Share price at 30 June | $0.96 | $0.90 | $0.79 | $1.13 | $2.02 |

The overall level of KMPs compensation takes into account the performance of the Company over a number of years.

### Voting and comments made at the company's 2013 Annual General Meeting

The Company received 92.9% of "yes" votes on its remuneration report for the 2013 financial year. The Company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

Directors' Report
30 June 2014 (continued)

## Remuneration Report (continued)

### Details of remuneration

Details of the remuneration of the directors and the KMPs are set out below:

| 2014 | Short-term employee benefits | | Post-employment benefits | Long-term benefits | Share based payments | |
|---|---|---|---|---|---|---|
| Name | Cash salary and fees $ | Cash bonus $ | Super-annuation $ | Long service leave[4] $ | Options[5] $ | Total $ |
| Non-executive Directors | | | | | | |
| Mark Jewell [1] | 46,159 | - | 4,270 | - | - | 50,429 |
| Alexander Beard [2] | 78,660 | - | - | - | - | 78,660 |
| Troy Harry [3] | 54,000 | - | 4,995 | - | - | 58,995 |
| Sub-total non-executive directors | 178,819 | - | 9,265 | - | - | 188,084 |
| Chief Executive Officer and Managing Director | | | | | | |
| Craig Treasure | 482,225 | 128,690 | 17,775 | 2,734 | 100,000 | 731,424 |
| Other KMPs | | | | | | |
| Scott Payten | 382,225 | 72,500 | 17,775 | 6,500 | 25,000 | 504,000 |
| Paulene Henderson | 232,225 | 45,313 | 17,775 | 5,677 | 8,333 | 309,323 |
| Sub-total other KMPs | 1,096,675 | 246,503 | 53,325 | 14,911 | 133,333 | 1,544,747 |
| Total | 1,275,494 | 246,503 | 62,590 | 14,911 | 133,333 | 1,732,831 |

[1] Mark Jewell was appointed non-executive Director on 28 November 2013 and Independent Chairman on 28 May 2014.
[2] Alexander Beard is the Managing Director of CVC Limited and his director's fees are paid to CVC Managers Pty Ltd.
[3] Troy Harry resigned on 31 March 2014.
[4] Long service leave represents the amount expensed by the Company for the period.
[5] The amount shown in the share-based payments options column does not represent an amount paid to the individual but rather the amount expensed by the Company. Refer Note 29 (b) - Expenses arising from Share-based payment transactions.

| 2013 | Short-term employee benefits | | Post-employment benefits | Long-term benefits | Share based payments | |
|---|---|---|---|---|---|---|
| Name | Cash salary and fees $ | Cash bonus $ | Super-annuation $ | Long service leave[5] $ | Options[6] $ | Total $ |
| Non-executive Directors | | | | | | |
| Alexander Beard[1] | 68,670 | - | - | - | - | 68,670 |
| Troy Harry | 63,000 | - | 5,670 | - | - | 68,670 |
| Richard Anderson[2] | 20,000 | - | 1,800 | - | - | 21,800 |
| Sub-total non-executive directors | 151,670 | - | 7,470 | - | - | 159,140 |
| Executive Directors | | | | | | |
| Craig Treasure[3] | 353,295 | - | 16,305 | 1,040 | - | 370,640 |
| John Potter[4] | 157,104 | - | 5,127 | - | - | 162,231 |
| Subtotal executive directors | 510,399 | - | 21,432 | 1,040 | - | 532,871 |
| Other KMPs | | | | | | |
| Scott Payten | 383,530 | 100,000 | 16,470 | 18,259 | (117,311) | 400,948 |
| Paulene Henderson | 221,652 | 45,000 | 16,470 | 1,726 | (23,462) | 261,386 |
| Subtotal other KMPs | 605,182 | 145,000 | 32,940 | 19,985 | (140,773) | 662,334 |
| Total | 1,267,251 | 145,000 | 61,842 | 21,025 | (140,773) | 1,354,345 |

1. Alexander Beard is the Managing Director of CVC Limited and his director's fees are paid to CVC Managers Pty Ltd.
2. Richard Anderson resigned on 25 October 2012.
3. Craig Treasure was appointed Executive Chairman on 1 August 2012, prior to that date he was a non-executive director.
4. John Potter resigned on 5 October 2012.
5. In the prior period Long service leave represented the total liability to the Company and resulted in an overstatement of $36.4k. The amounts for S Payten and P Henderson have been correctly restated to reflect the movement for the prior period.
6. The cash settled share-based bonus for Scott Payten and Paulene Henderson lapsed without payment on 1 November 2012.

Directors' Report
30 June 2014 (continued)

## Remuneration Report (continued)

### Share-based payments

#### (a) Villa World Limited Option Plan

The grant of options over ordinary shares in Villa World Limited to the Chief Executive Officer and Managing Director, Craig Treasure, was approved by shareholders at a general meeting on 22 July 2013. The issue of options is designed to provide long term incentives for the Chief Executive Officer and Managing Director to deliver long term returns.

The Board also approved the issue of options over ordinary shares in Villa World Limited to other KMPs and staff. As at 30 June 2014, 4.0 million options have been issued in total to KMPs. Under the terms of the options granted to date, the options will only vest if the participating KMPs continue their respective service agreements with the Company for three years from the grant date.

The assessed fair value of the options at the grant date of 26 July 2013 is 10 cents per option. The fair value at grant date is independently determined using a Binomial Option Price Valuation Model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The model inputs for options granted include:

(i) options are granted for no consideration and vested options are exercisable for a period of six months after vesting
(ii) exercise price: $1.25
(iii) grant date: 26 July 2013
(iv) expiry date: 26 January 2017
(v) share price at grant date: $1.25
(vi) expected price volatility of shares: 25%
(vii) expected dividend yield: 9%
(viii) risk free rate: 2.57%

The volatility assumption is representative of the level of uncertainty expected in the movements of the share price over the life of the option. The historic volatility of the market price of the Company's share and the mean reversion tendency of volatilities are the two factors which are assessed when determining the expected volatility.

Set out below is a summary of the terms and conditions of each grant of options to KMPs under the Option Plan which will effect remuneration in the future reporting period:

| | | Grant Date | Expiry Date | Exercise Price | Granted as compensation | Value of options at grant date[1] | Vesting date |
|---|---|---|---|---|---|---|---|
| Craig Treasure | Chief Executive Officer and Managing Director | 26/07/2013 | 26/01/2017 | $1.25 | 3,000,000 | $300,000 | 26/07/2016 |
| Scott Payten | Chief Operating Officer | 26/07/2013 | 26/01/2017 | $1.25 | 750,000 | $75,000 | 26/07/2016 |
| Paulene Henderson | Chief Financial Officer | 26/07/2013 | 26/01/2017 | $1.25 | 250,000 | $25,000 | 26/07/2016 |

[1] The value of options at grant date is 10 cents per option and is calculated in accordance with AASB2 Share-based Payments.

#### (b) 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 30-Jun-14 $'000 | 30-Jun-13 $'000 |
|---|---|---|
| Options issued to KMPs | 133 | - |
| Fair value of cash settled share based payments for KMPs | - | (141) |
| | 133 | (141) |

Directors' Report
30 June 2014 (continued)

## Remuneration Report (continued)

### Shareholdings of KMPs

The numbers of shares in the Company held during the financial year by each KMP, including their closely related parties, are set out below. There were no shares granted during the reporting period as compensation.

| 30 June 14 | Balance at the start of the year | | Granted during the year | | Other changes during the year | | Balance at the end of the year | |
|---|---|---|---|---|---|---|---|---|
| Name | Direct holding | Indirect holding | Direct holding | Indirect holding | Direct holding | Indirect holding | Direct holding | Indirect holding |
| Directors | | | | | | | | |
| Mark Jewell | - | - | - | - | - | 100,958 | - | 100,958 |
| Craig Treasure | 200,000 | 500,000 | - | - | 50,000 | 50,000 | 250,000 | 550,000 |
| Sandy Beard[1] | - | - | - | - | - | - | - | - |
| Troy Harry[2] | - | 1,100,000 | - | - | - | (1,100,000) | - | - |
| Other KMPs | | | | | | | | |
| Scott Payten | 760 | - | - | - | 4,766 | - | 5,526 | - |
| Paulene Henderson | - | 50,050 | - | - | - | 15,766 | - | 65,816 |

[1] Alexander (Sandy) Beard is the Managing Director of CVC Limited, which owns 15,185,484 shares (June 2013: 17,593,604 shares) in Villa World Limited.
[2] Troy Harry resigned on 31 March 2014.

| 30 June 13 | Balance at the start of the year | | Granted during the year | | Other changes during the year | | Balance at the end of the year | |
|---|---|---|---|---|---|---|---|---|
| Name | Direct holding | Indirect holding | Direct holding | Indirect holding | Direct holding | Indirect holding | Direct holding | Indirect holding |
| Directors | | | | | | | | |
| Craig Treasure | - | 2,000 | - | - | 200,000 | 498,000 | 200,000 | 500,000 |
| Alexander Beard[1] | - | - | - | - | - | - | - | - |
| Troy Harry | - | 1,100,000 | - | - | - | - | - | 1,100,000 |
| John Potter[2] | - | 2,254,738 | - | - | - | (2,254,738) | - | - |
| Richard Anderson[3] | - | 51,091 | - | - | - | - | - | 51,091 |
| Other KMPs | | | | | | | | |
| Scott Payten | 760 | - | - | - | - | - | 760 | - |
| Paulene Henderson | - | - | - | - | - | 50,050 | - | 50,050 |

[1] Alexander (Sandy) Beard is the Managing Director of CVC Limited, which owns 17,593,604 shares (June 2012: 15,162,358 shares) in Villa World Ltd.
[2] John Potter resigned on 5 October 2012.
[3] Richard Anderson resigned on 25 October 2012.

## 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.

## 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.

## Insurance premiums (continued)

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 of the Company or its related bodies corporate. 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 or auditor of the Company or of any related body corporate against a liability incurred as such an officer or auditor.

## Indemnity of auditors

Details of the amounts paid to the auditors of the Company, Ernst & Young for audit and non-audit services provided during the year are set out in note 7 of the financial statements. 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

Ernst & Young was appointed lead auditor at the AGM on the 30 October 2013. PwC was the lead auditor for the period ended 30 June 2013. 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 7.

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 Act's independence requirements because none of the services undermine the general principles relating to auditor independence as set out in APES110 Code of Ethics for Professional Accountants.

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

## 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 26.

## Rounding of amounts

The Company is of a kind referred to in Class Order 98/100, 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 that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

This report is made in accordance with a resolution of Director's.

Craig Treasure
Chief Executive Officer and Managing Director

Gold Coast
26 August 2014

Building a better working world

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

In relation to our audit of the financial report of Villa World Limited for the financial year ended 30 June 2014, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

Ric Roach
Partner
26 August 2014

Villa World Limited
Corporate governance statement
30 June 2014

## 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 Council's 'Corporate Governance Principles and Recommendations', which offer a framework for good corporate governance. Copies of the Company's key governance policies are available in the Corporate Governance section of its website at http://www.villaworld.com.au/PDF/Corporate Governance Statement.pdf

# Villa World Limited
# ABN 38 117 546 326
# Annual report - 30 June 2014

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|---|---|

## Consolidated income statement
## For the year ended 30 June 2014

| | Notes | Consolidated 30-Jun-14 $'000 | Consolidated 30-Jun-13 $'000 |
|---|---|---|---|
| Revenue from continuing operations | | | |
| Revenue from land development, residential building and construction contracts | 4 | 229,450 | 169,396 |
| Cost of land development, residential building and construction contracts | 5 | (172,628) | (122,401) |
| | | 56,822 | 46,995 |
| Other income | 4 | 3,439 | 2,077 |
| Expenses, excluding finance costs | 5 | (33,942) | (26,771) |
| Impairment of investment in equity accounted investment | | - | (627) |
| Net impairment of development land | | 108 | (10,149) |
| Share of profit/(loss) from associates | 11 | 3,767 | (17,435) |
| Finance costs | 6 | (7,625) | (7,986) |
| Profit/(Loss) before income tax | | 22,569 | (13,896) |
| Income tax expense | 8 | (3,503) | 403 |
| Profit/(Loss) for the period | | 19,066 | (13,493) |
| Profit/(Loss) is attributable to: | | | |
| Owners of Villa World Limited | | 19,066 | (13,493) |

| | | Cents | Cents |
|---|---|---|---|
| Earnings per share for profit/(loss) attributable to the ordinary equity holders of the Company: | | | |
| Basic earnings per share | 3 | 21.8 | (18.2) |
| Diluted earnings per share | 3 | 21.5 | (18.2) |

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

## Consolidated statement of comprehensive income
## For the year ended 30 June 2014

| | Notes | Consolidated 30-Jun-14 $'000 | Consolidated 30-Jun-13 $'000 |
|---|---|---|---|
| Profit/(Loss) for the period | | 19,066 | (13,493) |
| Other comprehensive income | | | |
| *Items that may be reclassified to profit or loss* | | | |
| Changes in the fair value of cash flow hedges | 22(a) | (1,080) | (195) |
| Income tax relating to these items | 22(a) | 324 | 59 |
| Other comprehensive income for the period, net of tax | | (756) | (136) |
| Total comprehensive income for the period | | 18,310 | (13,629) |
| Total comprehensive income for the period is attributable to: | | | |
| Equity holders of the company | | 18,310 | (13,629) |
| Total comprehensive income for the period attributable to owners of Villa World Limited arises from: | | | |
| Continuing operations | | 18,310 | (13,629) |

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

# Consolidated balance sheet
## As at 30 June 2014

| | Notes | Consolidated 30-Jun-14 $'000 | Consolidated 30-Jun-13 $'000 |
|---|---|---|---|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | 9 | 12,118 | 15,350 |
| Trade and other receivables | 10 | 16,899 | 27,375 |
| Inventories | 12 | 123,660 | 85,907 |
| Other current assets | 13 | 1,978 | 1,246 |
| Total current assets | | 154,655 | 129,878 |
| Non-current assets | | | |
| Inventories | 12 | 134,563 | 83,365 |
| Property, plant and equipment | 14 | 1,125 | 961 |
| Investments accounted for using the equity method | 11 | 17,968 | 13,701 |
| Deferred tax assets | 16 | 8,958 | 11,723 |
| Total non-current assets | | 162,614 | 109,750 |
| Total assets | | 317,269 | 239,628 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | 18 | 54,856 | 25,575 |
| Provisions | 20 | 10,963 | 6,945 |
| Total current liabilities | | 65,819 | 32,520 |
| Non-current liabilities | | | |
| Trade and other payables | 18 | 1,520 | 480 |
| Borrowings | 19 | 69,086 | 70,025 |
| Provisions | 20 | 598 | 471 |
| Total non-current liabilities | | 71,204 | 70,976 |
| Total liabilities | | 137,023 | 103,496 |
| Net assets | | 180,246 | 136,132 |
| EQUITY | | | |
| Contributed equity | 21 | 413,375 | 382,125 |
| Other reserves | 22(a) | 164,774 | (437) |
| Retained earnings/(Accumulated Losses) | | (397,903) | (245,556) |
| Capital and reserves attributable to owners of Villa World Limited | | 180,246 | 136,132 |
| Total equity | | 180,246 | 136,132 |

*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 2014

| | | Attributable to owners of Villa World Limited | | | | | |
|---|---|---|---|---|---|---|---|
| Consolidated entity | Notes | Contributed equity $'000 | Cash flow hedges $'000 | Other Reserves $'000 | Profit Reserve $'000 | Retained earnings $'000 | Total $'000 |
| Balance at 1 July 2012 | | 383,592 | (521) | 220 | - | (232,063) | 151,228 |
| Loss for the year as reported in the 2013 financial statements | | - | - | - | - | (13,493) | (13,493) |
| Movement in hedge reserve (net of tax) | | - | (136) | - | - | - | (136) |
| Total comprehensive income for the period | | - | (136) | - | - | (13,493) | (13,629) |
| Share buy-back transactions | 21 | (1,467) | - | - | - | - | (1,467) |
| Balance at 30 June 2013 | | 382,125 | (657) | 220 | - | (245,556) | 136,132 |
| | | | | | | | |
| Balance at 1 July 2013 | | 382,125 | (657) | 220 | - | (245,556) | 136,132 |
| Profit for the year as reported in the 2014 financial statements | | - | - | - | - | 19,066 | 19,066 |
| Movement in hedge reserve (net of tax) | | - | (756) | - | - | - | (756) |
| Total comprehensive income for the period | | - | (756) | - | - | 19,066 | 18,310 |
| Securities issued from capital raising, net of transaction costs and tax | 21 | 26,292 | - | - | - | - | 26,292 |
| Securities issued under the share purchase plan, net of transaction costs and tax | 21 | 4,958 | - | - | - | - | 4,958 |
| Dividends provided for or paid | 23 | - | - | - | (5,620) | - | (5,620) |
| Transfer opening share based payments to retained earnings | | - | - | (220) | - | 220 | - |
| Expenses related to share based payments | 29 | - | - | 174 | - | - | 174 |
| Transfer opening retained profit to profit reserve | 22(a) | - | - | - | 150,342 | (150,342) | - |
| Transfer current year profit to profit reserve | 22(a) | - | - | - | 21,291 | (21,291) | - |
| | | 31,250 | - | (46) | 166,013 | (171,413) | 25,804 |
| Balance at 30 June 2014 | | 413,375 | (1,413) | 174 | 166,013 | (397,903) | 180,246 |

*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 2014

| | Notes | Consolidated | |
|---|---|---|---|
| | | 30-Jun-14 $'000 | 30-Jun-13 $'000 |
| Cash flows from operating activities | | | |
| Receipts from customers (inclusive of goods and services tax) | | 242,919 | 163,483 |
| Payments to suppliers and employees (inclusive of goods and services tax) | | (175,202) | (116,742) |
| | | 67,717 | 46,741 |
| Payments for land acquired | | (89,505) | (25,112) |
| Interest received | | 543 | 593 |
| Interest paid | | (4,936) | (4,356) |
| Borrowing costs | | (120) | (700) |
| Net cash (outflow)/inflow from operating activities | 31 | (26,301) | 17,166 |
| Cash flows from investing activities | | | |
| Payments for property, plant and equipment | | (613) | (323) |
| Loans to related parties | 11 | (500) | - |
| Repayments of loans by related parties | | - | (580) |
| Dividends received | | - | 860 |
| Net cash (outflow) from investing activities | | (1,113) | (43) |
| Cash flows from financing activities | | | |
| Proceeds from borrowings | | 24,960 | 5,874 |
| Payments for shares bought back | | - | (1,467) |
| Repayment of borrowings | | (26,000) | (9,000) |
| Proceeds from issue of share capital | | 32,200 | - |
| Transactions costs of issue of shares | | (1,358) | - |
| Dividends paid to company's shareholders | | (5,620) | - |
| Net cash (outflow) / inflow from financing activities | | 24,182 | (4,593) |
| Net (decrease)/increase in cash and cash equivalents | | (3,232) | 12,530 |
| Cash and cash equivalents at the beginning of the financial year | | 15,350 | 2,820 |
| Cash and cash equivalents at end of period | 9 | 12,118 | 15,350 |
| Reconciliation to cash at the end of the year: | | | |
| Cash and cash equivalents | | 12,118 | 15,350 |
| Cash and cash equivalents at the end of the year: | | 12,118 | 15,350 |

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

# Notes to the consolidated financial statements
# 30 June 2014

## Contents of the notes to the consolidated financial statements

## 1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. 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) 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.

#### *(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, financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

#### *(iii) Critical accounting estimates*

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

#### *(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.

### (b) Parent entity financial information

The financial information for the Parent entity, Villa World Limited, disclosed in note 15 has been prepared on the same basis as the consolidated financial statements, except as set out below.

#### *(i) Investments in subsidiaries, associates and joint venture entities*

Investments in controlled entities are carried in the Company's financial statements at the lower of cost or recoverable amount. Dividends received from associates are recognised in the parent entity's profit or loss when its right to receive the dividend is established.

#### *(ii) Tax consolidation legislation*

Villa World Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. Refer to note 1(h).

### (c) New accounting standards and interpretations

New standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2013 have been adopted by the Company. The Company has assessed the impact of these new standards and interpretations and has outlined their expected impacts in the following table:

Notes to the consolidated financial statements
30 June 2014 (continued)

| Standard | Nature Of Change | Impact On The Company |
|---|---|---|
| AASB 10 Consolidated Financial Statements | AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB 127 Consolidated and Separate Financial Statements. | The adoption of AASB 10 had no effect on the financial position or performance of the Company. |
| AASB 11 Joint Arrangements | AASB 11 uses the principles of control in AASB10 to define joint control and removes the option to account for jointly controlled entities using proportionate consolidation. Accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. | The adoption of AASB 11 had no effect on the financial position or performance of the Company. Additional disclosures where required, are provided in the individual notes. |
| AASB 12 Disclosure of Interests in Other Entities | AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. | The adoption of AASB 12 had no financial impact on the financial statements of the Company. Additional disclosures where required, are provided in the individual notes. |
| AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13 | AASB 13 explains how to measure fair value and aims to enhance fair value disclosures. | The adoption of AASB 13 had no material effect on the financial position or performance of the Company. Additional disclosures where required, are provided in the individual notes. |

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2014 reporting periods and have not yet been applied in the financial statements. The Company's assessment of the impact of these new standards and interpretations is set out below.

*(i) AASB9, AASB2009-11, AASB2010-7*

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 until 1 January 2018 but is available for early adoption. While the Company does not expect the new standard to have a significant impact on its financial position, it has yet to perform a detailed analysis of the new guidance.

*(ii) IFRS 15 Revenue from Contracts with Customers*

IFRS 15 *Revenue from Contracts and Customers* establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard is not applicable until 1 January 2018 but is available for early adoption. While the Company does not expect the new standard to have a significant impact on its financial position, it has yet to perform a detailed analysis of the new guidance.

(d) Principles of consolidation

*(i) Subsidiaries*

Subsidiaries are all entities over which the Company has the power, directly or indirectly, to govern their financial and operating policies so as to obtain benefits from its activities. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power. Specifically, the Company controls a subsidiary if and only if the Company has:

- Power over the subsidiary (i.e. existing rights that give it the current ability to direct the relevant activities of the subsidiary)
- Exposure, or rights, to variable returns from its involvement with the subsidiary, and
- The ability to use its power over the subsidiary to affect its returns.

In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The adoption of AASB 11 has not impacted the treatment of subsidiaries for the Company.

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.

*(ii) Joint ventures*

The interest in a joint venture partnership is accounted for in the consolidated financial statements using the equity method after initially being recognised at cost. Under the equity method, the share of the profits or losses of the joint venture is recognised in the income statement andthe share of post-acquisition movements in reserves is recognised in other comprehensive income.

Profits or losses on transactions establishing the joint venture partnership and transactions with the joint venture are eliminated to the extent of the Company's ownership interest until such time as they are realised by the joint venture partnership on consumption or sale. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are 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 future economic benefits will flow to the entity and specific criteria have been met for each of the Company's activities as described below. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for the major business activities as follows:

*(i) Land development and resale*

Revenue and costs of sales are brought to account when the significant risks and rewards of ownership and effective control over the goods have passed to the buyer. The significant risks and rewards are considered to be transferred to the buyer when the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the units sold. This is considered to be when the contract becomes unconditional or upon settlement depending on the terms of the contract and when it is probable that the economic benefits associated with the transaction will flow to the Company.

*(ii) Construction contracts*

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. 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. Contract expenses are recognised in accordance with the stage of completion unless they create an asset to future contract activity.

The stage of completion is assessed internally. 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.

*(iii) Interest income*

Interest income is recognised in the income statement on an accruals basis. Interest income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis. Interest income is recognised on a gross basis including withholding tax, if any.

*(iv) Sale of non-current assets*

The net loss or gain on sale of assets is calculated as the difference between the gross proceeds of sale and the carrying amount of the asset at the time of disposal (including incidental costs) and is recognised in other income.

*(v) Dividends and distribution*

Dividend revenue is recognised net of any franking credits.

Revenue from dividends and distributions from controlled entities is recognised by the Company when the right to receive the distribution has been established. This applies even if dividends are paid out of pre-acquisition profits.

(f) Expense recognition

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

(g) Finance costs

Ancillary costs incurred in connection with the arrangement of borrowings are capitalised and amortised over the life of the borrowings.

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. Other borrowing costs are expensed.

(h) Income tax

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.

Villa World Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

*(i) Current tax*

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

*(ii) Deferred tax*

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

– temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.
– temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Company is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.

– taxable temporary differences arising on the initial recognition of goodwill.

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. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if certain criteria are met.

### (i) 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 (note 27). 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.

### (j) Property, plant and equipment

#### *(i) Recognition and measurement*

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.

#### *(ii) Subsequent expenditure*

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Company.

#### *(iii) Depreciation*

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.

### (k) Impairment of assets

The carrying amounts of the Company's assets are tested for impairment at each balance sheet date where there are events or changes in circumstances that indicate they might be impaired.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement unless the asset has previously been re-valued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the income statement.

The recoverable amount of assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Company estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised.

The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

### (l) 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.

### (m) Inventories

#### *(i) Land held for resale and development costs*

Land held for resale is stated at the lower of cost and net realisable value. Cost is assigned by specific identification and includes the cost of acquisition, and development and borrowing costs during development (if the asset is a qualifying asset). 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 included in the cost of land held for resale are those costs that would have been avoided if the expenditure on the acquisition and development of the land had not been made. Borrowing costs incurred while active development is interrupted for extended periods are recognised as expenses.

(n) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement no more than 120 days from the date of recognition for land development and resale debtors and no more than 60 days for other debtors. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

(o) Trade and other payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30-60 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

(p) Derivatives and hedging activities

The Company uses derivative financial instruments to hedge interest rate risks. In accordance with its investment strategy, the entity does not hold or issue derivative financial instruments for trading purposes.

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. The 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.

The Company designates its derivatives as:

*(i) Cash flow hedge*

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.

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, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the amount accumulated in equity is reclassified to profit and loss.

(q) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings 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.

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.

(r) Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated possibilities. 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 expense relating to any provision is presented in the income statement net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

A provision for onerous contracts is recognised when the expected benefits to be derived by the consolidated entity from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

### (s) 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) Share-based payments*

Share-based compensation benefits are provided to key personnel via an employee option scheme. Information relating to these schemes is set out in note 29.

The fair value of options granted under the Villa World Limited Option Plan is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted, which includes any market performance conditions and the impact of any non-vesting conditions but excludes the impact of any service and non-market performance vesting conditions.

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

*(iv) 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.

*(v) 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.

### (t) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

If the Company reacquires its own equity instruments, for example as the result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

### (u) Dividends

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.

### (v) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker ("CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive team.

Disclosures concerning the Company's operating and reportable segments, as well as the key financial information provided to the CODM are set out in note 32 - Segment Information.

### (w) Earnings per share

*(i) Basic earnings per share*

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares;
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the period and excluding treasury shares.

*(ii) Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

### (x) 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 ATO 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.

### (y) Rounding of amounts

The Company is of a kind referred to in Class Order 98/100, 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 that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

## 2 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

### (a) Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

*(i) Warranty claims*

The Company generally offers a 6 year 6 month warranty for its housing products. 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.

*(ii) Inventory*

The inventory of the Company is stated as the lower of cost and net realisable value in accordance with the accounting policy stated in note 1(m). 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.

*(iii) 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 that 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 has recognised 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 and the same subsidiary against which the unused tax losses can be utilised.

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 the continuity of ownership test and the same business test in order to utilise any tax losses.

### (b) Critical judgements in applying the entity's accounting policies

*(i) Impairment of equity accounted investments*

After application of the equity method, (including recognising the joint venture's losses), the Company applies AASB 139 *Financial Instruments: Recognition and Measurement* to determine whether it is necessary to recognise any additional impairment loss with respect to its net investment in the joint venture. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). Estimating these future cash flows of the joint venture requires significant judgement and therefore actual amounts may differ from this impairment estimate.

## 3 Earnings per share

### (a) Basic earnings per share

| | Consolidated 30-Jun-14 Cents | 30-Jun-13 Cents |
|---|---|---|
| From continuing operations attributable to the ordinary equity holders of the company | 21.8 | (18.2) |
| Total basic earnings per share attributable to the ordinary equity holders of the Company | 21.8 | (18.2) |

### (b) Diluted earnings per share

| | Consolidated 30-Jun-14 Cents | 30-Jun-13 Cents |
|---|---|---|
| From continuing operations attributable to the ordinary equity holders of the company | 21.5 | (18.2) |
| Total diluted earnings per share attributable to the ordinary equity holders of the Company | 21.5 | (18.2) |

### (c) Reconciliation of earnings used in calculating earnings per share

| | Consolidated 30-Jun-14 $'000 | 30-Jun-13 $'000 |
|---|---|---|
| *Basic earnings per share* | | |
| Profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share: | | |
| From continuing operations | 19,066 | (13,493) |

### (d) Weighted average number of shares used as denominator

| | Consolidated 2014 Number '000 | 2013 Number '000 |
|---|---|---|
| Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share | 87,477 | 74,108 |
| Weighted average number of diluted shares used as the denominator in calculating diluted earnings per share | 88,790 | 74,108 |

### (e) Information on the classification of securities

*(i) Options*

Options granted to employees under the Villa World Option Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in note 29.

## 4 Revenue

| | Consolidated 30-Jun-14 $'000 | 30-Jun-13 $'000 |
|---|---|---|
| From continuing operations | | |
| Revenue from land development, residential building and construction contracts | 229,450 | 169,396 |
| *Other revenue* | | |
| Revenue from related joint ventures | 2,323 | 349 |
| Rebates received | 347 | 458 |
| Other Revenue | 769 | 1,270 |
| | 3,439 | 2,077 |
| | 232,889 | 171,473 |

## 5 Expenses

| | Consolidated 30-Jun-14 $'000 | 30-Jun-13 $'000 |
|---|---|---|
| *Expenses, excluding finance costs, included in the consolidated income statement classified by function* | | |
| Cost of land development, residential building and construction contracts | 172,628 | 122,401 |
| Expenses, excluding finance costs | 33,942 | 26,771 |
| | 206,570 | 149,172 |
| *Classification of these expenses by function* | | |
| Cost of land development, residential building and construction contracts | 172,628 | 122,401 |
| *Other expenses from ordinary activities* | | |
| Property sales and marketing expenses | 14,879 | 12,661 |
| Employee benefits | 11,448 | 7,858 |
| Land holding costs | 3,210 | 2,618 |
| Legal and professional costs | 1,018 | 1,049 |
| Administration costs | 623 | 406 |
| Information technology costs | 821 | 696 |
| Depreciation | 450 | 363 |
| Other expenses | 1,493 | 1,120 |
| | 33,942 | 26,771 |

## 6 Finance costs

| | Consolidated 30-Jun-14 $'000 | 30-Jun-13 $'000 |
|---|---|---|
| *Loan interest and charges* | | |
| Other financial institutions | 5,073 | 4,538 |
| Unwind of discount deferred consideration | 1,268 | 1,537 |
| Borrowing costs | 364 | 344 |
| | 6,705 | 6,419 |
| Amount capitalised* | (2,451) | (2,697) |
| Unwind of amount capitalised | 3,371 | 4,264 |
| Total finance costs included within the income statement | 7,625 | 7,986 |

*The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the entity's outstanding borrowings during the year, including line fees and margins, in this case 7.80% (30 June 2013: 7.68%).

## 7 Remuneration of auditors

Ernst & Young was appointed as the Lead Auditor at the AGM on 30 October 2013. PwC was the Lead Auditor for the period ended 30 June 2013.

During the year, the following fees were paid or payable for services provided by the Lead Auditor of the consolidated entity, its related practices and non-related audit firms:

(a) Ernst & Young

| | Consolidated 30-Jun-14 $ | 30-Jun-13 $ |
|---|---|---|
| *Audit and other assurance services* | | |
| Audit and review of financial statements | 114,979 | - |
| Total remuneration for audit and other assurance services | 114,979 | - |
| *Other services provided by EY:* | | |
| Other services | 87,037 | - |
| Total remuneration for other services | 87,037 | - |
| Total remuneration of Ernst & Young | 202,016 | - |

Notes to the consolidated financial statements
30 June 2014 (continued)

Remuneration of Auditors (continued)

(b) Non-Ernst & Young related audit firms

| | Consolidated 30-Jun-14 $ | 30-Jun-13 $ |
|---|---|---|
| *Audit and other assurance services* | | |
| Audit and review of financial statements | 42,543 | 206,076 |
| *Other services* | | |
| Taxation services | 8,311 | 74,127 |
| Other services | 18,570 | 74,230 |
| | 26,881 | 148,357 |
| Total remuneration of non-Ernst & Young audit firms | 69,424 | 354,433 |

## 8 Income tax expense

(a) Income tax expense / (benefit)

| | Consolidated 30-Jun-14 $'000 | 30-Jun-13 $'000 |
|---|---|---|
| Deferred tax | 3,783 | (1,161) |
| Adjustments for current tax of prior periods | (280) | 758 |
| Aggregate income tax (benefit) / expense | 3,503 | (403) |
| *Income tax expense is attributable to:* | | |
| Profit from continuing operations | 3,503 | (403) |
| Aggregate income tax expense | 3,503 | (403) |
| *Deferred income tax expense/(benefit) included in income tax expense comprises:* | | |
| (Increase) / decrease in deferred tax assets | 3,725 | (7,414) |
| (Decrease) / increase in deferred tax liabilities | (960) | 7,011 |
| Adjustments for current tax of prior periods | 280 | (758) |
| Net deferred tax – debited/(credited) directly to equity | 738 | - |
| | 3,783 | (1,161) |

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

| | Consolidated 30-Jun-14 $'000 | 30-Jun-13 $'000 |
|---|---|---|
| Profit/(loss) from continuing operations before income tax expense | 22,569 | (13,896) |
| | 22,569 | (13,896) |
| Tax at the Australian tax rate of 30.0% (2013 - 30.0%) | 6,771 | (4,169) |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income: | | |
| Property, plant and equipment | - | (73) |
| Franking credits | - | (258) |
| Profit / (loss) of equity accounted investments | 901 | 461 |
| | 7,672 | (4,039) |
| Derecognition / (recognition) of deferred tax asset for losses | (4,208) | 2,874 |
| Other | 319 | 4 |
| Adjustments for current tax of prior periods | (280) | 758 |
| | (4,169) | 3,636 |
| Income tax expense | 3,503 | (403) |

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

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

| | Consolidated 30-Jun-14 $'000 | 30-Jun-13 $'000 |
|---|---|---|
| Cash flow hedges | 324 | 59 |
| Total tax expense/(income) relating to items of other comprehensive income | 324 | 59 |

Income tax expense (continued)

### (d) Tax losses

During the year a prima facie taxable income of $13.9 million (30 June 2013: $2.1 million taxable income) was generated by the Company. Unused tax losses of $20.3 million (30 June 2013: $21.0 million) with a potential tax benefit of $6.1 million (30 June 2013: $6.3 million) have been recognised at 30 June 2014. The Company has not recognised $14.3 million of tax losses (30 June 2013: $28.4 million) with a potential tax benefit of $4.3 million (30 June 2013: $8.5 million). Total unused tax losses for the Company at 30 June 2014 are $34.6 million (30 June 2013: $49.4 million).

### (e) Tax consolidation legislation

The Company and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of 12 December 2006. The accounting policy in relation to this legislation is set out in note 1(h). On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into tax sharing agreements which, in the opinion of the Directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, the Company.

The entities have also entered into tax funding agreements under which the wholly-owned entities fully compensate for any current tax payable assumed and are compensated by the head entities for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to the Company under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entities, which are issued as soon as practicable after the end of each financial year. The head entities may also require payment of interim funding amounts to assist with its obligations to pay tax statements. The funding amounts are recognised as current intercompany receivables or payments.

### (f) Franking account

An amount of $16.7 million (30 June 2013: $19.1 million) is held as franking credits in the Company. Refer note 23(c).

## 9 Cash and cash equivalents

| | Consolidated | |
|---|---|---|
| | 30-Jun-14 $'000 | 30-Jun-13 $'000 |
| Cash at bank and in hand | 12,118 | 15,350 |
| Cash and cash equivalents | 12,118 | 15,350 |

## 10 Trade and other receivables

| | Consolidated | |
|---|---|---|
| | 30-Jun-14 $'000 | 30-Jun-13 $'000 |
| Current assets | | |
| Trade receivables | 14,825 | 25,557 |
| Trade receivables due from related parties | 660 | - |
| Other receivables | 1,414 | 1,818 |
| Total current assets | 16,899 | 27,375 |

The ageing of current trade receivables is as follows:

| | Consolidated | |
|---|---|---|
| | 30-Jun-14 $'000 | 30-Jun-13 $'000 |
| 1 to 3 months | 14,698 | 21,199 |
| Over 6 months | 787 | 4,358 |
| | 15,485 | 25,557 |

### (a) Past due but not impaired

As of 30 June 2014, the trade receivables of the Company of $nil (30 June 2013: $nil) were past due but not impaired. Trade receivables are generally due for settlement no more than 120 days from the date of recognition for land development and resale debtors and no more than 60 days for other debtors.

### (b) Other receivables

These amounts 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.

Notes to the consolidated financial statements
30 June 2014 (continued)

Trade and other receivables (continued)

(c) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value.

The fair value of collateral held for trade receivables is $15.5 million (30 June 2013 : $25.6 million). Refer to note 24 - Financial risk management for more information on the risk management policy of the Company and the credit quality of the entity's trade receivables.

## 11 Investments accounted for using equity

The Company has the following interests in jointly controlled entities.

| Name of Entity | % Owned | Purpose |
|---|---|---|
| Eynesbury Holding Pty Ltd | 50 | The owner of the Eynesbury Development Joint Venture Land, Victoria, as Trustee. |
| Eynesbury Pastoral Trust | 50 | The owner of the Eynesbury Development Joint Venture Land, Victoria. |
| Eynesbury Golf Pty Ltd | 50 | The operation of the golf course and homestead hospitality facilities at Eynesbury, Victoria. |
| Eynesbury Development Joint Venture | 50 | Residential development at Eynesbury, Victoria. |
| Expression Homes Pty Ltd | 50 | Residential development and construction projects primarily in Victoria. |

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

| | Consolidated | |
|---|---|---|
| | 30-Jun-14 | 30-Jun-13 |
| | $'000 | $'000 |
| Joint venture interests | | |
| Opening balance | 13,701 | 32,850 |
| Less: Share of net profit/(loss) of associates and joint ventures[1] | 3,767 | (17,448) |
| Add: Cash contribution | 500 | - |
| Less: Impairment in Eynesbury Group | - | (1,701) |
| Total investment accounted for using the equity method | 17,968 | 13,701 |

[1] The prior year consolidated share of profit/(loss) from associates includes share of profit from Cornell's Hill Pty Ltd and Cotton Ventures Pty Ltd ($13K).

Villa World's share of joint ventures' assets and liabilities

| | | |
|---|---|---|
| Current assets, including cash and cash equivalents $29.4m (2013:$1.5m) and trade debtors $25.5m (2013:$1.5m) | 58,666 | 62,089 |
| Non-current assets | 1,198 | 4,492 |
| Total assets | 59,864 | 66,581 |
| Current liabilities including bill facility $10.0m (2013:$nil) | 15,608 | 6,860 |
| Non-current liabilities including bill facility of nil (2013:$27.0m) | 57,132 | 82,806 |
| Total liabilities | 72,740 | 89,666 |
| Equity | (12,876) | (23,085) |
| Proportion of the Group's ownership | 50% | 50% |
| Equity attributable to the investment | (6,438) | (11,542) |

The non-current liabilities include loans to the Joint Venture partners totalling $56.8 million which have not been forgiven in the Joint Venture in line with the 2013 impairments raised. It is anticipated that $32 million of these loans will be forgiven in due course thus increasing the net asset position of the Joint Venture to approximately $19 million (50% share of $8.5 million). Since reporting date, $9 million has been repaid to each partner, reducing the investment from $17.9 million to $8.9 million.

Villa World's aggregate share of joint ventures revenue, expenses and results

| | | |
|---|---|---|
| Revenue | 71,269 | 11,375 |
| Expenses | 63,734 | 46,271 |
| Profit / (loss) before income tax | 7,535 | (34,896) |
| Company's share of profit for the year | 3,767 | (17,448) |
| Villa World's aggregate share of joint ventures contingent liabilities | | |
| Bank guarantees | 178 | 377 |

The equity accounted investment in the Company's Eynesbury Township joint venture as at 30 June 2014 is $18.0 million (30 June 2013 $13.7 million).

The Company advised the market on 21 August 2013 that contracts for the sale of the Eynesbury project (in which the Company holds a 50% interest) to the Hyde Property Group Pty Ltd were unconditional. The sale includes all undeveloped land, as well as the Eynesbury golf course land and business for a total sale price of $60 million (plus GST).

Notes to the consolidated financial statements
30 June 2014 (continued)

Investments accounted for using equity (continued)

On 27 June 2014, tranche one of the sale to the Hyde Property Group settled at a sale price of $30 million plus GST. The settlement date for the second tranche remains unchanged at 2 March 2015, at a sale price of $30 million plus GST. The purchaser has paid a deposit of $3 million in relation to the second contract, which has previously been released to the joint venture.

On 7 July 2014, $9 million was repaid to each Joint Venture partner, the investment reducing to $9 million. Refer note 30 - Events occurring after the reporting period.

The Company will receive a 2.2% Project Management Fee ($1.32 million) for the sale of Eynesbury. This is based on the sale price (incl. GST) of $66 million, which is included in Trade Debtors - related parties as at 30 June 2014. Refer note 10 - Trade and other receivables. On 17 July 2014, $660,000 of this project management fee was received.

For the Eynesbury 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.

## 12 Inventories

| | Consolidated | |
|---|---|---|
| | 30-Jun-14 | 30-Jun-13 |
| | $'000 | $'000 |
| Current assets | | |
| Land held for development and resale | 118,515 | 81,798 |
| Capitalised Interest | 6,003 | 4,430 |
| Impairment of development land | (858) | (321) |
| | 123,660 | 85,907 |
| Non-current assets | | |
| Land held for development and resale | 137,480 | 85,010 |
| Capitalised interest | 7,066 | 9,090 |
| Impairment of development land | (9,983) | (10,735) |
| | 134,563 | 83,365 |
| Total inventory | 258,223 | 169,272 |

## 13 Other assets

| | Consolidated | |
|---|---|---|
| | 30-Jun-14 | 30-Jun-13 |
| | $'000 | $'000 |
| Current assets | | |
| Prepayments | 729 | 506 |
| Advance commissions | 1,185 | 695 |
| Other | 64 | 45 |
| | 1,978 | 1,246 |

## 14 Property, plant and equipment

| Consolidated entity | Plant and equipment $'000 | Leasehold improvements $'000 | Information Technology $'000 | Total $'000 |
|---|---|---|---|---|
| At 30 June 2014 | | | | |
| Cost | 802 | 601 | 1,457 | 2,860 |
| Accumulated depreciation | (609) | (233) | (893) | (1,735) |
| Net book amount | 193 | 368 | 564 | 1,125 |

| Consolidated entity | | | | |
|---|---|---|---|---|
| At 30 June 2013 | | | | |
| Cost | 633 | 492 | 1,121 | 2,246 |
| Accumulated depreciation | (543) | (160) | (582) | (1,285) |
| Net book amount | 90 | 332 | 539 | 961 |

Notes to the consolidated financial statements
30 June 2014 (continued)

## 15 Parent entity financial information

The Company shareholders hold shares in a single holding company, being Villa World Limited (the "Company").

### (a) Summary financial information

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

| | 30-Jun-14 $'000 | 30-Jun-13 $'000 |
|---|---|---|
| Balance sheet | | |
| Current assets | 15,702 | 7,546 |
| Net assets | 179,842 | 150,116 |
| | | |
| *Shareholders' equity* | | |
| Issued capital | 89,662 | 58,413 |
| Reserves | 89,960 | 220 |
| Retained earnings | 220 | 91,483 |
| Total equity | 179,842 | 150,116 |
| | | |
| Profit or loss for the period | 3,923 | (2,978) |

### (b) Contingent liabilities of the parent entity

The parent entity has a provided financial guarantee in respect of the Bilateral Multi Option Facility ("MOF") with Australia and New Zealand Banking Group. Details of the parent entities contingent liabilities are disclosed in note 26 - Contingencies.

## 16 Deferred tax assets

| | Consolidated | |
|---|---|---|
| | 30-Jun-14 $'000 | 30-Jun-13 $'000 |
| The balance comprises temporary differences attributable to: | | |
| Tax losses | 6,083 | 6,307 |
| Inventories | 11,250 | 17,057 |
| Accruals | 631 | 49 |
| Employee benefits | 275 | 208 |
| Provisions | 3,265 | 2,142 |
| Property, plant and equipment | 96 | 216 |
| Other | 753 | 425 |
| Capital raising costs | 326 | - |
| | 22,679 | 26,404 |
| Set-off of deferred tax liabilities pursuant to set-off provisions | (13,721) | (14,681) |
| Net deferred tax assets | 8,958 | 11,723 |
| Movements | | |
| As at 1 July 2013 | 26,404 | 18,928 |
| - to profit or loss | (3,725) | 7,414 |
| - to other | - | 3 |
| - to other comprehensive income | - | 59 |
| As at 30 June 2014 | 22,679 | 26,404 |

## 17 Deferred tax liabilities

| | Consolidated | |
|---|---|---|
| | 30-Jun-14 $'000 | 30-Jun-13 $'000 |
| The balance comprises temporary differences attributable to: | | |
| Trade debtors | (8,100) | (7,714) |
| Inventories | (5,238) | (6,784) |
| Other current debtors | (383) | (183) |
| | (13,721) | (14,681) |
| Set-off deferred tax assets | 22,679 | 26,404 |
| Net deferred tax assets | 8,958 | 11,723 |
| Movements | | |
| As at 1 July 2013 | 14,681 | 7,670 |
| - profit or loss | (960) | 7,011 |
| As at 30 June 2014 | 13,721 | 14,681 |

## 18 Trade and other payables

| | Consolidated | |
|---|---|---|
| | 30-Jun-14 $'000 | 30-Jun-13 $'000 |
| Current liabilities | | |
| Trade payables[1] | 34,912 | 6,251 |
| Accrued expenses | 19,167 | 18,115 |
| Other payables[2] | 777 | 1,209 |
| Total current payables | 54,856 | 25,575 |
| Non-current liabilities | | |
| Other payables[3] | 1,520 | 480 |
| Total non-current payables | 1,520 | 480 |
| Total payables | 56,376 | 26,055 |

[1] Includes $30.4 million (30 June 2013: $3.0 million) payable for the purchase of inventory, due within 12 months of the reporting date.
[2] Includes derivatives payable of $0.6 million (30 June 2013 : $0.6 million). Refer note 24(d) – Fair value measurements.
[3] Includes derivatives payable of $1.4 million (30 June 2013: $0.3 million). Refer note 24(d) - Fair value measurements.

### (a) Derivative financial instruments

The Company is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest rates in accordance with the Company's financial risk management policies (refer to note 24 - Financial Risk Management). The gain or loss from remeasuring is transferred to the profit and loss when the hedge is ineffective.

*Interest rate swap contracts - cash flow hedges*

The "Multi-Option' bank facility for the Company bears an average variable interest rate of 7.80% (including line and facility fees).

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

The interest rate swap contract in place is referred to in the table below:

| Interest rate swap | Amount hedged $'000 | Expiry date | Loan facility $'000 | Percent hedged %[1] | Fixed rate %[2] | Variable rate as at 30-Jun-14 %[3] | Valuation as at 30-Jun-14 $'000 |
|---|---|---|---|---|---|---|---|
| Multi Option facility ANZ - Swap | 70,000 | 9-Jun-15 | 155,000 | 45.2% | 3.5% | 2.72% | 599 |
| Multi Option Facility ANZ - Swap[4] | 90,000 | 12-Jun-18 | 155,000 | 58.1% | 3.69% | 2.72% | 1,420 |

[1] % of loan facility limit.
[2] The swap rate outlined above does not include any margin and line fees applicable under the loan agreements.
[3] Variable rate is 30 day BBSY @ 30 June 2014.
[4] Effective date of swap is 9 June 2015.

| | Level 2 | |
|---|---|---|
| | 30-Jun-14 $'000 | 30-Jun-13 $'000 |
| Liabilities | | |
| *Financial liabilities at fair value through profit and loss:* | | |
| Derivatives used for hedging | (2,019) | (940) |
| Total liabilities | (2,019) | (940) |

At balance date, these contracts were liabilities with fair value of $2.0 million (30 June 2013: $0.9 million).

The gain or loss from remeasuring the hedging instruments at fair value is recognised in other comprehensive income and deferred in equity in the hedging reserve, to the extent that the hedge is effective. There is no ineffectiveness for the year ended 30 June 2014.

## 19 Borrowings

### (a) Financing arrangements

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

| | Consolidated 30-Jun-14 $'000 | 30-Jun-13 $'000 |
|---|---|---|
| Total financing facilities | | |
| Bi-lateral loan (secured) (i) | 155,000 | 110,000 |
| | 155,000 | 110,000 |
| Facilities utilised at reporting date | | |
| Loan (secured) (i) - non-current | 69,086 | 70,025 |
| | 69,086 | 70,025 |
| Bank guarantees utilised at reporting date | | |
| Loan (secured) (i) | 11,026 | 9,653 |
| | 11,026 | 9,653 |
| Facilities unutilised at reporting date | | |
| Loan (secured) (i) | 74,888 | 30,322 |
| | 74,888 | 30,322 |

*(i) Bilateral loan facilities*

The Company's primary banking facility with ANZ as at 30 June 2014 was $155 million (inclusive of working capital facility and bank guarantees) and matures on 1 September 2016 (30 June 2013: $110 million).

As at 30 June 2014 the facility was drawn exclusive of bank guarantees at $69.1 million (30 June 2013: $70.0 million). Bank guarantees issued total $11.0 million (30 June 2013: $9.7 million). The bank guarantees are also disclosed in note 26 - Contingencies.

No restrictions have been imposed on this facility by the financier during the year ending 30 June 2014 and drawdowns continue to be made in the ordinary course of business. All covenants under the facility were met within the required timeframes during the 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 3.5% (excluding the margin and line fees applicable under the loan agreement) on $70 million of borrowings. Refer to note 18(a) - Derivative financial instruments. The swap contract matures on 9 June 2015. During the financial year the Company entered into a $90 million swap at 3.69% which will commence on 9 June 2015 and will remain in place for 3 years.

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

### (b) Assets pledged as security

The facility is secured by registered mortgage over the majority of the Company's property inventories. The facility is also secured by mortgage debentures over all assets and undertakings of Villa World Limited and all 100% owned subsidiaries. The carrying amounts of assets pledged as security for current and non-current borrowings are:

| | Consolidated 30-Jun-14 $'000 | 30-Jun-13 $'000 |
|---|---|---|
| *Secured by registered mortgage:* | | |
| Inventories | 198,575 | 168,338 |
| Property, plant and equipment | 1,125 | 961 |
| | 199,700 | 169,299 |

## 20 Provisions

| | Consolidated 30-Jun-14 $'000 | 30-Jun-13 $'000 |
|---|---|---|
| Current liabilities | | |
| Service warranties (a) | 10,079 | 5,900 |
| Other provisions | 384 | 635 |
| Employee benefits (c) | 500 | 410 |
| Total current provisions | 10,963 | 6,945 |

## Provisions (continued)

| | Consolidated | |
|---|---|---|
| | 30-Jun-14 $'000 | 30-Jun-13 $'000 |
| Non-current liabilities | | |
| Other provisions | 247 | 233 |
| Employee benefits - long service leave (c) | 351 | 238 |
| Total non-current provisions | 598 | 471 |
| Total provisions | 11,561 | 7,416 |

(a) Service warranties

Provision is made for the estimated warranty claims in respect of Villa World Developments Pty Ltd built properties which are still under warranty at balance date. These claims are expected to be settled within the statutory warranty period. In addition, provisions include employee benefits and other general provisions.

(b) Movements in provisions

| Consolidated entity 2014 | Service warranties $'000 | Other $'000 |
|---|---|---|
| Current liabilities | | |
| Carrying amount at the start of the year | 5,900 | 635 |
| - additional provisions recognised | 6,679 | 108 |
| Amounts incurred and charged | (2,500) | (359) |
| Carrying amount at end of period | 10,079 | 384 |

| Consolidated entity 2014 | Service warranties $'000 | Other $'000 |
|---|---|---|
| Non-current liabilities | | |
| Carrying amount at start of year | - | 233 |
| - additional provisions recognised | - | 14 |
| Carrying amount at end of period | - | 247 |

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

The current provision for employee benefits includes accrued annual leave and long service leave. For long service leave it includes all unconditional entitlements where employees have completed the required period of service. The long service leave provision of $82,804 (30 June 2013: $94,456) is classified as current, since the Company does not have an unconditional right to defer settlement for this obligation. The non-current long service leave provision covers conditional entitlements where employees have not completed their required period of service, adjusted for the probability of likely realisation.

(d) Legal claim

Home warranty claim - Thornleigh

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

A Court-appointed Referee has determined that the Company is liable for $2,687,938. There are also likely to be costs orders made against the Company by the Court. The Company intends to challenge certain aspects of the Referee's determination at a Court "adoption hearing" likely to be held in December 2014.

Provisions for the home warranty claim have been raised in the balance sheet based on best estimates. Factors taken into account include the impact of the Referee's determination referred to above, potential costs orders, and alternative potential outcomes of the Court adoption hearing. Estimating this provision requires the exercise of significant judgement and it is therefore possible that actual amounts may differ from this estimate. The information in relation to provisions usually required by AASB137 Provisions, Contingent Liability and Contingent Assets is not disclosed on the grounds that it is expected to prejudice the outcome of the potential claim.

## 21 Contributed equity

| | 30-Jun-14 2014 Shares '000 | 30-Jun-13 2013 Shares '000 | 30-Jun-14 $'000 | 30-Jun-13 $'000 |
|---|---|---|---|---|
| Ordinary shares | | | | |
| Opening balance | 73,539 | 75,223 | 382,125 | 383,592 |
| Share buy-back | - | (1,684) | - | (1,467) |
| Shares issued as part of the capital raising [1] | 17,000 | - | 27,200 | - |
| Shares issued as part of the share purchase plan[2] | 3,125 | - | 5,000 | - |
| Transaction costs from capital transactions net of tax | - | - | (950) | - |
| | 93,664 | 73,539 | 413,375 | 382,125 |

[1] On 18 September 2013, Villa World Limited announced it had completed a fully underwritten institutional placement to raise $27.2 million. The placement was completed at an issue price of $1.60 per share, representing a 3.9% discount to the closing price of the Company's shares on 16 September 2013 and a 5.1% discount to the volume weighted average price for the five trading days prior to the announcement of the placement.

[2] The record date for the share purchase plan was 17 September 2013. The share purchase plan was offered at the same price per share as the institutional placement.

### (a) Ordinary shares

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) Options

Information relating to the Company, including details of options issued, exercised and lapsed during the financial year, is set out in the Remuneration report on page 19 and note 29 - Share-based payments.

### (c) Capital risk management

The Company's objectives when managing capital is to safeguard the ability to continue as a going concern, continue to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital. 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 tangible 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). Total tangible assets are calculated as total assets less intangible assets.

The Company's policy is to continue to manage debt levels and maintain the gearing ratio between 15% and 35%. As at 30 June 2014, the gearing ratio was 18.7% (30 June 2013: 24.4%).

The Company has complied with the financial covenants of its borrowing facilities during the 2014 and 2013 reporting periods.

| | Notes | Consolidated 30-Jun-14 $'000 | Consolidated 30-Jun-13 $'000 |
|---|---|---|---|
| Total borrowings (excluding bank guarantees) | 19 | 69,086 | 70,025 |
| Less: Cash and cash equivalents | 9 | (12,118) | (15,350) |
| Net debt | | 56,968 | 54,675 |
| Total assets | | 317,269 | 239,628 |
| Less: Cash and cash equivalents | 9 | (12,118) | (15,350) |
| | | 305,151 | 224,278 |
| Gearing ratio | | 18.7% | 24.4% |

## 22 Other reserves and accumulated losses

### (a) Other reserves

| | Notes | Consolidated 30-Jun-14 $'000 | 30-Jun-13 $'000 |
|---|---|---|---|
| Movements: | | | |
| *(i) Profits reserve* | | | |
| Transfer opening retained profits | | 150,342 | - |
| Transfer current year profit | | 21,291 | - |
| Dividends provided for or paid | 23(a) | (5,620) | - |
| Closing balance | | 166,013 | - |
| *(ii) Hedging reserve - cash flow hedges* | | | |
| Opening balance | | (657) | (521) |
| Revaluation - gross | | (1,080) | (195) |
| Deferred tax | 8 | 324 | 59 |
| Closing balance | | (1,413) | (657) |
| *(iii) Share-based payments* | | | |
| Opening balance | | 220 | 220 |
| Options issued | 29 | 174 | - |
| Transfer options lapsed to retained earnings | | (220) | - |
| Closing balance | | 174 | 220 |
| | | 164,774 | (437) |

### (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 appropriate against prior year accumulated losses. Any such profits are available to enable payment of franked dividends in the future should the Directors declare by resolution. The accumulated losses were generated by Villa World Trust, which held investment property assets and was wound up in June 2012.

*(ii) Cash flow hedges*

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised in other comprehensive income, as described in note 1(p). 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 options issued to KMPs and executives. Refer note 29 - Share-based payments.

## 23 Dividends

### (a) Ordinary shares

| | Consolidated 30-Jun-14 $'000 | 30-Jun-13 $'000 |
|---|---|---|
| Interim dividend for the year ended 30 June 2014 of 6.0 cents (2013: nil) per fully paid share paid on 2 April 2014. | | |
| Interim franked dividend based on tax paid at 30.0% | 5,620 | - |

## Dividends (continued)

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

| | Consolidated | |
|---|---|---|
| | 30-Jun-14 $'000 | 30-Jun-13 $'000 |
| In addition to the above dividends, since period end the Directors have recommended the payment of a final dividend of 9.0 cents per fully paid ordinary share (2013: nil) fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 30 September 2014 out of profits reserve at 30 June 2014, but not recognised as a liability at period end, is | 8,430 | - |

(c) Franking credits

| | Consolidated entity | |
|---|---|---|
| | 30-Jun-14 $'000 | 30-Jun-13 $'000 |
| Franking credits available for subsequent reporting periods based on a tax rate of 30.0% (2013 - 30.0%) | 16,701 | 19,106 |

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.

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

## 24 Financial risk management

The Company's activities are exposed to a variety of financial risks which include market risk (including interest rate risk), credit risk and liquidity risk. 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 Company's overall risk management program focuses on the unpredictability of financial markets, is managed centrally to ensure alignment of financial risk management with corporate objectives and seeks to minimise potential adverse effects on the financial performance of the Company.

The Company uses derivative financial instruments such as interest rate swaps to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. The Company uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate risk, aging analysis for credit risk.

Financial risk management is carried out by the finance department under policies approved by the Board. 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.

(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. Market risk comprises price risk and interest rate risk.

*(i) Cash flow and fair value interest rate risk*

The Company does not have exposure to equity investments publicly traded on the ASX. The Company's main interest rate risk arises from long term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. The Company policy is to maintain a minimum of $70 million of its borrowings fixed by way of interest rate swaps. During the current and prior financial years, the Company's borrowings at variable rate were denominated in Australian dollars.

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

| Consolidated entity | 30 June 2014 | | 30 June 2013 | |
|---|---|---|---|---|
| | Weighted average interest rate % | Balance $'000 | Weighted average interest rate % | Balance $'000 |
| Bilateral loan facilities | 7.8% | 69,086 | 7.7% | 70,025 |
| Interest rate swaps - syndicated loans | 3.5% | (70,000) | 3.5% | (70,000) |
| Net exposure to cash flow interest rate risk | | (914) | | 25 |

## Financial Risk Management (continued)

An analysis by maturities is provided in note 24(c) below.

The Company manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Company raises long-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Company borrowed at fixed rates directly. Under the interest rate swaps, the Company agrees with other parties to exchange at specified intervals the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts.

*Group sensitivity*

At 30 June 2014, if interest rates had changed by -/+ 25 basis points from the year end rates with all other variables held constant, post-tax profits for the year, would have been $0.03 million lower/higher (30 June 2013: $0.50 million lower/higher), mainly as a result of higher/lower interest expense from interest bearing liabilities. Other components of equity would have been $0.8 million lower/higher (2013: $0.3 million lower/higher) mainly as a result of an increase/decrease in the fair value of the cash flow hedges of borrowings.

### (b) Credit risk

Credit risk is managed on a consolidated basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with a minimum rating of "AA-" are accepted.

If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as summarised on the table below.

| | 30-Jun-14 $'000 | 30-Jun-13 $'000 |
|---|---|---|
| Trade receivables | | |
| *Counterparties without external credit rating ** | | |
| Group 1 | 15,485 | 25,557 |
| Total trade receivables | 15,485 | 25,557 |
| Cash at bank and short-term bank deposits | | |
| AA- | 12,118 | 15,350 |
| | 12,118 | 15,350 |

* Group 1 - This group of receivables is primarily from the sale of house and land packages and land only.

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the consolidated entity. The Company's assets are primarily investment and development properties, it has limited exposure to credit risks.

The Company has no significant concentrations of credit risk for trade receivables. Trade receivable balances and the credit quality of trade debtors are consistently monitored on an ongoing basis. Ongoing checks are performed by management to ensure that settlement terms detailed in individual contracts are adhered to. The Company does not pass clear title to properties sold until they have been paid in full.

The Company's borrowings are concentrated to a single credit provider being the Australian and New Zealand Banking Group. The Board have considered this risk and believes that the financial benefit obtained from using a single AA- rated credit provider outweighs any exposure to concentration risk.

The credit risk associated with 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.

### (c) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The Company manages liquidity risk by continuously monitoring forecast and actual cash flows.

The Company is reliant on the availability of the financing facilities made available to it by its external provider.

## Financial Risk Management (continued)

### *(i) Financing arrangements*

The Company had access to the following undrawn borrowing facilities at the end of the reporting period:

| | Consolidated 30-Jun-14 $'000 | Consolidated 30-Jun-13 $'000 |
|---|---|---|
| Floating rate | | |
| - Expiring beyond one year (bank loans) | 74,889 | 30,322 |
| | 74,889 | 30,322 |

### *(ii) Maturities of financial liabilities*

The table below analyses the Company's financial liabilities and net settled derivative financial instruments into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. For interest rate swaps the cash flows have been estimated using forward interest rates applicable at the reporting date.

| Contractual maturities of financial liabilities<br>At 30 June 2014 | Less than 6 months $'000 | 6 - 12 months $'000 | Between 1 and 2 years $'000 | Between 2 and 5 years $'000 | Over 5 years $'000 | Total contractual cash flows $'000 | Carrying amount (assets)/ liabilities $'000 |
|---|---|---|---|---|---|---|---|
| Non-derivatives | | | | | | | |
| Commitments | 11,175 | 11,950 | 15,340 | - | - | 38,465 | - |
| Trade payables | 32,912 | 2,000 | - | - | - | 34,912 | 34,912 |
| Bilateral loan facility | 2,245 | 2,245 | 4,491 | 69,085 | - | 78,066 | 69,085 |
| Total non-derivatives | 46,322 | 16,195 | 19,831 | 69,085 | - | 151,443 | 103,997 |
| Derivatives | | | | | | | |
| Net settled (interest rate swaps) | (287) | (312) | (776) | (644) | - | (2,019) | (2,019) |
| | (287) | (312) | (776) | (644) | - | (2,019) | (2,019) |
| At 30 June 2013 | | | | | | | |
| Non-derivatives | | | | | | | |
| Commitments | 6,870 | 9,309 | 19,905 | 9,714 | - | 45,798 | 3,401 |
| Trade payables | 6,251 | - | - | - | - | 6,251 | 6,251 |
| Bilateral loan facility | 2,311 | 2,311 | 4,622 | 72,721 | - | 81,965 | 70,355 |
| Total non-derivatives | 15,432 | 11,620 | 24,527 | 82,435 | - | 134,014 | 80,007 |
| Derivatives | | | | | | | |
| Net settled (interest rate swaps) | (268) | (321) | (351) | - | - | (940) | (940) |
| Total derivatives | (268) | (321) | (351) | - | - | (940) | (940) |

### (d) Fair value measurements

*Interest rate swap contracts - cash flow hedges*

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

The "Multi-Option" bank facility for the Company bears an average variable interest rate of 7.80% (including line and facility fees).

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

For the year ended 30 June 2014, the amount hedged remains at $70 million and is due to expire on 9 June 2015. During the financial year the Company entered into a $90 million swap at 3.69% which will commence on 9 June 2015. At balance date these contracts were liabilities with a fair value of $2.0 million (30 June 2013: $0.9 million).

Notes to the consolidated financial statements
30 June 2014 (continued)

## Financial Risk Management (continued)

The gain or loss from remeasuring the hedging instruments at fair value is recognised in other comprehensive income and deferred in equity in the hedging reserve, to the extent that the hedge is effective. There is no ineffectiveness for the year ended 30 June 2014.

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

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

*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).

*Valuation techniques*

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

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the tables:

| Consolidated entity - at 30 June 2014 | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|
| Liabilities | | | | |
| *Financial liabilities at fair value through profit and loss:* | | | | |
| Derivatives used for hedging | - | (2,019) | - | (2,019) |
| Total liabilities | - | (2,019) | - | (2,019) |

| Consolidated entity - at 30 June 2013 | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|
| Liabilities | | | | |
| *Financial liabilities at fair value through profit and loss:* | | | | |
| Derivatives used for hedging | - | (940) | - | (940) |
| Total liabilities | - | (940) | - | (940) |

## 25 Key management personnel (“KMP”) disclosures

### (a) KMP compensation

| | Consolidated 30-Jun-14 $ | Consolidated 30-Jun-13 $ |
|---|---|---|
| Short-term employee benefits | 1,521,997 | 1,412,251 |
| Post-employment benefits | 62,590 | 61,842 |
| Long-term benefits | 14,911 | 21,025 |
| Share-based payments | 133,333 | (140,773) |
| | 1,732,831 | 1,354,345 |

Detailed remuneration disclosures are provided in the remuneration report on pages 19 to 24.

### (b) Equity instrument disclosures relating to KMPs

*Options provided as remuneration and shares issued on exercise of such options*

The grant of options over ordinary shares in Villa World Limited to the Chief Executive Officer and Managing Director, Craig Treasure, was approved by shareholders at a general meeting on 22 July 2013. The issue of options is designed to provide long term incentives for the Chief Executive Officer and Managing Director to deliver long term returns.

### KMP disclosures (continued)

The Board also approved the issue of options over ordinary shares in Villa World Limited to other KMPs and staff. As at 30 June 2014, 4.0 million options have been issued in total to KMPs. Under the terms of the options granted to date the options will only vest if the participating KMPs continue their respective service agreements with the Company for three years from the grant date.

The assessed fair value of the options as at the grant date of 26 July 2013, is 10 cents per option. The fair value at grant date is independently determined using a Binomial Option Price Valuation Model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The model inputs for options granted include:

(i) options are granted for no consideration and vested options are exercisable for a period of six months after vesting
(ii) exercise price: $1.25
(iii) grant date: 26 July 2013
(iv) expiry date: 26 January 2017
(v) share price at grant date: $1.25
(vi) expected price volatility of shares: 25%
(vii) expected dividend yield: 9%
(viii) risk free rate: 2.57%

The volatility assumption is representative of the level of uncertainty expected in the movements of the share price over the life of the option. The historic volatility of the market price of the Company's share and the mean reversion tendency of volatilities are the two factors which are assessed when determining the expected volatility.

Set out below is a summary of the terms and conditions of each grant of options to KMPs under the Option Plan which will effect remuneration in the future reporting period:

| | | Grant Date | Expiry Date | Exercise Price | Granted as compensation | Value of options at grant date[1] | Vesting date |
|---|---|---|---|---|---|---|---|
| Craig Treasure | Chief Executive Officer and Managing Director | 26/07/2013 | 26/01/2017 | $1.25 | 3,000,000 | $300,000.00 | 26/07/2016 |
| Scott Payten | Chief Operating Officer | 26/07/2013 | 26/01/2017 | $1.25 | 750,000 | $75,000.00 | 26/07/2016 |
| Paulene Henderson | Chief Financial Officer | 26/07/2013 | 26/01/2017 | $1.25 | 250,000 | $25,000.00 | 26/07/2016 |

[1]The value of options at grant date is 10 cents per option and is calculated in accordance with AASB2 Share-based Payments.

(c) Transactions with KMPs

From time to time, KMPs of the Company may purchase goods from the company. These purchases are on the same terms and conditions as those entered into by other Company employees and are domestic in nature.

During the year, Paulene Henderson acquired a dwelling from Villa World Developments Pty Ltd. The amount of this transaction was $587,000 after a 2.5% discount to market prices. This sale was within a normal employee relationship on terms and conditions no more favourable than those which it is reasonable to expect would have been adopted if dealing with a Company employee in the same circumstances.

(d) Loans to KMPs

For the financial year ended 30 June 2014, there were no loans to KMPs.

## 26 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.

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.

The Company has provided bank guarantees to the total of $11.0 million (30 June 2013: $9.7 million) to authorities and councils in relation to certain works to be undertaken or maintained or in support of contractual commitments.

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

*Silverstone, Tweed Heads*

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

### Contingencies (continued)

The proceedings have been commenced by the Owners Corporation for the building, and by unit owners. No claim amount has been specified.

This matter is complex and has been the subject of ongoing investigations by Villa World, and was included as a provision and contingent liability in Villa World's Financial Statements for the financial years ended 30 June 2012 and 30 June 2013 and the current year. Villa World is defending the proceedings, and has also commenced cross-claims against certain other parties seeking contribution and/or indemnity for any potential liability. The potential liability arising from this matter cannot presently be reliably estimated, and is therefore identified as a contingent liability.

Provisions have been raised in the balance sheet based on best estimates of the ongoing costs (as opposed to the potential claim amount) to be incurred in progressing this investigation and legal proceedings. Estimating this provision requires the exercise of significant judgement and it is therefore possible that actual amounts may differ from this estimate.

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

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

The Company has provided guarantees in respect of the loan facility for the Eynesbury joint venture. The special conditions of the debt facility limit the maximum principal amount recoverable from the Company to 50% of the principal outstanding, interest and reasonable costs. As at 30 June 2014, the Eynesbury facility (at 100%) was drawn to $10 million and $0.3 million of bank guarantees were issued (30 June 2013: $27 million and $0.8 million bank guarantee).

## 27 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 to the north of Brisbane and in Victoria.

The call option gives Villa World Developments Pty Ltd (or a third party) the option to purchase the lot(s) at a nominated price by a sunset date. The put option gives the vendor the right to sell to the Company at a nominated price on expiry of the call option sunset date. The potential total commitments remaining under the Agreements are $38.5 million. The commitments are crystallised on registration of the land by the vendor and will be made available on a stage by stage basis. However, the Agreements are severable by development stage and the commitments may be less than the total commitments under the Agreements as outlined above.

At 30 June 2013, the commitments were $43.8 million. Of this balance $30.4 million crystallised, resulting in a balance of $13.4 million. During the year additional put and call arrangements have been entered into totalling $25.1 million. Commitments at 30 June 2014 totalled $38.5 million.

### (b) Lease commitments

*(i) Non-cancellable operating leases*

The Company has a lease on office space under a non-cancellable operating lease expiring 8 January 2019. The lease has varying terms, escalation clauses and renewal rights. On renewal, the terms of the lease are renegotiated.

| | Consolidated | |
|---|---|---|
| | 30-Jun-14 | 30-Jun-13 |
| | $'000 | $'000 |
| Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows: | | |
| Within one year | 233 | 226 |
| Later than one year but not later than five years | 965 | 1,029 |
| Later than five years | 20 | 111 |
| | 1,218 | 1,366 |

Notes to the consolidated financial statements
30 June 2014 (continued)

## 28 Subsidiaries

### (a) Significant investments in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following principal subsidiaries in accordance with the accounting policy described in note 1(d): All subsidiaries are incorporated in Australia.

| Name of entity | Country of incorporation | Class of shares | Equity holding 2014 % | 2013 % |
|---|---|---|---|---|
| *Parent entity* | | | | |
| Villa World Limited | | | | |
| Villa World Developments Pty Ltd | Australia | Ordinary | 100 | 100 |
| Villa World (Vic) Pty Ltd | Australia | Ordinary | 100 | 100 |
| GPDQ Pty Ltd | Australia | Ordinary | 100 | 100 |
| Hervey Bay (JV) Pty Ltd | Australia | Ordinary | 100 | 100 |
| Cornell's Hill Pty Ltd | Australia | Ordinary | 100 | 100 |
| Cotton Ventures Pty Ltd | Australia | Ordinary | 100 | 100 |
| Westminster Street Developments Pty Ltd | Australia | Ordinary | 100 | - |
| Villa World Redlands Pty Ltd | Australia | Ordinary | 100 | - |

## 29 Share-based payments

### (a) Villa World Limited Option Plan

The Company operates long term incentives ("LTIs") in the form of a Villa World Limited Option Plan, approved by shareholders at the Company's AGM on 30 October 2013. For options that have been issued to date, the options vest at the completion of three years' service from the grant date. Under the terms of the options granted to date, if the participating employee leaves the Company before the vesting date, options are cancelled, although the Board may waive this restriction at its discretion.

The fair value at grant date is independently determined using a Binomial Option Price Valuation Model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The volatility assumption is representative of the level of uncertainty expected in the movements of the share price over the life of the option. The historic volatility of the market price of the Company's shares and the mean reversion tendency of volatilities are the two factors which are assessed when determining the expected volatility.

Set out below is a summary of the terms and conditions of each grant of options under the plan which will effect remuneration in the future reporting period:

| | Grant Date | Expiry Date | Exercise Price | Granted as compensation | Value of options at grant date[1] | Vesting date | Expected price volatility of shares | Expected dividend yield | Risk free interest rate |
|---|---|---|---|---|---|---|---|---|---|
| Options granted to KMPs | 26/07/2013 | 26/01/2017 | $1.25 | 4,000,000 | $400,000 | 26/07/2016 | 25% | 9.0% | 2.57% |
| Options granted to | 26/07/2013 | 26/01/2017 | $1.25 | 500,000 | $50,000 | 26/07/2016 | 25% | 9.0% | 2.57% |
| senior employees | 05/11/2013 | 05/05/2017 | $1.60 | 250,000 | $67,500 | 05/11/2016 | 30% | 5.5% | 3.15% |
| | 17/02/2014 | 11/08/2017 | $1.60 | 150,000 | $61,500 | 11/02/2017 | 30% | 7.1% | 3.10% |

[1]The options are valued at grant date and calculated in accordance with AASB2 Share-based Payments

### (b) 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 30-Jun-14 $'000 | 30-Jun-13 $'000 |
|---|---|---|
| Options issued to KMPs | 133 | - |
| Options issued to senior employees | 41 | - |
| Fair value of cash settled share based payments for KMPs and senior employees | - | (141) |
| | 174 | (141) |

## 30 Events occurring after the reporting period

### Final Dividend

On 26 August 2014 the Board declared a fully franked final dividend of 9.0 cents per share. The ex-dividend date is 1 September 2014 and the record date for this dividend is 3 September 2014. Payment will be made on 30 September 2014.

As at 30 June 2014, an amount of $16.7 million is held as franking credits in the Company.

### Investment in the Eynesbury Joint Venture

As previously disclosed, the Company has entered into unconditional contracts for the sale of the Eynesbury project (in which the Company holds a 50% interest). On 27 June the first tranche (comprising part of the land and the golf course business) was completed at a sale price of $30 million plus GST.

As at 30 June 2014 the equity accounted investment in the Eynesbury Joint Venture was $18.0 million. On 7 July 2014, $9 million was repaid to each Joint Venture partner, the investment reducing to $9 million.

### Acquisition - Victoria

On 14 July 2014, Villa World Limited announced that it had entered into Put & Call Option in relation to a site located at Greenvale in the northern suburbs of Melbourne, well serviced by key infrastructure and amenities.

The land owner is required to deliver completed vacant lots, for the Company to construct dwellings and sell house and land packages. The transaction totals $26.2 million (including GST) and is to be paid progressively to the land owner from the settlement proceeds of the house and land sales.

The site is expected to yield approximately 131 residential lots, comprising traditional Villa World housing designs on a variety of lot sizes.

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

| | Consolidated | |
|---|---|---|
| | 30-Jun-14 $'000 | 30-Jun-13 $'000 |
| Profit for the year | 19,066 | (13,493) |
| Depreciation and amortisation | 450 | 377 |
| Capitalised interest and fees | 2,189 | 3,105 |
| Borrowing costs | 364 | 344 |
| Share of (gain) / loss from associate | (3,767) | 17,435 |
| Impairment of investment in equity accounted investments | - | 627 |
| Impairment of development land | (108) | 10,149 |
| Change in operating assets and liabilities: | | |
| (Increase) / decrease in trade debtors | 10,038 | (7,886) |
| Decrease / (increase) in inventories | (88,844) | 11,435 |
| (Decrease) / increase in trade creditors | 27,022 | (5,379) |
| (Increase) / decrease in deferred tax assets | 3,090 | (406) |
| Decrease / (increase) in other operating assets and liabilities | 80 | 765 |
| Increase / (decrease) in other provisions | 4,119 | 93 |
| Net cash inflow / (outflow) from operating activities | (26,301) | 17,166 |

## 32 Segment information

### (a) Description of segments

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

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

The committee considers the business from both a product, and within Australia, a geographical perspective and has identified two reportable segments:

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

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

- *Historical results of the segment, using both revenue and gross margin.*
- *Future forecasts of the segment for the remainder of the year.*
- *Key risks and opportunities facing the segments.*

## Segment information (continued)

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

#### *(i) Segment Revenue*

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

#### *(ii) Segment gross margin*

The executive committee assesses the performance of the operating segments based on a measure of gross margin. This measurement basis consists of revenue less land, development, construction and sundry costs. It excludes the effects of non-recurring expenditure from the operating segments such as fair value impairments on inventory and other assets.

The segment information provided to the executive committee for the reportable segments for the year ended 30 June 2014 is as follows:

| | Consolidated | |
|---|---|---|
| | 30-Jun-14 $'000 | 30-Jun-13 $'000 |
| *From continuing operations* | | |
| *Segment revenue from land development, residential building and construction contracts* | | |
| Queensland and New South Wales | 202,242 | 143,224 |
| Victoria | 27,208 | 26,172 |
| Total segment revenue from land development, residential building and construction contracts | 229,450 | 169,396 |
| *Segment cost of land development, residential building and construction contracts* | | |
| Queensland and New South Wales | 154,610 | 104,303 |
| Victoria | 18,018 | 18,098 |
| Total segment cost of land development, residential building and construction contracts | 172,628 | 122,401 |
| *Segment gross margin* | | |
| Queensland and New South Wales | 47,632 | 38,921 |
| Victoria | 9,190 | 8,074 |
| Total segment gross margin | 56,822 | 46,995 |

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

# Directors' declaration
# 30 June 2014

In the Directors' opinion:

(a) the financial statements and notes set out on pages 34 to 61 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 2014 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 1(a) 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
26 August 2014

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

## Report on the financial report

We have audited the accompanying financial report of Villa World Limited, which comprises the consolidated balance sheet as at 30 June 2014, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### *Directors' responsibility 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 controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

### *Independence*

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

Building a better working world

### *Opinion*

In our opinion:

a. the financial report of Villa World Limited is in accordance with the *Corporations Act 2001*, including:

  i giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and

  ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

## Report on the remuneration report

We have audited the Remuneration Report included in pages 19 to 24 of the directors' report for the year ended 30 June 2014. 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.

### *Opinion*

In our opinion, the Remuneration Report of Villa World Limited for the year ended 30 June 2014, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Ric Roach
Partner
Brisbane
26 August 2014

## 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 18 August 2014)

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

| | No of shares held |
|---|---|
| CVC Limited | 15,185,484 |
| John Leaver and related interests | 5,203,330 |
| Contango Asset Management | 5,310,845 |
| LHC Capital Partners | 5,525,856 |
| Quest Asset Partners | 5,485,471 |

Distribution of shareholders (as at 18 August 2014)

| Range | Total holders |
|---|---|
| 1 - 1,000 | 638 |
| 1,001 - 5,000 | 1,492 |
| 5,001 - 10,000 | 444 |
| 10,001 - 100,000 | 520 |
| 100,001 and over | 67 |
| Total | 3,161 |

The total number of shareholders with less than a marketable parcel of 232 shares is 83.
Unquoted equity securities:

Options issued under the Villa World Limited Option Plan to take up ordinary shares, as part of an employee incentive plan, as at 18 August 2014 is 4,900,000.

Classes of units and voting rights

As at 30 June 2014 there were 3,127 shareholders (30 June 2013: 3,289). The voting rights attaching to the shares, as set out in section 253C of the Corporations Act were:

Subject to any rights or restrictions for the time being attached to any class or classes of share:

(a) at an adjourned meeting the holders with voting rights who are present either in person or by proxy constitute a quorum and are entitled to pass the resolution; and

(b) on a show of hands every person present who is a shareholder has one vote and on a poll every present in person or by proxy or attorney has one vote for each share held.

Options:

There are not voting rights attached to the options.

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

## TOP 20 SHAREHOLDERS (AS AT 15 AUGUST 2014)

| Name | Units | % of Units |
|---|---|---|
| NATIONAL NOMINEES LIMITED | 14,764,673 | 15.76 |
| CVC LIMITED | 14,508,964 | 15.49 |
| HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 7,353,343 | 7.85 |
| UBS NOMINEES PTY LTD | 6,327,280 | 6.76 |
| WENOLA PTY LIMITED <PENSION FUND A/C> | 3,700,100 | 3.95 |
| CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C> | 2,018,056 | 2.15 |
| J P MORGAN NOMINEES AUSTRALIA LIMITED | 1,845,616 | 1.97 |
| CITICORP NOMINEES PTY LIMITED | 1,618,570 | 1.73 |
| LEAGOU FUNDS MANAGEMENT PTY LIMITED | 1,260,294 | 1.35 |
| BRAZIL FARMING PTY LTD | 1,164,654 | 1.24 |
| BNP PARIBAS NOMS PTY LTD <DRP> | 1,145,086 | 1.22 |
| RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <BKCUST A/C> | 1,026,153 | 1.10 |
| INVIA CUSTODIAN PTY LIMITED <GSJBW MANAGED A/C> | 960,590 | 1.03 |
| SANDHURST TRUSTEES LTD <ENDEAVOR ASSET MGMT MDA A/C> | 881,797 | 0.94 |
| CVC LIMITED <CVC LIMITED A/C> | 676,520 | 0.72 |
| ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD <CUSTODIAN A/C> | 639,806 | 0.68 |
| HORRIE PTY LTD | 610,000 | 0.65 |
| DEBUSCEY PTY LTD | 571,803 | 0.61 |
| CRAIG G TREASURE PTY LTD <TREASURE SUPER FUND A/C> | 550,000 | 0.59 |
| BRISPOT NOMINEES PTY LTD <HOUSE HEAD NOMINEE NO 1 A/C> | 512,707 | 0.55 |
| Totals: Top 20 holders of FULLY PAID ORDINARY SHARES (TOTAL) | 62,136,012 | 66.34 |

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