ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2016

CELEBRATING 30 YEARS

SUCCESS THROUGH PROPERTY

VILLAWORLD

SHAREHOLDERS INFORMATION

VILLA WORLD LIMITED

Villa World Limited
ABN 38 117 546 326

Level 1 Oracle West, 19 Elizabeth Avenue, Broadbeach QLD 4218

Mailing address: PO Box 1899, Broadbeach QLD 4218

Telephone: +61 7 5588 8888

Facsimile: +61 7 5588 8800

Website: villaworld.com.au

Email: info@villaworld.com.au

Shareholder information and enquiries

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

Computershare Investor Services Pty Limited

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:
computershare.com.au

Email:
web.queries@computershare.com.au

Villa World Info line

Inside Australia: 1300 552 434

Outside Australia: +61 7 5588 8851

Company Secretary:
Paulene Henderson

CONTENTS

Rochedale Grand Display Home - Rochedale

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.

KEY HIGHLIGHTS

REVENUE UP

20%

32%

NET PROFIT AFTER TAX

EARNINGS PER SHARE UP

19%

13%

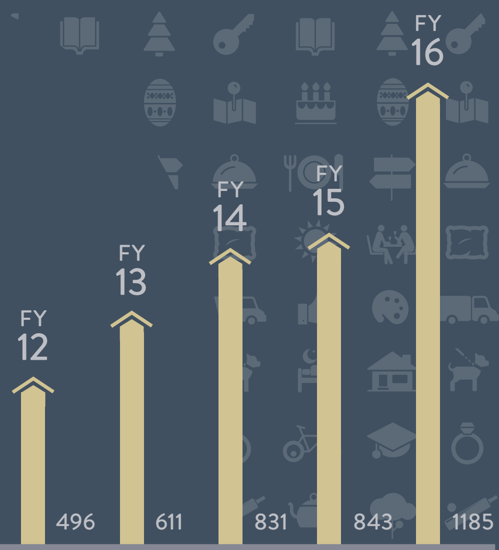
DIVIDEND UP

Portfolio of 5,937 lots representing 5 years sales diversified across and within east coast states

67%	32%	1%
QUEENSLAND 6 CORRIDORS	VICTORIA 3 CORRIDORS	NEW SOUTH WALES

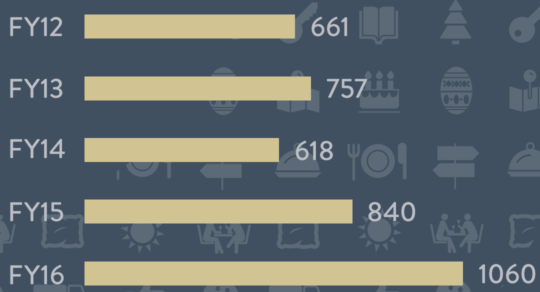
SALES PER FY

41%



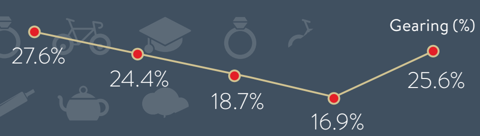
LAND DELIVERED

26%



CONSERVATIVE GEARING OF 25.6%

With headroom / unused capacity



CHAIRMAN'S REPORT

ON OUR 30TH ANNIVERSARY, I AM PROUD TO ANNOUNCE ANOTHER TREMENDOUS SET OF RESULTS FOR VILLA WORLD.

Our philosophy of *success through property* not only reflects our strength in the short-term but more importantly our commitment to creating long-term value for shareholders.

This year Villa World recorded a statutory after tax profit of $33.7 million, an increase of 32% on the previous year. This result flowed from a 20% increase in revenue to $387 million.

The Board declared total full year dividends of 18 cents per share representing a yield of 7% fully franked. This is consistent with the Company's Dividend Policy distributing 50 percent to 75 percent of annual net profit after tax. We remain one of the highest yielding stocks on the ASX.

In order to ensure long-term value for shareholders, the Board paid particular attention to Villa World's strategy, risk and governance during the year.

Refreshed strategies have been put in place to achieve our goal of being recognised as one of Australia's leading property development companies. We will continue to **focus** on our teams, customers, shareholders and our core capabilities. We will **grow** our core business with new projects in our existing markets, enter new geographical locations and new partnering arrangements. We will **lead** through continued strong performance, strong management and learn from our experience.

This approach builds off our current strengths, the first of which is our product. The Villa World portfolio includes an inventory of high quality projects and completed designer homes. During the year, we added a number of strategic acquisitions to the mix, including highly sought- after land in south east Queensland, at Logan, Arundel and Strathpine. We now have an impressive development pipeline in excess of five years.

Our second strength is our expertise and continued focus on our core business of providing land and housing to owner occupiers, first home buyers and local investors in the affordable to mid-market range. We will continue to concentrate our operations in these markets that we know so well.

Thirdly, the strength, vision and depth of our management team, which has been in place for a number of years and capably led by Chief Executive Officer Craig Treasure, provides a stable anchor for the Company and strong leadership going forward.

And finally, our financial strength, characterised by prudent gearing, a healthy cash flow and solid balance sheet, provides a strong foundation for Villa World to pursue growth opportunities.

This year, as well as delivering more product for Villa World families, we did something very special through an innovative collaboration with the Gold Coast Project for Homeless Youth. The Company delivered a new seven-bedroom crisis care facility built through donations of labour, materials and money from Villa World, our staff and our business partners. We look forward to handing over the keys and making a real difference for young people faced with living on the streets. I thank all involved in the project, including the Villa World team who generously made personal donations in support of this project.

I would like to acknowledge the valuable contribution throughout this year from my fellow Independent Directors, David Rennick and Donna Hardman.

David's insight across property and legal issues has served the Company well, particularly in his role as Chair of the Audit and Risk Committee.

Since joining the Board in February 2016, Donna's experience beyond the property sector has bolstered the skills and diversity of our Board and has already been marked by a number of positive changes under her guidance as Chair of the Remuneration and Nomination Committee.

“Refreshed strategies have been put in place to achieve our goal of being recognised as one of Australia’s leading property development companies.”

I would like to thank our Chief Executive Officer and Managing Director, Craig Treasure, his management team and all the Villa World staff for the exceptional effort they put in during the past year to achieve these outstanding results.

Villa World has entered an exciting period in its history. With a reinvigorated strategic focus, Villa World will continue to grow the portfolio characterised by increasing diversity in geography and product that appeals to the customer market and performs well in variable market conditions.

I take pleasure in presenting our Annual Report. It is our demonstration that, both now and into the future, Villa World is delivering *success through property.*

Mark Jewell
Chairman

Bill Hoyer House, Homeless Youth Project - Gold Coast

MANAGING DIRECTOR
AND CHIEF EXECUTIVE OFFICER'S REVIEW

VILLA WORLD'S SUCCESS IS NOT FOUNDED ON ONE SET OF GOOD RESULTS. IT COMES FROM GETTING THE BUSINESS FUNDAMENTALS RIGHT AND CONSISTENTLY ACHIEVING OR BETTERING WHAT WE SET OUT TO DO.

I am pleased to report that FY16 was a continuation of our year-on-year growth and the successful execution of our business strategy.

We exceeded our profit guidance of $46.6 million with a before tax result of $47.2 million and closed out the year with a 20% increase in revenue to $387 million.

Our FY16 Net Profit After Tax result of $33.7 million was up 32% from $25.6 million last year, and Earnings Per Share increased 19%.

These results exemplify the notion of a 'step change' in our business – a notion we have been talking about for some years and have delivered across our four strategic pillars of sales, delivery, portfolio, and capital management.

SALES

We continued to enjoy strong sales growth, meeting our sales target for the year with 1,185 contracts to the end of June 2016, compared with 843 in FY15, and almost double the result from three years ago.

The Queensland market again performed well and our turn-key delivery model gained traction in the Victorian market. Our proven experience and investment in valued relationships with suppliers and contractors has delivered a smoother passage to enter new geographic markets, such as New South Wales.

With $165.6 million in carried forward sales and new projects contributing to current and future earnings growth, the Company expects to maintain sales growth and profit momentum into FY17.

DELIVERY

Our Company's focus on operational efficiency and long-term relationships underpinned strength in the delivery of land and houses, with 47% more product in FY16 than the previous four-year average.

PORTFOLIO

Growth in the Company's portfolio reflects greater geographic and product diversification enabling us to capitalise on variabilities across market segments.

The Company will adopt a carefully-managed approach to the New South Wales market, and will shortly finalise partnering arrangements for an initial 90 homes to be built in south west Sydney.

We delivered in line with our strategy of acquiring land in strategic corridors to support continued growth in our delivery output. With 5,937 lots, up from 5,191 last year, we maintain a solid five year growth pipeline in sought-after locations.

CAPITAL MANAGEMENT

Our operational result was underpinned by a strong balance sheet and cash flow.

Net debt at year-end was $120 million with $32.7 million of undrawn capacity in debt facilities.

Net tangible assets at year-end were $236.9 million, up from $220.6 million, representing $2.15 per share (FY15: $2.00) before the declaration of the final dividend.

“Our FY16 net profit after tax result of $33.7 million was up 32% from $25.6 million last year, and earnings per share increased 19%.”

The Company continues to maintain a prudent gearing level at 25.6%, within the target range of 15-30%.

Careful financial management over the medium term has delivered flexibility and increasing diversity in funding sources, and created a strong, sustainable balance sheet. This will continue as we move ahead with our forward plan.

FOCUS, GROW, LEAD

Against the backdrop of continued strong performance across the Company’s four pillars – sales, delivery, portfolio and capital management - Villa World is ideally positioned for the future.

Our 30th year as a listed company afforded us the opportunity to reflect on our strategy and plot the course for the next decade. This reflection has brought into sharper focus the key areas the Company will concentrate on to achieve its vision.

Our strategy roadmap is clear and the commitment of our team is unwavering.

We look forward to welcoming more families to their Villa World home and delivering *success through property.*

Craig Treasure
Managing Director and
Chief Executive Officer

OPERATING FINANCIAL REVIEW

FINANCIAL RESULT

During 2016, the Company continued to build on its previous successes and this year has delivered continued strong earnings growth, improved shareholder returns and outstanding operating performance.

The Company finished the 2016 financial year with a strong full year result, reporting a statutory net profit after tax of $33.7 million (30.6 cps), a 32% increase on net profit after tax of $25.6 million (25.6 cps) reported for the period ended 30 June 2015.

The Company reported a profit before tax of $47.2 million, exceeding guidance of $46.6 million.

REVENUE FROM LAND DEVELOPMENT, RESIDENTIAL BUILDING AND CONSTRUCTION CONTRACTS

Continued sales momentum combined with $134.1 million[1] of carried-forward sales from FY15, and an outstanding delivery of land and housing resulted in 1,073 accounting settlements[2] in FY16 (FY15: 816). As a result, revenue increased by 20% to $387.0 million (FY15: $321.6 million).

The revenue mix reflects the Company's continued focus on its core capabilities in house and land, as well as strong land only sales, particularly in Victoria. In total, 73% of revenue was generated through house and land product (FY15: 80%). Queensland remained the main contributor to revenue at 83% (2015: 90%).

Average revenue per lot was $355.5k down from $395.2k in the prior year, and is reflective of product mix. The average revenue per house and land lot rose 3% to $424.6k. With a large number of settlements of our land only product, including a significant portion of settlements at our affordable land estate, Cardinia Views, in south east Melbourne, the average land only revenue was down to $244.1k per lot. The previous corresponding year had been positively impacted by the settlement of premium land only projects Astonbrook, Seaside, Lacosi and Waterline.

Pleasingly an average of 4.5% revenue growth was achieved during the year.

PERFORMANCE	FY16	FY15	CHANGE
Number of projects contributing to profit	19	20	▼ -5%
Revenue - property sales ($m)	387.0	321.6	▲ 20%
House and Land	280.9	258.7	▲ 9%
Land Only	106.1	62.9	▲ 69%
Revenue - development and project management fee ($m)	1.2	0.0	▲ n/m
Settlements (lots)[A] - inc. Joint Ventures	1073	816	▲ 31%
Settlements (lots) - ex. Joint Ventures	1073	814	▲ 32%
House and Land	662	625	▲ 6%
Land Only	411	189	▲ 117%
Revenue - property sales ($k/Lot)[B]	355.5	395.2	▼ -10%
House and Land	424.6	414.1	▲ 3%
Land Only[C]	244.1	332.7	▼ -27%
Gross margin ($m)	100.6	77.8	▲ 29%
Margin (%)	26.0%	24.2%	▲ 7%
Underlying gross margin ($m)[D]	102.5	86.7	▲ 18%
Underlying margin (%)	26.5%	27.0%	▼ -2%
Share of Profits and Other Income ($m)	4.1	2.8	▲ 45%
Sales (lots)[E]	1185	843	▲ 41%
Mean rate of sale pcm - FY	98.8	70.3	▲ 41%

[A] Accounting Settlements require cash settlement in New South Wales. In Queensland and Victoria an unconditional sales contract and for land only, land registration; for house and land, land registration and a certificate of building completion is required.
[B] Average revenue per lot = ($387.0m less englobo sale of $6.0m)/(1073 settlements less 1 englobo lot)
[C] Average revenue per land only lot = ($106.1m less englobo sale of $6.0m)/(411 settlements less 1 englobo lot)
[D] Underlying Gross Margin is exclusive of provision for litigation.
[E] Sales - executed contracts, not necessarily unconditional.

[1] Inclusive of GST.
[2] 1,073 settlements of Company owned lots (FY15: 814), and nil lots relating to joint ventures (FY15: 2), which are reflected in Share of Joint Venture Profits.


Era - Capalaba

GROSS MARGIN

The gross margin for FY16 was $100.6 million or 26.0% (FY15: $77.8 million or 24.2%).

This included a net provision for legacy litigation issues of $1.9 million (FY15: $8.9 million). An additional provision of $2.8 million was raised in 2H16 related to the Silverstone litigation which is expected to be concluded in FY17[3]. All outstanding aspects of the Thornleigh proceedings were concluded in 2H16, with $0.9 million released back into profit[4].

REVENUE – DEVELOPMENT AND PROJECT MANAGEMENT

During 1H16 the Company progressed its strategy to grow development and project management income streams by deploying development management skills into further joint venture arrangements. These ventures delivered $1.2 million in fee income in FY16 and the Company anticipates development and project management fees will provide an ongoing revenue stream for the business.

SHARE OF PROFIT FROM EQUITY ACCOUNTED INVESTMENTS AND OTHER INCOME

The share of profit from equity accounted investments and associates of $3.4 million related largely to the Eynesbury joint venture which settled the second tranche of the sale to the Hyde Group in 1H16, with an increase in selling price and extension fees contributing $3.6 million to profit.

Other income of $0.7 million was generated this year, largely made up of bank interest received and penalty interest on delayed settlements.

OPERATIONAL PERFORMANCE

The Company achieved its sales target of between 1,000 and 1,200 sales, with a total of 1,185 sales recorded during FY16 (FY15: 843).

Sales remained weighted to Queensland (74%) due to the number of projects being marketed and continued supportive market conditions. The Company's strategy of targeting growth corridors continued to reap excellent results in Queensland, with the Brisbane bayside estates contributing 28% of sales, northside representing 23% of sales, and the Brisbane Gold Coast corridor on the south side representing 17% of sales. Regional Queensland accounted for 6% of sales.

Further growth in our Victorian projects resulted in 26% of sales. The Company's land estates continued to sell very strongly in Melbourne, while sales from the Company's turn-key housing model continued to grow.

The Company maintains a solid position in all customer segments – our core being the retail market (comprising owner occupier including first home buyers), as well as builders and predominantly local investors[5].

The Company delivered 1,060 lots of land, up 26% on the 840 lots delivered in FY15. The Company's housing operations delivered 632 homes across both Queensland and Victoria (FY15: 654).

3 Mediation and trial scheduled for 1H17.
4 Refer Note B4(c) Movement in provisions Financial Statements.
5 Less than 5% of FY16 sales were to international investors.

SALES CONTRACTS CARRIED FORWARD

At 30 June 2016, the Company carried-forward 464 sales contracts valued at $165.6 million[6], with 72% of contracts (335 lots valued at $120.0 million) due to settle in 1H17, and the balance in 2H17. These strong carried-forward sales, when combined with the Company's continued sales focus, place the Company in a very strong position for 2017.

PROPERTY SALES AND MARKETING COSTS

The sales and marketing strategy introduced in 2015, which shifted focus onto the Villa World brand and targeted regional marketing campaigns, has benefitted both sales, and sales and marketing costs which were 5.7% of revenue (FY15: 5.6% of revenue).

These changes to the sales and marketing strategy included bringing the on-site sales team in-house. On-site sales staff are contracted to particular projects and are included in cost of sales.

LEGAL AND PROFESSIONAL COSTS

Legal and professional costs represented 0.4% of revenue (FY15: 0.4%), and related to the establishment of the Long Term Incentive program and supporting employee trust structure, general accounting and taxation advice in relation to capital efficient structures and general consulting to support the operations team.

EMPLOYEE BENEFITS

The Company finished FY16 with 113 full time equivalent employees (FY15: 95).

The Company's focus this year was on generating and delivering strong sales and expanding its geographic footprint. Accordingly, a number of sales and operational roles were added in Victoria and Queensland. Key management roles were appointed in New South Wales as the Company prepared to expand into the greater Sydney market.

The full year salary contribution of the new employees hired in FY15, as well as the new employees hired in FY16 resulted in a 16% increase in staff costs year-on-year. Employee costs fell for the third year, as a percentage of revenue to 4.3% (FY15: 4.5%).

The full year salary contribution of the new employees hired in FY16 is expected to result in an increase in employee costs of 15-20%.

TAX POSITION

The effective tax rate for FY16 was 28.6%. The effective tax rate is expected to be 30% in FY17.

Carried forward unused tax losses of $19.3 million (DTA of $5.8 million) were fully utilised during the FY16 year. The Company returned to paying cash tax on an instalment basis in 2H16, with $1.6 million cash tax payments in 2H16.

ASSETS AND NTA

Gross assets increased to $478.0 million at 30 June 2016 from $432.7 million, as acquisition momentum continued. The NTA per share increased by 7.5% to $2.15, prior to the declaration of the 10 cent fully franked dividend (FY15: $2.00, prior to the declaration of 10 cent dividend).

CAPITAL MANAGEMENT

During the year, the Company operated a $180 million club facility with Westpac and ANZ.

During FY16, the term of the ANZ facility was extended. The maturity was staggered, with $80 million extended through to 1 March 2019 and $50 million to 16 October 2020. At 30 June 2016, the ANZ facility was for $130 million. Post year end, documentation was finalised raising the facility limit to $140 million. The further $10 million will assist the Company to implement its business strategy.

At 30 June 2016, the $50 million Westpac facility was due to mature on 2 March 2018. Post year end, documentation will be finalised extending this facility through to March 2019.

[6] Represents gross sales price including GST.

At 30 June 2016, the cash on hand and unused capacity in the facility was $41.0 million (30 June 2015: $98 million). The gearing ratio at year end was 25.6% (FY15: 16.9%), within the stated gearing target of 15-30%. Strong sales and settlements during the year generated $131.5 million (FY15: $75.5 million) in operating cash. Strong cash flow, combined with headroom in the debt facility enabled $162.9 million in acquisitions to be settled. Strategic negotiation of acquisitions continues to ensure efficient use of capital. Strong cashflow, the unused capacity in the facility and capital lite structures will enable the continued execution of the acquisition strategy throughout FY17.

The average cost of debt during the year was 8.6% (FY15: 7.8%). A $90 million fixed interest rate swap of 3.69% remains in place through to June 2018.

The Company's funding has been repositioned, a very strong and sustainable balance sheet has been created and cash flow has been effectively managed across the portfolio.

DIVIDENDS

Villa World shareholders have benefited from the strong financial performance during the year with the Directors declaring total dividends of 18 cps fully franked in relation to the 2016 financial year. This represents a 13% growth year on year. An interim dividend of 8cps was paid in March 2016. A final dividend has been declared post year end of 10cps and will be paid in September 2016.

The full year dividend of 18 cps represents an annual payout of 61% of NPAT (FY15: 69%), which is within the Company's stated dividend policy (payout ratio of 50-75% of NPAT, paid semi-annually).

ACQUISITION

The Company continued to execute on its acquisition strategy to replenish land stock through strategic purchases in proven growth corridors, and take advantage of opportunities to diversify our geographic footprint along the east coast. The Company acquired 2,139 lots, including three sizeable projects at Logan, Arundel and Strathpine, in south east Queensland, which will provide product continuity for four to six years, as our very successful Park Vista and Mt Cotton projects complete.

The Company will progress the expansion of its foot print by re-entering the New South Wales market through capital efficient partnering arrangements. The Company will soon finalise a development agreement with Greenfield Development Corporation in south west Sydney, for delivery of an initial 90 homes.

In Victoria, the Company's Donnybrook joint venture has entered into a conditional contract to sell a part of the project[7]. This has significantly improved the joint venture's commercial position and will free up capital to develop the remainder of the project and reinvest in new sites.

As at 30 June 2016, the Company had a portfolio of 5,937 lots, representing approximately 5 years of sales. In the near term, Queensland remains central to the Company's business, however, the portfolio is diversified across the east coast states, and in strong growth corridors. Importantly, the Company has broadened its

[7] The Donnybrook joint venture has entered into a conditional contract to sell ~67.9 ha (~1,000 lots, VLW 51% share being 510 lots) to Satterley Property Group Pty Ltd. The sale contract is conditional on PSP Approval being obtained by 6 April 2020, and this process has commenced. The total sale price for the Property is $34 million (plus GST), subject to adjustment based on final developable land yield. Cash settlement and title transfer is to occur in four equal stages, commencing 30 days after PSP approval and then 12, 24 and 36 months after the first settlement. The joint venture intends to retain and develop the remaining parcel of land comprising ~206.1ha (~1,196 lots, VLW 51% share being 610 lots). The entire property was purchased by the Donnybrook joint venture in late CY14 for $22.8 million.


Rochedale Grand Display Home - Rochedale

reach across product and price point, adding to its resilience and providing strong and sustainable cash flows.

The land acquisition payable at 30 June 2016 is $46.9 million in total, current $37.8 million and non-current $9.1 million. This payable will be settled from operating cash flows and settlement proceeds from third party settlements. Since year end, $21.6 million has been paid.

THE VILLA WORLD STRATEGY

Villa World's continued strong performance in FY16 reflects the success of its business strategy and a commitment to achieving its long-term goal of being recognised as a leading Australian property group.

The Company has refined its strategy around three key themes: **focus**, **grow** and **lead**. These themes provide clear direction for the Company's approach to its development portfolio, sales, operational delivery and capital management.

Villa World will continue to **focus** on our teams, customers, shareholders and core capabilities in the residential land and housing market.

The Company made a number of strategic land acquisitions in FY16 and will continue to **grow** by taking advantage of new core business opportunities that complement the Villa World business model, support geographic diversity of its market footprint, and leverage strengthened staff capability.

Villa World's 30-year history supports the Company to **lead** through continued strong performance and to learn from past experience.

KEY RISKS

While the underlying current is one of strong and supportive market conditions, the Company continues to prudently manage sales, development and finance risk, along with risks associated with general warranty claims. The Company continues to monitor government policies, including macroprudential regulation and foreign ownership policies.

Consumer confidence will continue to influence sales. Economic conditions including interest rates, unemployment and wages directly impact consumer confidence. The Company has maintained a diversified portfolio and prudent gearing position assisted by structured acquisition deals and a product portfolio that minimises sales risk.

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

Warranty claims and potential litigation are inherent risks in the development and construction industry. The Company is currently defending litigation involving the following matter at Silverstone:

The Silverstone litigation (refer to the Note B4(d) Legal claims in the 2016 Financial statements) relates to alleged defects at a residential building located in Tweed Heads, New South Wales. The building comprises 27 units and was completed in 2009. A Villa World subsidiary, Villa World Developments Pty Ltd, was the registered builder. Villa World Developments Pty Ltd engaged independent subcontractors to carry out construction.

Based on further developments in the litigation during 2H16, the Directors have assessed this provision at approximately $8.5 million as at 30 June 2016 in respect of the Company's proportion of the Applicant's potential claim amount. This is in addition to the provisions for legal fees and experts costs which have been made since 30 June 2015 and expensed through cost of sales.

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

At 30 June 2016, the Company had in place a $180 million Club financing arrangement with ANZ and Westpac. The Club financing arrangement comprises a facility of $130 million with ANZ with $80 million expiring on 1 March 2017 and $50 million expiring on 30 October 2020, and a facility of $50 million with Westpac expiring on 2 March 2018. Each facility is able to be negotiated and extended independent of the other.

Post year end, the Westpac facility will be extended through to March 2019 and the ANZ facility limit has been increased to $140 million.

OUTLOOK

In FY17 the Company's focus will remain on delivering and settling carried forward sales and releasing flagship projects at Killara, Logan and Arundel Springs, Gold Coast. With 28 projects at various points in the lifecycle selling during the FY17 year, the Company expects to better its FY16 sales performance.

The Company's strategy of pursuing joint venture arrangements will begin to contribute to profit in FY17, initially through the Rochedale JV with the Donnybrook JV to follow in FY19. The FY17 contribution from Rochedale will be $3.4 million comprising $1.5 million in development and project management fees and $1.9 million share of profit, representing a very strong return on the investment (30 June 2016: $8.9 million). In addition, the Company will recognise $0.8 million in revenue from contract building the homes at the project, which fall outside the joint venture. The Company anticipates that development and project management fees will provide an ongoing and growing revenue stream, as the Company continues to pursue opportunities to grow the business in a capital efficient way, with a strong focus on return on assets.

The gross margin for the coming year on wholly owned projects is expected to be 24-26%. Several existing high margin projects were recently completed, new flagship projects will commence contributing to profit in 2H17, and it is anticipated that margins at these projects will improve as they mature beyond FY17. Further, several capital lite projects will contribute to profit in FY17. While such projects deliver a lower margin, they provide a strong return on investment.

GUIDANCE

Assuming general consumer confidence is maintained, interest rates remain low and first home buyer grants remain in place, the Company is targeting statutory profit after tax growth of at least 5% to $35.4 million in FY17. This result is underpinned by strong carried forward sales, continued sales momentum across Queensland and Victoria, and an increased delivery capability.

It is the intention of the Board to continue the payment of strong dividends, in accordance with the stated payout policy of 50-75% of NPAT, paid semi-annually. The Board anticipates paying a dividend of at least 18 cents per share fully franked in FY17.

FY17 ACQUISITION STRATEGY

The Company has a continued commitment and capacity to acquire development sites. The near term focus will remain on the continued replenishment of the portfolio in south east Queensland, growing the Victorian land bank with a focus on the south eastern and Northern growth corridors of Melbourne, and growing a presence in New South Wales. The Company's use of capital efficient means, such as the capital lite model and joint ventures, will enable it to progress the expansion of its footprint, with a longer-term strategy of cementing our place as a leading east coast residential developer. In FY17, the Company expects cash outflow for acquisitions of $60-85 million funded from existing debt facilities and working capital, plus $40 million in capital lite transactions.


Circa - *Nudgee*

CURRENT
PORTFOLIO

BRISBANE NORTH

Brisbane North continued to be a strong residential growth corridor of south-east Queensland and a successful market for the Company during FY16. Our existing projects in the region reached significant milestones and a number of new projects commenced to ensure continuance of supply.

Master planned for 533 lots in total, **Park Vista** at Mango Hill is one of our most successful projects in the current portfolio. Neighbouring North Lakes with its town centre and education facilities, the Park Vista community is now an established village style neighbourhood comprising contemporary family homes and park recreation facilities, surrounded by dedicated native reserve. FY16 saw the sell-out of the original precinct of completed homes and the release of the project's new land precinct on the eastern side of Anzac Avenue. The much anticipated Moreton Bay Rail Link, which includes a new station just 1km from our new release, is set to open by the end of 2016.

Adjoining Park Vista is **Orana**, where 108 townhomes set around recreation facilities, including a swimming pool and covered outdoor entertaining areas, reached final sell-out during FY16.

Haven on Greens is a recently acquired site for 70 homes in the suburb of Griffin close to North Lakes. This project, set to commence in FY17, will further extend our commitment to the area and fill the demand created by the sell-out at Park Vista.

Situated beside a nature reserve, just a short drive from Moreton Bay, **Bay Road** at Burpengary is a boutique sized community of only 143 homes, which sold out during FY16. The recent purchase of a further 37 lots will see the continuation of the project in FY17.

Currently under planning is a 291 lot land project in **Upper Caboolture**, close to the Caboolture River and only a short drive west of the Morayfield retail heart.

Fast approaching sell-out is the marquee 209-home community of **Circa** situated in the prestige inner suburb of Nudgee just 12km from the Brisbane CBD. Circa has been developed over a number of years in boutique sized stages and has consequently achieved a premium price point in a highly sought-after northside location. FY16 saw the project's ultimate release of two-storey designer homes.

During FY16, in recognition of the expanding small business professionals market, we launched a new product type called HQ Urban Business Residences. Located at **The Nest** in Fitzgibbon Chase, a precinct planned by the State Government's building and development arm EDQ (Economic Development Queensland), HQ Urban Business Residences combine a ground floor professional suite with streetfront commercial presence, with a contemporary upper level 1 or 2 bedroom residence. Construction and marketing of these 12 lots has commenced.

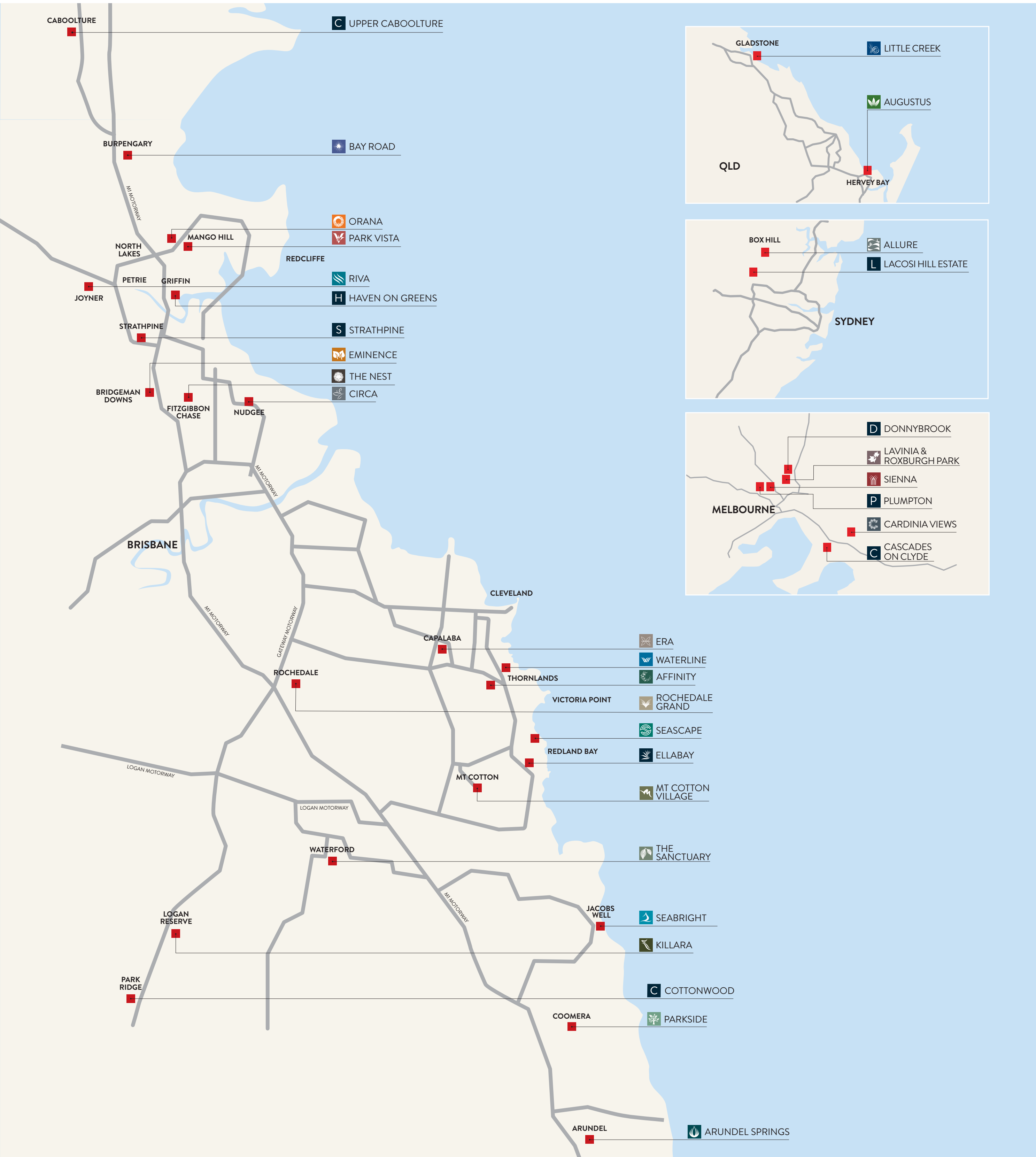
Also in FY16 the Company launched **Eminence** at Bridgeman Downs which comprises 34 townhomes and 5 free standing homes. This boutique project, less than 16km from the CBD, gives us a further presence in Brisbane's prestige inner northern suburbs.

Now in the planning stage is a new project located in **Strathpine** on a picturesque site with frontage to an extensive South Pine River reserve. Set to commence in FY18 and become our new flagship project in the region, this site will comprise 383 homes targeted at our core customer group of middle market families.

At nearby Joyner just minutes from Lake Samsonvale, the Company is currently constructing an 81 lot land project called **Riva**, which adjoins a country golf course in the popular Pine Rivers region 25km from the CBD. Riva is situated in a prime location close to Petrie's train station and local retail district.

"The Company continued to execute its acquisition strategy to replenish land stock"

30 YEARS EST. 1986



BRISBANE SOUTH

With its freeway connection to the CBD and ease of access to the Gold Coast, Brisbane's southside has for generations been a highly sought-after residential corridor.

During FY16 the Company launched its new flagship address, **Rochedale Grand**. The holistic approach to the design of this project has resulted in a stunning master planned community where modern luxury residences with prestige tree-lined setting, blend as one. The community comprises 167 premium priced homes, many with glimpses of the city skyline. Rochedale today has a contemporary residential character and this new designer product range has been developed to reflect this market positioning.

BRISBANE BAYSIDE

Redlands offers a relaxed bayside lifestyle some 35km from the Brisbane CBD. The region's population continues to grow and the Company has invested in its future by assembling a portfolio of projects.

Our original Redlands project **Mt Cotton Village** which commenced in 2009, sold out during FY16. The 572 lot community features intimate neighbourhoods of designer homes set among picturesque native bushland with easy access to community parks with recreation facilities. It remains a showcase project for the Company.

Era is a 200 home contemporary address set beside a natural bushland sanctuary in Capalaba around 32km from the Brisbane CBD. Launched at the start of FY15 and expected to sell-out during FY17, this project was the first location to feature our new range of designer homes.

In the nearby suburb of Redland Bay, the Company launched **Ellabay** during FY16. This boutique 84-lot community just 1km from the waterfront offers a stunning new range of designer homes and a select number of land lots.

Construction has now commenced at **Seascape**, a residential resort project in Redland Bay, where 187 designer townhomes are set beside a community garden, residents' swimming pool and BBQ facilities. Seascape is well situated in a growth location close to the proposed Weinam Creek marina development.

Waterline at Thornlands is a 227 lot premium land project offering prestige level homesites in a bayside setting complete with its own community park and nature walk with bicycle and walking paths. A 23 home display village showcasing designs by a range of leading builders has just opened. We anticipate sell-out of the project during FY17.

FY16 saw the launch of another land project in Thornlands. **Affinity** is centrally located in this popular area and comprises 118 family sized elevated blocks just a short walk to the Victoria Point Shopping Centre. Registration of the first two stages is complete.

Era - Capalaba

Ellabay - Redland Bay

Waterline - Thornlands

LOGAN

Logan City, south of Brisbane, is now one of Queensland's fastest growing corridors, with independent research predicting a population increase of up to 200,000 over the next two decades.

The Company's first project in the region, **The Sanctuary,** was the final stage of the successful Woodlands master planned development at Waterford, 31km from the Brisbane CBD. This 81 home project bordered by 30 hectares of lush open spaces will be sold out during FY17.

Commencing during FY17 is our signature development in the region. **Killara** will be a master planned 721-lot land project with extensive parklands and adventure trails situated on Chambers Flat Road, in Logan Reserve. The project will offer a wide variety of lot sizes to our core customer group of middle market families and ensure several years of land supply for the Company in a strong growth corridor of south-east Queensland.

Just a short drive south, in Park Ridge is our recently purchased **Cottonwood** project, which is currently under planning for construction of 160 Villa World homes.

GOLD COAST

During FY16, the Company expanded its foothold in its foundation market, the Gold Coast. On the back of sales success at Parkside in Coomera, two additional site acquisitions were made.

Parkside, which we anticipate will sell-out early in FY17, comprises 179 contemporary family homes set around a central park, just minutes from the future Coomera Town Centre. Just a short drive north, within a short walk of Tipplers Passage and its boating facilities, is our newly launched 107-home Jacobs Well project, **Seabright**.

At Arundel, just a few minutes from the new Gold Coast University Hospital and Westfield Helensvale, our new marquee Gold Coast project **Arundel Springs** will launch during FY17. This represents one of the final ever releases of retail land in the central Gold Coast corridor. Extensive planning has been undertaken to ensure the project's 386 premium homesites and townhomes blend harmoniously with the bordering Coombabah Lakelands Conservation Area.

REGIONAL QUEENSLAND

During FY16, the Company continued to develop its contemporary lifestyle communities on the Central Queensland Coast. **Little Creek** in Gladstone has been master planned to be the city's premier address. Set around the Little Creek parklands, a network of parks with playgrounds and recreation facilities, this 688 lot project offers a mix of land and Villa World homes.

Augustus is located on the picturesque Fraser Coast 3½ hours from Brisbane, in the famous whale watching town of Hervey Bay. Centrally located within the town, Augustus has been master planned for a total of 730 contemporary family homes. The project sold well in FY16 and will benefit during FY17 from the Fraser Coast Council's extension of the $12,000 Destination Hervey Bay home buyers grant. A limited number of land lots are also being marketed.

SYDNEY

Western Sydney remains one of Australia's key residential growth corridors. The 55 land lots at the Company's **Lacosi Hill** project in Schofields close to the new Rouse Hill Town Centre, sold out during FY16. In the neighbouring suburb of Box Hill, our new **Allure** project, comprising some 44 Villa World homes, is now in the planning stages.

Augustus - Hervey Bay

Parkside - Coomera


Killara - Logan Reserve


Seabright - Jacobs Well

Current Portfolio (continued)

MELBOURNE SOUTH EAST

In the major growth corridor of Melbourne's south east around 55km from the CBD, our 1,138 lot **Cascades on Clyde** project is in its final stages. Over the past eight years, this master planned community has been a very successful land project for the Company. It features 14 hectares of wetlands and parklands as well as walking tracks, BBQ facilities and children's playgrounds. A final 44 lots remain for sale.

Land at **Cardinia Views**, which launched in FY15, is selling strongly. This 320 lot land project located in the semi-rural area of Pakenham some 60km south-east of the CBD, features views of the rolling countryside. With its variety of homesite sizes, the project is attracting family buyers.

MELBOURNE NORTH WEST

With its proximity to the Caroline Springs and Taylors Hill town centres and freeway access to the CBD, Melbourne's North West corridor continues to experience solid population growth. In Plumpton, 35km to the CBD's north west, the Company now has two projects close to Victoria University and local facilities. **Sienna**, comprising 165 Villa World designer homes from a new range crafted for the Melbourne lifestyle, was launched in FY16. The neighbouring site, located on **Saric Court**, will add a further 254 land lots and is currently in the planning stages.

MELBOURNE NORTH

Melbourne's north corridor continues to be in solid demand among family buyers. **Lavinia** at Greenvale, just 10km from Melbourne Airport, is a master planned project comprising 131 designer homes bordering the Greenvale Reserve. The community neighbours a park with playground facilities and is well positioned with easy access to local amenities. Construction of 30 terrace style urban homes is now underway at our boutique sized project **Roxburgh Park Central**, close to Greenvale and some 20km north of the CBD.

The Company has a 51% share in a joint venture to develop a 274 hectare land project at **Donnybrook**, an emerging residential area to the city's north. A portion of the site is currently under conditional contract to a third party. The joint venture intends to retain and develop the remaining land.

Sienna - Plumpton

Sienna - Plumpton

Lavinia - Greenvale

Lavinia - Greenvale

Rochedale Grand - Rochedale

Villa World Limited ABN 38 117 546 326
Annual report - 30 June 2016

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 26, which is not part of these financial statements.

The financial statements were authorised for issue by the Directors on 16 August 2016. 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 2016.

Directors

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

Mark Jewell BCom CA (SA), GAICD

Non-Executive Director since 28 November 2013
Chairman since 28 May 2014

Mark is an independent director with more than 25 years senior executive and directorship experience in publicly listed companies. He brings to the Board a wide range of expertise in the Australian property industry including strategy, risk, compliance and an in-depth experience in land and housing developments.

Board Committee memberships

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

Craig Treasure BASc (Surveying) (QUT), FDIA

Executive Director 17 February 2012 – 1 August 2012
Chairman and Executive Director 1 August 2012 – 5 October 2012
Chairman and Managing Director 5 October 2012 – 28 May 2014
Chief Executive Officer and Managing Director since 28 May 2014

Craig Treasure has more than 30 years' experience in property development, specifically in the residential land and housing sectors along the eastern seaboard of Australia. Craig has previously held a number of executive roles and directorships within the property industry.

David Rennick BEc, LLB

Non-Executive Director since 1 September 2014

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

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

Board Committee memberships

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


Mark Jewell


Craig Treasure


David Rennick

Donna Hardman MBA, BCom, GAICD, FAMI

Non-Executive Director since 17 February 2016

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

Donna has a strong human capital focus and risk management mindset and her professional experience includes both senior executive and consultancy roles as a business and IT strategist.

Board Committee memberships

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

Other directorships (current and recent)

In the past three years Donna has served as a Non-Executive Director of Quay Credit Union (since June 2013).

Company Secretary

Paulene Henderson BBus Acc MBA CA

Chief Financial Officer / Company Secretary

As Chief Financial Officer since 2010, Paulene has been responsible for guiding Villa World's capital management strategy. This has included two highly successful equity raisings and a restructuring of the Company's debt facilities to provide flexibility and support the Villa World growth strategy.

Paulene has a wealth of experience, having held roles in strategic finance, financial management and accounting, primarily in the property and hospitality sectors. She combines technical accounting expertise and commercial acumen to manage all aspects of Villa World's financial strategy, including debt and capital market transactions, treasury, forecasting and planning, and investor relations.

As the leader of our successful Investor Relations and Finance team, Paulene demonstrates excellent leadership skills as well as her extensive knowledge of corporate funding, risk management and taxation matters. She has worked with global professional services firm EY and held senior financial roles with two subsidiaries of Fortune 500 Company Wyndham Worldwide.

Paulene was appointed Company Secretary 19 November 2012.

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

Non-Executive Director from 22 January 2015 – 5 November 2015

Gerry is an independent director who has held key financial roles in both listed and unlisted companies in the building and property development, and mining industries. He has had a 30 year corporate career with expertise and experience in the financial, strategic, governance, management and human resource areas.

Other directorships (current and recent)

Gerry is currently a Non-Executive Director of yourtown (since February 2011), a national charitable organisation and served as a Non-Executive Director of CuDeco Limited (27 April 2010 – 18 September 2015), an ASX listed mining and exploration company. Gerry has previously been an Executive Director of Villa World Limited from 2000 to 2005, at which time he was CFO and General Manager.

Board Committee memberships

- Chair of the Audit and Risk Committee (18 June 2014 – 5 November 2015)
- Member of the Remuneration and Nomination Committee (5 February 2015 – 5 November 2015)

Donna Hardman

Paulene Henderson

Directors' interests

Directors' interests in shares of Villa World Limited as of the date of this report	
Mark Jewell	103,390
Craig Treasure	834,864
David Rennick	45,000
Donna Hardman	-

Meetings of Directors

The number of meetings held by Villa World Limited's Board of Directors, including Board Committees and the number of meetings attended by each Director are listed below:

	Board meetings[1]		Audit and Risk Committee		Remuneration and Nomination Committee	
	A	B	A	B	A	B
Mark Jewell	16	16	4	4	5	5
Craig Treasure	14	16	-	-	-	-
David Rennick	16	16	3	4	5	5
Gerry Lambert	4	4	2	2	2	2
Donna Hardman	9	9	1	1	3	3

A = Number of meetings attended
B = Number of meetings held during the time the Director held office or was a member of the committee during the period
[1] = The Board recognises the importance of developing and implementing the Company's strategy and during FY16 dedicated three Board meetings for this purpose.

Principal activities

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

Group Financial Summary	Consolidated 30-Jun-16 $'000	Consolidated 30-Jun-15 $'000
Revenue[1]	**392,303**	324,289
Expenses	**(335,592)**	(284,713)
Finance costs	**(9,464)**	(10,196)
Profit before income tax	**47,247**	29,380
Income tax expense	**(13,534)**	(3,743)
Profit for the period	**33,713**	25,637
Profit is attributable to:		
Owners of Villa World Limited	**33,713**	25,637

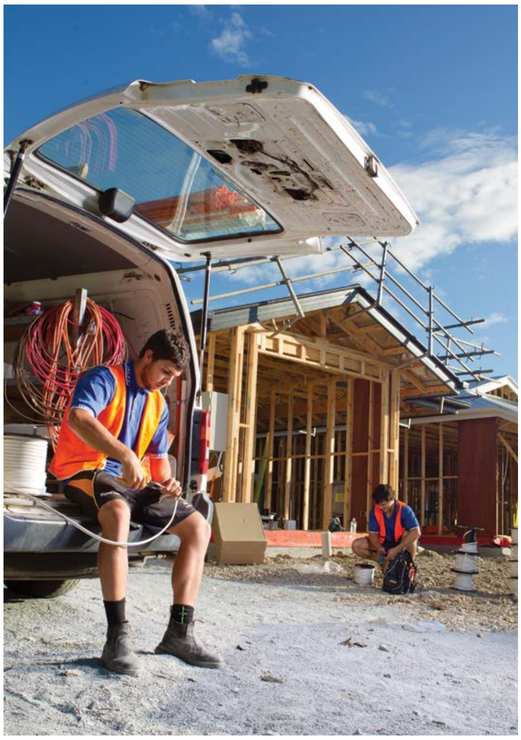
[1] Includes revenue from land and development, residential building and construction contracts, other income and share of profit/(loss) from equity accounted investments. The breakdown of revenue can be found in the Consolidated statement of comprehensive income on page 51.

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

Directors' report
30 June 2016 (continued)

Dividends

The Board declared an interim dividend of 8.0 cents per share fully franked on 16 February 2016. Payment was made to shareholders on 31 March 2016.



Matters subsequent to the end of the financial year

Final dividend

On 16 August 2016 the Board declared a fully franked final dividend of 10.0 cents per share. The ex-dividend date is 1 September 2016 and the record date for this dividend is 2 September 2016. Payment will be made on 30 September 2016.

The balance of the franking account is $8.2 million and includes franking credits that will arise from the payment of tax recognised as a liability at the reporting date. Refer note A4(c) - Franking credits on page 59.

Club facility

During August 2016, Villa World and ANZ agreed a credit approved term sheet to extend the ANZ facility to $140 million. This comprised a further $10 million unsecured facility to expire in August 2018 and will provide the Company with further financial flexibility to implement its business strategy.

At 30 June 2016 the $50 million Westpac facility was due to mature on 2 March 2018. Post year end, this facility has been extended with a credit approved term sheet in hand. The formal documentation process is expected to be completed in September 2016. The facility will be extended through to March 2019.

REMUNERATION REPORT:
ANNUAL STATEMENT BY THE REMUNERATION AND NOMINATION COMMITTEE CHAIR

Villa World strives for excellence across every aspect of our business, with a clear focus on our customers and the creation of sustained growth in shareholder value.

Since my appointment in February 2016 as Chair of the Remuneration and Nomination Committee, I have consulted with investors and their representative bodies to ensure that we reflect diversity of thought as a pathway to help define our strategic approach.

This Remuneration Report responds to feedback for greater transparency and simplicity in the way we demonstrate the link between our Company's strategy, its performance and the remuneration outcomes for our executives.

This year's financial results confirm our view that the Company's success reflects our greatest asset: our people. Villa World has invested in the retention, recognition and development of top talent during the past year.

The benefits are evident in our sales, delivery and financial management, and in the senior leadership team's contribution to fostering an environment that promotes ownership and accountability for delivery of outcomes.

With the support and encouragement of Chief Executive Officer and Managing Director Craig Treasure, Villa World's State Manager Queensland, Michael Vinodolac, was recognised among the key management personnel in FY16, with a recent further promotion to General Manager Operations. We have also seen Chief Financial Officer Paulene Henderson taking on an expanded public role during the period as the Company has confirmed its excellent financial management credentials.

Remuneration report (continued)

Pay for performance FY16

The Company's support and encouragement of its high-calibre senior team has corresponded with an increase in the executive team's responsibilities and prompted a review of salary levels based on performance.

As a result, short-term incentives (STIs) were paid during the year. The Committee determined that maximum weighting outcomes available under STIs were achieved. In addition to financial performance, cash bonuses awarded to executives in FY16 were determined based on the achievement of individual operational and performance measures set by the Board and recommended by the Committee.

Consistent with the Company's commitment to sustained performance, a key priority in FY16 was to review the structure of long-term incentive plans (LTIPs), and to provide greater transparency to shareholders around remuneration outcomes.

The Company has two LTIPs: a legacy option plan, due to vest during the period July 2016 to February 2017, and a new plan effective from 1 July 2016. The new LTIP was confirmed at the 2015 Annual General Meeting and is intended as the Company's principal vehicle for granting long-term incentive awards to senior executives and other eligible employees. It includes performance rights which vest based on ongoing employment and the achievement of specific performance targets.

The Committee has undertaken a full review of the performance measures and ranges and is satisfied that the vesting conditions align with the Company's strategy of providing incentives based on growth and the efficient use of Villa World's assets to generate revenue.

The performance conditions of the new LTIP are that:

- 75% of the grant will vest based on Villa World's Relative Total Shareholder Return (TSR) over the performance period
- 25% of the grant will vest based on Return on Assets (ROA).

The Committee has been conscious of the importance of benchmarking performance against the external remuneration environment. For this reason, consultants Ernst and Young (EY) were engaged to assist in providing advice on implementation of the new LTIP, as well as providing benchmarking analysis of remuneration levels for executives, in conjunction with the Committees own internal analysis.

Based on this information, the Committee determined that the higher performance-based remuneration mix achieved during FY16 was appropriate. It reflects competitive reward for meeting the vesting conditions, namely contribution to growth in shareholder wealth and the efficient use of assets to generate revenue.

Changes for FY17

The Committee has undertaken its regular review of performance measures and has set new targets for FY17. There are no planned material changes to the way in which the Executive Remuneration Policy will be implemented in FY17.

The Committee remains focused on maintaining a close link between remuneration and the performance of the Company, the achievement of individual targets and the creation of shareholder value. This is further supported by a focus on non-executive performance measures to ensure maximisation of Board effectiveness with alignment to the strategic objectives of the Company that will ultimately deliver greater value and wealth to its shareholders. Retaining and attracting a diverse pool of talent is a cornerstone of Villa World's success. We will continue to offer a competitive remuneration mix that rewards performance and encourages diverse perspectives and flexibility in thinking leading to a higher level of creativity, innovation and organisational agility.

I thank the members of the Remuneration and Nomination Committee for their efforts.

Donna Hardman
Chair, Remuneration and Nomination Committee

REMUNERATION REPORT 2016 (AUDITED)

Contents

Section A: Introduction

The Villa World Limited Board is pleased to present the Remuneration Report for FY16. 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.

The Board is committed to an executive remuneration framework that fosters a strong performance culture and links the remuneration outcomes for our executives with the Company's strategy and forward plan.

Section B: Key management personnel disclosed in this report

This Report outlines how the Company's FY16 performance has been reflected in remuneration outcomes for key management personnel (KMP) as defined in *AASB 124* Related Party Disclosures.

The Company's KMP comprise of Non-Executive Directors (NEDs), and Executive Directors and senior executives (collectively the "executives"), being those persons considered by the Board to have the authority and responsibility for planning, directing and controlling (either directly or indirectly) the Company's major objectives.

KMP	Position	Term
Non-Executive Directors		
Mark Jewell	Independent Chairman	Full Year
David Rennick	Independent Non-Executive Director	Full Year
Donna Hardman[1]	Independent Non-Executive Director	Part Year
Gerald (Gerry) Lambert[2]	Independent Non-Executive Director	Part Year
Executive Director		
Craig Treasure	Chief Executive Officer and Managing Director (CEO/MD)	Full Year
Senior Executives		
Paulene Henderson	Chief Financial Officer (CFO) and Company Secretary	Full Year
Michael Vinodolac[3]	General Manager Operations	Part Year

[1] Donna Hardman was appointed Non-Executive Director on 17 February 2016.
[2] Gerald (Gerry) Lambert resigned as Non-Executive Director on 5 November 2015.
[3] Michael Vinodolac became a KMP effective 1 October 2015 after a period of transition into his current role of State Manager - QLD, with a recent further promotion into the role of General Manager Operations.

Section C: Summary of FY16 remuneration

The Company's Remuneration and Nomination Committee (RNC) noted strong performance in delivery and sales, as well as sustained strength in the balance sheet enabling effective cash flow management across the portfolio.

Increased environmental complexity and geographic and product diversity has been accompanied by expanded roles and responsibilities for the executive team. Appropriately, the RNC reviewed salary levels based on performance.

Key remuneration outcomes are as follows:

Fixed Remuneration	Executives received increases (~9%-10%) in fixed remuneration in recognition for high performance and delivery of business strategy.
CEO/MD Remuneration	Fixed remuneration for the CEO was revised to $675k for FY16, an increase of 12.5%. The increase was based on peer comparison and his increased accountabilities following strong growth and business performance. Total STI remained at 40% of fixed salary. Total remuneration for the CEO is tabled in Section E.
"Short-term incentives (STI)"	The STI pool awarded to all employees, including those awarded to executives totalled $1.2 million in FY16 (FY15: $1.1 million). The increase reflected the Companys' strong financial performance in FY16 and the Boards assessment of performance against individual KPI measures. STI for executives remain between 20-40% of fixed salary.
"Long-term incentives (LTI)"	A new LTI plan was established in FY16 replacing the legacy Villa World Limited Option Plan. The maximum LTI opportunities during FY16 were equivalent to 100% of fixed remuneration for the CEO and up to 80% of fixed remuneration for other executives and eligible employees. Performance hurdles have been aligned to shareholder wealth and vesting of performance rights are dependent on achieving target relative TSR and ROA over 3 years.
NED fees	NEDs received ~12% increase in base fees to reflect additional workloads as well as market relativities. Total Board and Committee fees paid during FY16 were $289k (see Section K) which is within the current maximum aggregate amount of $600k. NEDs do not receive variable pay.

Section D: Approach to remuneration

The Board, RNC, external advisers and management work closely to apply our remuneration principles and ensure our strategy supports long-term sustainable growth in shareholder value. The executive remuneration strategy demonstrates a strong link between our Company's strategy, its performance and the remuneration outcomes for our executives.

The Company's approach to setting remuneration, including roles and responsibilities is illustrated below.

Board - Responsible for the overall strategic direction and corporate governance of Villa World Limited

Remuneration and Nomination Committee

Assist and make recommendations to the Board by overseeing remuneration policies and practices to ensure executives are rewarded fairly and responsibly having regard to the performance of the Company.

The Committee's role is to assist and make recommendations to the Board on the following:

- Board remuneration policies and practices that enable it to attract and retain executives and Directors who will create value for shareholders
- Remuneration packages for the Senior Executive Team
- Fees for Non-Executive Directors
- Board composition
- Human resources policies aligned to the overall business strategy
- Policies that promote and support equal opportunity and diversity within the Company

External advisers

From time-to-time the Committee and Board utilise the services of specialist human resources and remuneration consultants to provide advice regarding:

- Executive remuneration levels
- Remuneration frameworks
- Succession planning

Protocols have also been established for the engagement of remuneration consultants and the provision of recommendations free of undue influence.

Management - Make recommendations to the Committee regarding the Company's remuneration policies and frameworks

The Company's remuneration strategy, policies and practices are designed to attract and retain the best people and reward employees for supporting the strategic and operational objectives of the Company. This is achieved by setting remuneration levels which are competitive with executives in comparable companies and roles and by regularly reviewing performance measures and targets.

Section E: Actual remuneration earned in FY16

Remuneration earned by Executive Key Management Personnel (KMP) reflects the Company's strong FY16 business performance and sustained growth in shareholder value over a number of years. The following table sets out the actual value of remuneration earned by Executive KMP members during the year.

		Short-term benefits		Post-employment	Long-term benefits	Share based payments			
		Salary and fees $	Cash Bonus $	Super-annuation contri-butions $	Long service leave[6] $	Share options $	Perfor-mance Rights $	Termi-nation benefits $	TOTAL $
Non-Executive Directors									
Mark Jewell (Chairman)	**2016**	**123,288**	**-**	**11,712**	**-**	**-**	**-**	**-**	**135,000**
	2015	110,000	-	10,450	-	-	-	-	120,450
David Rennick	**2016**	**82,192**	**-**	**7,808**	**-**	**-**	**-**	**-**	**90,000**
	2015	60,000	-	5,700	-	-	-	-	65,700
Donna Hardman[1]	**2016**	**30,242**	**-**	**2,873**	**-**	**-**	**-**	**-**	**33,115**
	2015	-	-	-	-	-	-	-	-
Gerald (Gerry) Lambert[2]	**2016**	**28,662**	**-**	**2,723**	**-**	**-**	**-**	**-**	**31,385**
	2015	31,938	-	3,034	-	-	-	-	34,972
Alexander (Sandy) Beard[3]	**2016**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	2015	13,140	-	-	-	-	-	-	13,140
Total Non-Executive Directors	**2016**	**264,384**	**-**	**25,116**	**-**	**-**	**-**	**-**	**289,500**
	2015	215,078	-	19,184	-	-	-	-	234,262
Executive Director and KMP									
Craig Treasure (CEO and MD)	**2016**	**655,692**	**240,000**	**19,308**	**18,128**	**100,000**	**111,972**	**-**	**1,145,100**
	2015	571,963	199,905	18,783	2,755	100,000	-	-	893,406
Paulene Henderson	**2016**	**280,692**	**66,145**	**19,308**	**7,930**	**8,333**	**39,812**	**-**	**422,220**
	2015	256,217	59,369	18,783	4,740	8,333	-	-	347,442
Michael Vinodolac[4]	**2016**	**210,519**	**51,395**	**14,481**	**11,488**	**15,375**	**14,930**	**-**	**318,188**
	2015	-	-	-	-	-	-	-	-
Scott Payten[5]	**2016**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	2015	103,921	-	9,392	764	(25,000)	-	445,692	534,769
Total Executive Director and KMP	**2016**	**1,146,903**	**357,540**	**53,097**	**37,546**	**123,708**	**166,714**	**-**	**1,885,508**
	2015	932,101	259,274	46,958	8,259	83,333	-	445,692	1,775,617
TOTAL	**2016**	**1,411,287**	**357,540**	**78,213**	**37,546**	**123,708**	**166,714**	**-**	**2,175,008**
	2015	1,147,179	259,274	66,142	8,259	83,333	-	445,692	2,009,879

[1] Donna Hardman was appointed Non-Executive Director on 17 February 2016.
[2] Gerald (Gerry) Lambert resigned 5 November 2015.
[3] Alexander (Sandy) Beard resigned 2 September 2014.
[4] Michael Vinodolac became a KMP effective 1 October 2015 after a period of transition into his current role of State Manager - QLD, with a recent further promotion into the role of General Manager Operations.
[5] Scott Payten ceased employment 24 September 2014 and received a termination payment inclusive of annual leave entitlement, long service leave, notice period and redundancy.
[6] Long service leave represents the amount expensed by the Company for the period.

Section F: Our assets: Our people

Villa World aims to engage our people over the long-term by fostering diversity, providing challenging work and development opportunities, and encouraging strong delivery through performance. These aims are underpinned by our values of **performance, agility, integrity, knowledge, unity** and **respect**.

The Company has applied itself to ensuring it has the right people, systems and structure in place to **focus**, **grow** and **lead**. Our commitment to sustained performance is reflected in incentive plans that promote and reward decision-making with a positive long-term impact, while avoiding excessive risk.

Section G: Remuneration framework and link to business strategy

The Company rewards its executives with a level and mix of remuneration consistent with the approach outlined above. As a gateway for each executive to attain their target short-term incentive, there is a set of overarching Company-wide specific hurdles that must first be achieved before consideration is given to financial remuneration.

The table below explains the linkage between the remuneration components and the Company's performance focus.

	Component	Design	Purpose and link to strategy
Fixed Remuneration	**Total fixed remuneration**	Base salary, superannuation contributions and other non-monetary benefits	• Retention and attraction - market competitive, bench marked against peer company • Positioned at a level that reflects the contribution and value to the Company • Recognises capability, expertise and performance of the executive
At risk remuneration	**STI Cash**	A cash bonus awarded based on successful achievement of Board Key Performance Indicators (KPIs) and delivering longer term strategic plan against target	• Rewards and motivates achievement of Company annual strategic plan • Creates transparent link between performance and remuneration • Individual KPIs encourage accountability and consider a broader view of performance and specific strategic prorities
	LTI	A deferred equity award of conditional rights or options subject to performance conditions measured over a three year performance period	• Rewards longer-term performance • Performance measures (ROA and relative TSR) provide significant link to performance and strategic goals and are key metrics in aligning remuneration outcomes with shareholder value • Retention and shareholder alignment

Section H: FY16 remuneration outcomes

The Company has achieved substantial improvement in overall business performance in relation to the current financial position, total shareholder returns and operational performance targets during the past 12-24 months. These achievements were taken into consideration during the annual remuneration review for FY16.

(i) KMP remuneration mix

Fixed Remuneration, STI and LTI work together to help generate alignment between the successful execution and management of the Company's strategy and business objectives to deliver in the interests of shareholders. The CEO and all Company senior executives have a significant portion of their remuneration linked to performance and therefore 'at risk'. For FY16, this portion was increased, with greater emphasis on long-term incentives for the CEO and Company executives compared to FY15, with a view to increasing shareholder alignment for this key group.

The relative mix of these components for different roles for FY16 is summarised in the table below.

	Total remuneration package components					
	TFR		STI		LTI	
	2016	2015	2016	2015	2016	2015
Executive Director						
Craig Treasure	60%	66%	21%	22%	19%	12%
Other KMP						
Paulene Henderson	72%	80%	16%	17%	12%	3%
Michael Vinodolac	73%	-	17%	-	10%	-

Fixed remuneration for the CEO and CFO increased in FY16 by 12.5% and 9.1% respectively. This increase ensures that KMP remuneration remains competitive with companies of comparable size and complexity. Total fixed remuneration is still lower than the average/median remuneration rewarded to executives in comparable companies and roles, whilst maximum total remuneration, which includes STI and LTI awards, support the Company focus and direction on a competitive higher performance-based remuneration structure.

(ii) FY16 STI outcome

The following table sets out the performance conditions for STI's and the weighting between these measures for executives for FY16.

		Weighting of financial measure					
	Metric	CEO		CFO		General Mananger Operations	
Financial measures	**Operational performance** • Achieve FY16 financial plan	40%	●	20%	●	35%	●
Financial measures	**Financial performance** • Gearing and interest cover within Board policy limit • NTA/share against target	20%	●	15%	●	15%	●
Non-financial measures	**Business growth and sustainability** • Build, replenish and diversify the Company portfolio • Develop current pipeline with acceptable level of risk • Achieve production and supply of inventory measured against targets • Develop five year growth and sustainability strategy to support business • Define corporate structure to support future performance and sustainability	30%	●	15%	●	20%	●
Non-financial measures	**Overall efficiency** • Drive efficiences through cost, time and resource effectiveness	10%	●	10%	●	10%	●
Position specific measures	**Corporate governance and Company Secretarial compliance** • Audit, tax, GST, ASX reporting			20%	●		
Position specific measures	**Compliance with financial institutions including review of cash facility** • Sourcing of financing options and maintaining relationships with banks			10%	●		
Position specific measures	**Investor Relations** • Raise corporate awareness and understanding, strengthen corporate image through regular, transparent, two way communication with the financial community and other stakeholders • Contribute to Company's shares achieving a fair valuation			10%	●		
Position specific measures	**Production and supply of inventory performance - Queensland** • Achieve production, supply or stock measured against Queensland targets					20%	●

Performance assessment:

● Below threshold hurdle
● At target

(iii) FY16 LTI outcome

Villa World Limited Executive Long-Term Incentive Plan

Under the Villa World Limited Executive LTI plan, which was introduced in FY16, the Company awards performance rights to executives and other eligible employees with the objective of improving the link between shareholder returns and executive remuneration.

Awards granted will be tested against the relative TSR & ROA performance measures over three financial years until the date the performance rights vest and at which time it will be determined whether the rights are exercisable. Refer to Section I (iii) for the plans terms and conditions.

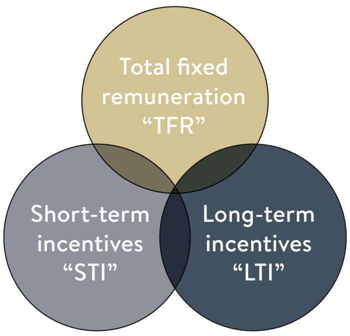
No awards have vested during FY16.

The table below sets out the performance rights awarded to executives during FY16:

KMP	Grant date	Performance rights awarded	Value	Value of performance rights at grant date	Expiry date	Vesting date	Expected price volatility of shares	Expected dividend yield	Risk free interest rate
Craig Treasure	30/11/2015	316,902	$1.06	$335,916	31/08/2018	30/06/2018	27%	7.6%	2.1%
Paulene Henderson	30/11/2015	112,676	$1.06	$119,437	31/08/2018	30/06/2018	27%	7.6%	2.1%
Michael Vinodolac	30/11/2015	56,338	$1.06	$59,718	31/08/2018	30/06/2018	27%	7.6%	2.1%

Section I: Remuneration structure

Executives receive fixed remuneration and variable remuneration consisting of short and long term incentive opportunities. Executive remuneration levels are reviewed annually by the RNC with reference to the remuneration guiding principles and market movements. Recommendations are submitted for Board approval.



(i) Total fixed remuneration

Total Fixed Remuneration (“TFR”) is a market related base salary including superannuation contributions and other non-monetary benefits (such as vehicle and parking allowances). It is determined according to industry standards, relevant laws and regulations, market conditions and the Company’s business operations with relevance to the employee’s position. TFR will reflect the core performance requirements and expectations of the Company.

(ii) Short-term incentives

The Company has implemented a bonus incentive program designed to create a strong, transparent link between performance and remuneration.

Executives and eligible employees have a target STI opportunity depending on the accountabilities of their 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 KPIs. Performance is assessed against both Company and individual performance criteria. Each year the Board considers the appropriate targets and KPIs to link to the STI plan and the weightings if targets are met for executives. This may include setting any maximum payout under the STI plan and minimum levels of performance to trigger payment of STI.

The STI award is determined after the end of the financial year following a review of performance over the year against the STI performance measures by the CEO (and in the case of the CEO, by the Board). The Board approves the final STI award based on this assessment of performance and it is paid in cash four months after the end of the performance period. If an executive resigns or is terminated with cause before the STI award payment date, Board discretion is applied.

(iii) Long-term incentives

The grant of performance rights was introduced as a LTI on 30 November, 2015 subsequent to approval of the plan at the FY15 Annual General Meeting (AGM). The plan is intended to be the Company's principal vehicle for granting LTI awards to executives and other eligible employees.

The primary objectives of the plan are to:

- assist in the attraction, retention and motivation of key individuals
- ensure enhanced focus on the Company's long-term performance and strategic direction
- link the reward of senior executives and other eligible employees to performance and the creation of shareholder value and
- encourage increased alignment between reward outcomes and shareholder interest by providing an opportunity for executives and other eligible employees to receive an equity interest, build their shareholding in the Company, and share in the Company's future growth.

The table below provides a summary of the terms and conditions of the Villa World Limited executive long-term incentive plan:

Who participates?	The Board may grant Performance Rights to senior executives and other eligible employees of the Company. In general, the Board will invite those who are considered to have capacity to impact the long-term performance of the Company. Non-Executive Directors will not be elegible to participate in the Plan.
How is it paid?	Performance rights. On vesting each performance right converts into one share. No dividends/distributions are paid on unvested LTI awards. This ensures that executives are only rewarded when performance hurdles have been achieved at the end of the performance period.
How much can executives earn?	The maximum LTI opportunities during FY16 were equivalent to 100% of fixed remuneration for the CEO/MD and 80% of fixed remuneration for other executives.
What is the performance period?	The vesting conditions will be measured and tested over a three-year vesting period determined by the Board. For the FY16 grant, performance will be measured from 1 July 2015 to 30 June 2018.
How is performance measured?	The Board may determine vesting conditions, which may include performance and/or service conditions that must be satisfied before the performance rights vest. After careful consideration of the long-term financial focus and strategic direction of the Company, the Board has determined the performance conditions for the inital grant to be as follows: **Relative TSR (75% of the LTI allocation)** TSR measures the percentage change in a Company's share price and dividends paid. The Company's TSR is measured relative to a comparator group of ASX-listed companies ranked 200-300 on the ASX300 Index (excluding companies in the mining and financial services sectors and A-REITS). These companies were chosen as they are of a similar size and reflect the Company's competitors for capital. The relative TSR for the Company is measured over three financial years. The proportion of performance rights that may vest based on relative TSR performance is determined based on the following vesting schedule.

Relative TSR performance	Percentage vesting
At or above the 75th percentile	100%
Between 50th and 75th percentile	Straight line vesting between 50-100%
At the 50th percentile	50%
Below the 50th percentile	Nil

How is performance measured? (continued)	**ROA (25% of LTI allocation)** ROA measures how well the Company has managed its assets to generate earnings. ROA is calculated by taking the average of the three annual ROA figures (which are calculated as adjusted earnings of a financial year divided by average monthly operating assets for the financial year). The proportion of performance rights that may vest based on ROA performance is determined based on the following vesting schedule.

ROA performance	Percentage vesting
At or above Maximum (13.5%)	100%
Between Threshold (12%) and Maximum (13.5%)	Straight line vesting between 50-100%
At Threshold (12%)	50%
Below Threshold (12%)	Nil

	The performance conditions are independent and will be tested separately. The applicable TSR and ROA performance targets and relevant vesting schedules will be the same for all participants in the Plan. The Plan provides the Board with the ability to review and adjust the performance conditions, targets and vesting schedules on a grant-by-grant basis, ensuring they remain appropriate and sufficiently challenging.
Clawback?	In the event of fraud, dishonesty or material misstatement of financial statements, the Board may make a determination, including lapsing unvested performance rights to ensure that no unfair benefit is obtained by a participant.
What happens if an executive leaves the Company?	If an executive resigns or is terminated for cause, any unvested LTI awards are forfeited, unless otherwise determined by the Board. The treatment of vested and unexercised awards will be determined by the Board with reference to the circumstances of cessation.

Section J: Service agreements for Executive KMP

(i) Employment agreements

Remuneration and other terms of employment for executives are formalised in service agreements. The service agreements provide for base salary inclusive of superannuation, performance related bonuses, other benefits including car and parking allowances and notice periods.

The key provisions of the agreements relating to terms of employment and notice periods for the year ended 30 June 2016 are set out in the table below:

	Base fee inclusive of superannuation	Term of agreement	Notice period	Review period	Maximum annual cash bonus (%) [1]
Chief Executive Officer and Managing Director					
Craig Treasure	$675,000	Rolling	6 months	Annual	40%
Other KMP					
Paulene Henderson	$300,000	Rolling	6 months	Annual	25%
Michael Vinodolac	$300,000	Rolling	3 months	Annual	20%

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

(ii) Termination provisions

Other than statutory entitlements, there are no termination benefits applicable to the current executives. The Board and the RNC must approve all termination payments.

Section K: Non-Executive Directors' remuneration

The Company's NED fee policy is designed to attract and retain high-calibre Directors who can discharge the roles and responsibilities required in terms of good governance, strong oversight, independence and objectivity.

Board and Committee fees are reviewed annually having regard to the level of fees paid to NEDs of Australian companies of comparable size and complexity. This approach reflects the responsibilities and time commitment necessary for the role.

NEDs receive fees only and do not participate in any performance-related incentive awards. NED fees reflect the demands and responsibilities of the Directors.

(i) Service agreements

On appointment to the Board, all NEDs enter into a letter of appointment with the Company. The letter of appointment sets out the terms of appointment, services to be provided, remuneration, and corporate policies and codes of conduct to be complied with.

(ii) Maximum aggregate NED fee pool

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 NEDs of $600,000.

The total of Non-Executive Directors' fees paid for the year ended 30 June 2016 was $289,500 (30 June 2015: $234,262).

(iii) NED remuneration

NEDs receive a fixed fee for their services. Fees are reviewed annually by the RNC, taking into account amounts paid to NEDs with comparable roles in the external market. Recommendations are submitted to the Board for final approval.

With the exception of the Chair, NEDs receive additional fees if they are appointed the Chair of Committees. NEDs do not receive termination benefits other than accumulated superannuation. NEDs may be reimbursed for expenses reasonably incurred in performing their role.

In FY16 the Board decided to increase the base fee for NEDs to reflect additional workloads as well as national benchmarks. The FY17 base fee for NEDs is expected to be well within the approved $600,000 remuneration pool for NEDs.

The annual fees paid for the Board and Board Committees are shown in the table below. The amounts shown are inclusive of applicable statutory superannuation contributions.

Base fees	FY16	FY15
Chair	**$135,000**	$120,450
Other NEDs	**$80,000**	$78,840
Additional fees		
Committee - Chair	**$10,000**	-

Section L: Additional required disclosures

(i) Past financial performance

The measures of the Company's financial performance over the past five years as required by the *Corporations Act 2001* are shown in the table below. These are not necessarily consistent with the measures used in determining the variable amounts of remuneration awarded to KMP. Consequently, there may not always be a direct correlation between the statutory key performance measures and the variable remuneration awarded.

Performance KPI	FY12 $m	FY13 $m	FY14 $m	FY15 $m	FY16 $m
Revenue	$145.6	$169.4	$229.5	$321.6	$387.0
Debt	$74.2	$70.0	$69.1	$92.0	$128.6
Gearing	27.6%	24.4%	18.7%	16.9%	25.6%
NTA per security (cents)	201.0	185.0	192.0	200.0	215.0
Dividends (relating to the year)					
Interim dividend (cents)	-	-	6.0	6.0	8.0
Final dividend (cents)	-	-	9.0	10.0	10.0
Earnings per share (cents)	10.1	(18.2)	21.5	25.6	30.6
Share price at 30 June	$0.79	$1.13	$2.02	$2.00	$2.08

(ii) Equity instrument disclosures relating to KMP

Shareholding of KMP for the year ended 30 June 2016

	Balance at the start of the year		Granted during the year		Other changes during the year		Balance at the end of the year	
	Direct holding	Indirect holding	Direct holding	Indirect holding	Direct holding	Indirect holding	Direct holding	Indirect holding
Directors								
Mark Jewell	-	103,390	-	-	-	-	-	103,390
Craig Treasure	252,432	582,432	-	-	-	-	252,432	582,432
David Rennick	-	22,500	-	-	-	22,500	-	45,000
Donna Hardman	-	-	-	-	-	-	-	-
Gerald (Gerry) Lambert [1]	-	22,432	-	-	-	-	-	-
Other KMP								
Paulene Henderson	-	86,468	-	-	-	-	-	86,468
Michale Vinodolac	-	-	-	-	3,192	-	3,192	-
Total	252,432	817,222	-	-	3,192	22,500	255,624	817,290

[1] Gerald (Gerry) Lambert resigned as Non-Executive Director on 5 November 2015.

(iii) Villa World Limited Option Plan

The Villa World Limited Option Plan was introduced in FY14 and was designed to attract and retain key personnel and align the interest of employees with those of shareholders.

Under the plan, share-based compensation benefits in the form of options are granted to executives and eligible employees. The options only vest if the participating employees continue their respective service agreements with the Company for three years from the grant date.

No options were granted or vested during FY16. Options under this plan were last granted on 11 February, 2014 and will expire on 11 August, 2017. Options will commence vesting on 26 July, 2016. This plan is no longer used and has been replaced by the Villa World Limited Executive LTI Plan.

The following table discloses the number of share options granted, vested or lapsed during the year. Share options do not carry any voting or dividend rights, and can only be exercised once the vesting conditions have been met, until their expiry date.

KMP	Grant date	Expiry date	Exercise price	Granted as compen-sation	Value of options at grant date[1]	Vesting date	Expected price volatility of shares	Expected dividend yield	Risk free interest rate
Craig Treasure	26/07/2013	26/01/2017	$1.25	3,000,000	$300,000	26/07/2016	25%	9.0%	2.57%
Paulene Henderson	26/07/2013	26/01/2017	$1.25	250,000	$25,000	26/07/2016	25%	9.0%	2.57%
Michael Vinodolac	11/02/2014	11/08/2017	$1.60	150,000	$61,500	11/02/2017	30%	7.1%	3.10%

[1] The value of options is 10 cents per option for those options granted on 26 July 2013 and 41 cents per option for those options granted on 11 February 2014. This is calculated in accordance with *AASB2 Share-based payments*.

(iv) 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-16	30-Jun-15
	$'000	$'000
Performance rights issued to KMP	**166**	-
Options issued to KMP	**124**	83
	290	83

(v) Use of remuneration advisors

The Company seeks relevant benchmarking and commentary on a number of remuneration issues from a variety of independent external consultants. The Company's remuneration policy is reviewed annually by the RNC.

During FY16, the RNC appointed Ernst & Young (EY) to provide advice in relation to the implementation of the long-term incentive plan for senior executives as well as providing some benchmarking analysis with regard to remuneration levels for executives. No remuneration recommendations were provided by EY or any other advisor during the reporting period.

(vi) Clawback of remuneration

The Clawback Policy was adopted by the Board during FY16 to align the remuneration outcomes of executives under the relevant incentive programs (including STI and LTI plans) with the expectations and interests of Company shareholders. The policy provides the Board with the ability to claw back incentives paid to executives where an "unfair" benefit has arisen. The Board has discretion to determine the relevant action(s) it deems necessary to enforce this policy including cancellation or forfeiture of unvested STI and/or LTI awards.

The Clawback Policy is effective from 1 July 2015 and covers only STI and LTI awards made after that date.

(vii) Securities dealing policy

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

(viii) Remuneration report approval at FY15 Annual General Meeting (AGM)

Of the eligible votes cast at the Company's AGM held on 5 November 2015, 96.04% were in favour of the remuneration report for FY15. The Company did not receive any specific feedback at the AGM on its remuneration practices.

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.

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, or as nominees for the purposes of licenses held by 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 E3 - Remuneration of auditors. To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

Non-audit services

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

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 48.

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

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

Craig Treasure
Chief Executive Officer and Managing Director

Gold Coast
16 August 2016

EY
Building a better working world

Ernst & Young
111 Eagle Street
Brisbane QLD 4000 Australia
GPO Box 7878 Brisbane QLD 4001

Tel: +61 7 3011 3333
Fax: +61 7 3011 3100
ey.com/au

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

As lead auditor for the audit of Villa World Limited for the financial year ended 30 June 2016, I declare to the best of my knowledge and belief, there have been:

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

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

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

Ernst & Young

Ric Roach
Partner
16 August 2016

CORPORATE GOVERNANCE STATEMENT
30 June 2016

Corporate governance statement

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

The Board has given due consideration to the ASX 'Corporate Governance Principles and Recommendations', which offer a framework for good corporate governance. The Board has approved the Corporate Governance Statement for the year ended 30 June 2016, which is available in the Corporate Governance section of its website at http://www.villaworld.com.au/corporate-governance-statement-2016

Annual Report - 30 June 2016

Contents

Consolidated statement of comprehensive income
For the year ended 30 June 2016

	Notes	Consolidated 30-Jun-16 $'000	30-Jun-15 $'000
Revenue from continuing operations			
Revenue from land development, residential building and construction contracts	A1	**387,002**	321,550
Cost of land development, residential building and construction contracts	A1	**(286,400)**	(243,760)
Gross Margin		**100,602**	77,790
Development and project management fee		**1,159**	44
Other income	A1	**697**	867
Net impairment of development land		**(83)**	77
Share of profit from associates and joint ventures	D3	**3,445**	1,828
Other expenses from ordinary activities			
Property sales and marketing expenses		**(22,090)**	(17,963)
Land holding costs		**(3,777)**	(3,565)
Legal and professional costs		**(1,489)**	(943)
Employee benefits		**(16,705)**	(14,352)
Depreciation and amortisation expense		**(607)**	(958)
Administration costs and other expenses		**(4,441)**	(3,249)
Finance costs	C5	**(9,464)**	(10,196)
Profit before income tax		**47,247**	29,380
Income tax expense	A5(a)	**(13,534)**	(3,743)
Profit for the period		**33,713**	25,637
Profit is attributable to:			
Owners of Villa World Limited		**33,713**	25,637

		Cents	Cents
Earnings per share for profit attributable to the ordinary equity holders of the Company:			
Basic earnings per share	A2	**30.6**	25.6
Diluted earnings per share	A2	**30.1**	25.2

	Notes	Consolidated 30-Jun-16 $'000	30-Jun-15 $'000
Profit for the period		**33,713**	25,637
Other comprehensive income			
Items that may be reclassified to profit or loss			
Changes in the fair value of cash flow hedges	C3(a)	**460**	(1,805)
Income tax relating to these items	C3(a)	**(138)**	541
Other comprehensive income for the period, net of tax		**322**	(1,264)
Total comprehensive income for the period, net of tax		**34,035**	24,373
Total comprehensive income for the period is attributable to:			
Owners of Villa World Limited		**34,035**	24,373

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

Consolidated balance sheet
As at 30 June 2016

	Notes	Consolidated 30-Jun-16 $'000	30-Jun-15 $'000
ASSETS			
Current assets			
Cash and cash equivalents		**8,358**	22,571
Trade and other receivables	B2	**72,351**	41,907
Inventories	B1	**186,037**	191,318
Other current assets		**3,157**	3,588
Total current assets		**269,903**	259,384
Non-current assets			
Inventories	B1	**187,660**	148,326
Property, plant and equipment		**1,169**	898
Investments accounted for using the equity method	D3	**18,482**	16,779
Deferred tax assets	A5(d)	**795**	7,286
Total non-current assets		**208,106**	173,289
Total assets		**478,009**	432,673
LIABILITIES			
Current liabilities			
Trade and other payables	B3	**79,030**	96,452
Deferred income		**527**	-
Current tax liabilities	A5(a)	**4,868**	1,196
Employee benefits		**772**	635
Service warranties	B4(a)	**14,392**	14,983
Other provisions		**45**	239
Total current liabilities		**99,634**	113,505
Non-current liabilities			
Trade and other payables	B3	**11,989**	5,926
Borrowings	C4	**128,594**	92,044
Deferred income		**473**	-
Employee benefits - long service leave		**375**	339
Other provisions		**64**	261
Total non-current liabilities		**141,495**	98,570
Total liabilities		**241,129**	212,075
Net assets		**236,880**	220,598
EQUITY			
Contributed equity	C2	**444,271**	444,286
Other reserves	C3(a)	**190,320**	174,190
Accumulated losses		**(397,711)**	(397,878)
Capital and reserves attributable to owners of Villa World Limited		**236,880**	220,598
Total equity		**236,880**	220,598

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 2016

Consolidated	Notes	Contributed equity $'000	Cash flow hedges $'000	Attributable to owners of Villa World Limited Other reserves $'000	Profit Reserve $'000	Accumulated losses $'000	Total $'000
Balance at 1 July 2014		413,375	(1,413)	174	166,013	(397,904)	180,245
Profit for the year as reported in the 2015 financial statements		-	-	-	-	25,637	25,637
Movement in hedge reserve (net of tax)		-	(1,264)	-	-	-	(1,264)
Total comprehensive income for the period		**-**	**(1,264)**	**-**	**-**	**25,637**	**24,373**
Contributions of equity, net of transaction costs and tax	C2	25,911	-	-	-	-	25,911
Securities issued under the share purchase plan, net of transaction costs and tax	C2	5,000	-	-	-	-	5,000
Transfer current year profit to profit reserve	C3(a)	-	-	-	25,587	(25,587)	-
Dividends provided for or paid	A4(a)	-	-	-	(15,050)	-	(15,050)
Share based payments and other expenses		-	-	143	-	(25)	118
		30,911	-	143	10,537	(25,612)	15,979
Balance at 30 June 2015		**444,286**	**(2,677)**	**317**	**176,550**	**(397,878)**	**220,598**
Balance at 1 July 2015		444,286	(2,677)	317	176,550	(397,878)	220,598
Profit for the year as reported in the 2016 financial statements		-	-	-	-	33,713	33,713
Movement in hedge reserve (net of tax)		-	322	-	-	-	322
Total comprehensive income for the period		**-**	**322**	**-**	**-**	**33,713**	**34,035**
Dividends provided for or paid	A4(a)	-	-	-	(19,862)	-	(19,862)
Share based payments and other expenses		-	-	230	-	-	230
Employee Share Scheme	C3(a)	-	-	1,894	-	-	1,894
Transfer current year profit to profit reserve	C3(a)	-	-	-	33,546	(33,546)	-
Share capital issue costs	C2	(15)	-	-	-	-	(15)
		(15)	-	2,124	13,684	(33,546)	(17,753)
Balance at 30 June 2016		**444,271**	**(2,355)**	**2,441**	**190,234**	**(397,711)**	**236,880**

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 2016

	Notes	Consolidated 30-Jun-16 $'000	30-Jun-15 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**352,402**	318,436
Receipts from the transfer of development rights		**26,400**	-
Payments to suppliers and employees (inclusive of goods and services tax)		**(247,298)**	(242,923)
		131,504	75,513
Payments for land acquired		**(162,930)**	(102,123)
Interest received		**445**	575
Interest paid		**(6,494)**	(6,313)
Borrowing costs		**(250)**	(723)
Corporate tax paid		**(1,616)**	-
GST paid		**7,712**	2,612
Net cash outflow from operating activities	A6	**(31,629)**	(30,459)
Cash flows from investing activities			
Payments for property, plant and equipment		**(850)**	(708)
Payments for equity accounted investments	D3	**(11,258)**	(6,366)
Distributions received from equity accounted investments	D3	**13,000**	9,383
Net cash inflow from investing activities		**892**	2,309
Cash flows from financing activities			
Proceeds from borrowings		**193,886**	211,437
Repayment of borrowings		**(157,500)**	(188,360)
Proceeds from issue of share capital		**-**	31,693
Transactions costs of issue of shares		**-**	(1,117)
Dividends paid to Company's shareholders	A4(a)	**(19,862)**	(15,050)
Net cash inflow from financing activities		**16,524**	38,603
Net (decrease) / increase in cash and cash equivalents		**(14,213)**	10,453
Cash and cash equivalents at the beginning of the financial year		**22,571**	12,118
Cash and cash equivalents at end of period		**8,358**	22,571
Reconciliation to cash at the end of the year:			
Cash and cash equivalents		**8,358**	22,571
Cash and cash equivalents at the end of the year:		**8,358**	22,571

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

Contents of the notes to the consolidated financial statements

Notes to the consolidated financial statements
30 June 2016 (continued)

A RESULTS FOR THE YEAR

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

In this section:

A1 Revenue and gross profit

	Consolidated	
	30-Jun-16 $'000	30-Jun-15 $'000
Revenue from land only development	**106,128**	62,887
Revenue from land development, residential building and construction contracts	**280,874**	258,663
Revenue from land development, residential building and construction contracts	**387,002**	321,550
Cost of land only development	**71,243**	41,730
Cost of land development, residential building and construction contracts	**213,040**	193,107
Other direct costs	**2,117**	8,923
Costs of land development, residential building and construction contracts	**286,400**	243,760
Gross profit	**100,602**	77,790
Gross margin	**26.0%**	**24.2%**

	Consolidated	
	30-Jun-16 $'000	30-Jun-15 $'000
Other income		
Rebates received	**60**	115
Other income	**637**	752
	697	867

Recognition and measurement

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

Land development and residential housing

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

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

A1 Revenue and gross profit (continued)

Construction contracts

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

A2 Earnings per share

	Consolidated	
	30-Jun-16 $'000	30-Jun-15 $'000
Profit attributable to the ordinary equity holders of the Company	**33,713**	25,637

	Number '000	Number '000
Weighted average number of ordinary shares used in calculating basic earnings per share	**110,344**	100,141
Weighted average number of diluted shares used in calculating diluted earnings per share	**111,895**	101,630
	Cents	Cents
Basic earnings per share	**30.6**	25.6
Diluted earnings per share	**30.1**	25.2

Accounting for earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

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 shares assumed to have been issued for no consideration.

Share based options and Performance rights

Share based options and Performance rights are granted to employees under Villa World Limited's Legacy Long-Term Incentive Option Plan and the Villa World Limited's Executive Long-Term Incentive Plan. Both of these performance based measures 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. They have been excluded when calculating basic earnings per share.

A3 Segment revenue

(a) Identification of reportable operating segments

The Company is organised into two operating segments:

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

(ii) Property development and construction - Victoria.

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

Notes to the consolidated financial statements
30 June 2016 (continued)

A3 Segment revenue (continued)

(a) Identification of reportable operating segments (continued)

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 segment information provided to the executive committee for the reportable segments for the year ended 30 June 2016 is as follows:

	Consolidated	
	30-Jun-16 $'000	30-Jun-15 $'000
From continuing operations		
Segment revenue from land development, residential building and construction contracts		
Queensland and New South Wales	**330,326**	303,156
Victoria	**56,676**	18,394
Total segment revenue from land development, residential building and construction contracts	**387,002**	321,550
Segment cost of land development, residential building and construction contracts		
Queensland and New South Wales	**240,683**	231,548
Victoria	**45,717**	12,212
Total segment cost of land development, residential building and construction contracts	**286,400**	243,760
Segment gross margin		
Queensland and New South Wales	**89,643**	71,608
Victoria	**10,959**	6,182
Total segment gross margin	**100,602**	77,790

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

(b) Segment information provided to the 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 land development, residential building and construction contracts.

(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.

A4 Dividends

Accounting for dividends

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

Notes to the consolidated financial statements
30 June 2016 (continued)

A4 Dividends (continued)

(a) Ordinary shares

	Consolidated	
	30-Jun-16 $'000	30-Jun-15 $'000
Final fully franked ordinary dividend for the year ended 30 June 2015 of 10.0 cents per fully paid share paid on 28 September 2015 (2014: 9.0 cents per share)		
Final franked dividend based on tax paid at 30.0%	**11,034**	8,430
Interim dividend for the year ended 30 June 2016 of 8.0 cents per fully paid share (2015: 6.0 cents per fully paid share) paid on 31 March 2016.		
Interim franked dividend based on tax paid at 30.0%	**8,828**	6,620
	19,862	15,050

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

	Consolidated	
	30-Jun-16 $'000	30-Jun-15 $'000
In addition to the above dividends, since period end the Directors have recommended the payment of a final dividend of 10.0 cents per fully paid ordinary share (2015: 10.0 cents per fully paid ordinary share) fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 30 September 2016 out of profits reserve at 30 June 2016, but not recognised as a liability at period end, is:	**11,359**	11,034

(c) Franking credits

	Consolidated entity	
	30-Jun-16 $'000	30-Jun-15 $'000
Franking credits available for subsequent reporting periods based on a tax rate of 30.0% (2015 - 30.0%)	**3,354**	10,251
Franking credits that will arise from the payment of income tax payable as at the end of the financial year	**4,868**	-
	8,222	10,251

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.

A5 Taxes

Accounting for taxes

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

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

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

Tax consolidation legislation

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

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

Notes to the consolidated financial statements
30 June 2016 (continued)

A5 Taxes (continued)

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

	Consolidated	
	30-Jun-16	30-Jun-15
	$'000	$'000
Profit from continuing operations before income tax expense	**47,247**	29,380
	47,247	29,380
Tax at the Australian tax rate of 30.0% (2015 - 30.0%)	**14,174**	8,814
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share of loss in equity accounted investments utilised	**-**	(461)
	14,174	8,353
Recognition of deferred tax asset for losses	**-**	(4,300)
Other	**(633)**	72
Adjustments for current tax of prior periods	**(7)**	(382)
	(640)	(4,610)
Income tax expense	**13,534**	3,743
Current tax amounts recognised in equity	**(1,893)**	-
Movement in temporary differences	**(6,353)**	(2,547)
Income tax payable for the financial year	**5,288**	1,196
Income taxes payable at the beginning of the financial year	**1,196**	-
Income taxes paid	**(1,616)**	-
Income tax payable at 30 June	**4,868**	1,196
Income tax expense		
Current tax	**7,152**	1,196
Deferred tax	**6,353**	2,547
Adjustments for current tax of prior periods	**29**	
	13,534	3,743
Income tax expense / (benefit) included in income tax expense comprises:		
Decrease / (increase) in deferred tax assets	**4,188**	(4,796)
Increase in deferred tax liabilities	**2,165**	7,343
	6,353	2,547

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

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

	Consolidated	
	30-Jun-16	30-Jun-15
	$'000	$'000
Cash flow hedges	**(138)**	541
Total tax (income) / expense relating to items of other comprehensive income	**(138)**	541

(c) Tax losses

During the year prima facie taxable income, before utilisation of losses of $36.7 million (30 June 2015: $20.5 million taxable income) was generated by the Company. Tax losses of $19.3 million as at 30 June 2015 were fully utilised during the year ended 30 June 2016.

Notes to the consolidated financial statements
30 June 2016 (continued)

A5 Taxes (continued)

(d) Deferred tax assets and tax liabilities

The balance comprises temporary differences attributable to:

	Deferred tax assets		Deferred tax liabilities		Net	
	30-Jun-16 $'000	30-Jun-15 $'000	**30-Jun-16 $'000**	30-Jun-15 $'000	**30-Jun-16 $'000**	30-Jun-15 $'000
Inventories	**17,116**	15,129	**(1,611)**	(4,427)	**15,505**	10,702
Tax losses	**-**	5,806	**-**	-	**-**	5,806
Accruals	**445**	490	**-**	-	**445**	490
Employee benefit	**344**	320	**-**	-	**344**	320
Provisions	**4,352**	4,673	**-**	-	**4,352**	4,673
Property, plant and equipment	**155**	116	**-**	-	**155**	116
Other	**1,248**	1,303	**-**	-	**1,248**	1,303
Capital raising costs	**364**	513	**-**	-	**364**	513
Trade debtors	**-**	-	**(21,022)**	(15,988)	**(21,022)**	(15,988)
Other	**-**	-	**(596)**	(649)	**(596)**	(649)
Tax assets/(liabilities)	**24,024**	28,350	**(23,229)**	(21,064)	**795**	7,286
Movements						
As at 1 July	**28,350**	22,679	**(21,064)**	(13,721)	**7,286**	8,958
- to profit or loss	**(4,188)**	4,796	**(2,165)**	(7,343)	**(6,353)**	(2,547)
- through equity	**(138)**	875	**-**	-	**(138)**	875
As at 30 June	**24,024**	28,350	**(23,229)**	(21,064)	**795**	7,286

Accounting for deferred tax assets and liabilities

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

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

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

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

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

(e) Critical accounting estimates and assumptions for income taxes

The Company is subject to income taxes in Australia.

The Company recognises liabilities based on the current understanding of the tax law. Where 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.

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

Notes to the consolidated financial statements
30 June 2016 (continued)

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

	Consolidated	
	30-Jun-16 $'000	30-Jun-15 $'000
Profit for the year	**33,713**	25,637
Depreciation and amortisation	**607**	958
Capitalised interest and fees	**2,067**	3,028
Borrowing costs	**358**	560
Net gain on disposal of property, plant and equipment	**(28)**	(23)
Share of gain from associate	**(3,445)**	(1,828)
Impairment of development land	**83**	(77)
Hedge ineffectiveness on interest rate swaps	**293**	-
Change in operating assets and liabilities:		
(Increase) / decrease in trade debtors	**(30,442)**	(25,202)
(Increase) / decrease in inventories	**(34,136)**	(81,344)
(Decrease) / increase in trade creditors	**(13,427)**	39,662
Decrease / (increase) in deferred tax assets	**6,491**	2,211
Increase / (decrease) in other operating assets and liabilities	**3,373**	(104)
Increase / (decrease) in other provisions	**2,864**	6,063
Net cash inflow / (outflow) from operating activities	**(31,629)**	(30,459)

B OPERATING ASSETS AND LIABILITIES

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

In this section:

B1 Inventories

	Consolidated	
	30-Jun-16 $'000	30-Jun-15 $'000
Current assets		
Acquisition cost of land held for development and resale	**94,909**	110,505
Development costs	**89,065**	76,459
Capitalised interest	**3,618**	4,958
Impairment of development land	**(1,555)**	(604)
	186,037	191,318
Non-current assets		
Acquisition cost of land held for development and resale	**152,080**	114,451
Development costs	**36,991**	35,880
Capitalised interest	**6,224**	6,324
Impairment of development land	**(7,635)**	(8,329)
	187,660	148,326
Total inventory	**373,697**	339,644

Accounting for inventories

Land held for resale and development costs

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

Estimates of net realisable value ('NRV') of inventories

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

Borrowing costs

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

Notes to the consolidated financial statements
30 June 2016 (continued)

B2 Trade and other receivables

Accounting for trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less an allowance for impairment. Collectability of trade receivables is reviewed on an ongoing basis and at balance date, specific impairment losses are recorded for any doubtful accounts.

Trade receivables are recognised in accordance with the Company's revenue recognition policy (refer note A1 – Revenue and gross profit). Also considered in this process is the ageing of the trade receivables, the settlement history of the buyer and any current feedback or other information known regarding the buyer. Collectability of trade receivables is generally upon settlement or per the terms of the contract. As at 30 June 2016 the balance of trade receivables is $70.3 million and they are expected to be received when due.

Other receivables generally arise from transactions outside the usual operating activities of the Company. Interest may be charged at commercial rates where the terms of repayment exceed six months. Collateral is not normally obtained and settlement is generally no more than 60 days from date of recognition. Separate negotiated arrangements outside of the standard collection policy are made on occasion when the purchaser enters into multiple contracts or extensions are required to facilitate settlement. These balances do not contain impaired assets and based on credit history, it is expected that these other balances will be received when due.

	Consolidated	
	30-Jun-16 $'000	30-Jun-15 $'000
Trade receivables	**210**	271
Trade receivable properties	**70,075**	40,156
Trade receivables due from related parties	**-**	660
	70,285	41,087
Other receivables	**2,066**	820
Total trade and other receivables	**72,351**	41,907

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

The ageing of current trade receivables is as follows:

	Consolidated	
	30-Jun-16 $'000	30-Jun-15 $'000
1 to 3 months	**65,492**	37,715
3 to 6 months	**3,643**	3,372
Over 6 months	**1,150**	-
	70,285	41,087

Past due but not impaired

As of 30 June 2016, the trade receivables of the Company of $nil (30 June 2015: $nil) were past due but not impaired.

B3 Trade and other payables

Accounting for trade and other payables

Trade and other payables are initially recognised at fair value less transaction costs and subsequently carried at amortised cost using the effective interest method. Trade and other payables are recognised as current if they are due within 12 months of the reporting date.

Land acquisitions represent amounts payable for the purchase of inventory secured for the purpose of land development, residential construction and resale. Trade payables represent the liability for goods and services provided to the Company prior to the end of financial year which are unpaid. Other payables are unsecured amounts.

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

Notes to the consolidated financial statements
30 June 2016 (continued)

B3 Trade and other payables (continued)

Accounting for trade and other payables (continued)

	Consolidated	
	30-Jun-16 $'000	30-Jun-15 $'000
Current liabilities		
Land acquisitions	**37,791**	65,627
Sub-contractors and materials	**5,012**	5,931
Total trade payables	**42,803**	71,558
Other current payables		
Accrued expenses	**33,694**	21,671
Other payables[1]	**2,533**	3,223
Total current other payables	**36,227**	24,894
Total current trade and other payables	**79,030**	96,452
Non-current liabilities		
Land acquisitions	**9,137**	3,408
Other payables[2]	**2,852**	2,518
Total non-current trade and other payables	**11,989**	5,926
Total payables	**91,019**	102,378

1. Includes derivatives payable of $1.8m (30 June 2015: $1.6m). Refer note C6(d) - Fair value measurements.
2. Includes derivatives payable of $1.9m (30 June 2015: $2.2m). Refer note C6(d) - Fair value measurements.

B4 Provisions and contingencies

Accounting for provisions

Provisions are recognised when the Company has a present (legal or constructive) obligation as a result of a past event, it is probable the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

(a) Service warranties

	Consolidated	
	30-Jun-16 $'000	30-Jun-15 $'000
Current liabilities		
Service warranties	**14,392**	14,983
Total current provisions	**14,392**	14,983

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

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

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

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.

Notes to the consolidated financial statements
30 June 2016 (continued)

B4 Provisions and contingencies (continued)

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

The current provision for employee benefits includes accrued annual leave and long service leave. For long service leave it includes all unconditional entitlements where employees have completed the required period of service. Included within the long service leave provision is an amount of $164,137 (30 June 2015: $120,505) classified as current, since the Company does not have an unconditional right to defer settlement for this obligation. The non-current long service leave provision covers conditional entitlements where employees have not completed their required period of service, adjusted for the probability of likely realisation.

(c) Movements in provisions

Consolidated	Service warranties 30-Jun-16 $'000	Service warranties 30-Jun-15 $'000
Current liabilities		
Carrying amount at the start of the year	**14,983**	10,079
- additional provisions recognised	**4,554**	10,213
Amounts incurred and paid	**(4,215)**	(5,309)
- unused amounts reversed[1]	**(930)**	-
Carrying amount at end of period	**14,392**	14,983

1. Unused provision reversed in relation to Home warranty claim - Thornleigh. Refer note (d) below.

(d) Legal claims

Home warranty claim - Thornleigh

The Company has previously made provision for the Thornleigh litigation (refer to note B3(d) - Provisions, Interim Financial Report for the period ended 31 December 2015). All outstanding aspects of the Thornleigh proceedings were concluded during 2H16, for amounts that were within the provision that was assessed at 31 December 2015. No further provision is required for this matter.

Silverstone Litigation

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

Based on further developments in the litigation during 2H16, the Directors have assessed this provision at approximately $8.5 million as at 30 June 2016 in respect of the Company’s proportion of the Applicant’s potential claim amount. This is in addition to the provisions for legal fees and experts costs which have been made since 30 June 2012 and expensed through cost of sales.

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

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

(e) Contingencies

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

The Company has entered into agreements to indemnify certain employees and former employees against all liabilities that may arise as a result of any claims against them by third parties as a result of the Company’s building activities. It is impractical to estimate the amount that may arise from these arrangements. There were no claims made against the Company at 30 June 2016 (30 June 2015: nil).

A controlled entity has contractual arrangements that provide for liquidated damages under certain circumstances. It is impractical to estimate the amount of any liability that may arise from these arrangements. There were no claims made against the Company at 30 June 2016 (30 June 2015: nil).

The Company has provided bank guarantees to the total of $18.7 million (30 June 2015: $13.0 million) to authorities and councils in relation to certain works to be undertaken or maintained or in support of contractual commitments.

Notes to the consolidated financial statements
30 June 2016 (continued)

B4 Provisions and contingencies (continued)

(ii) Contingent liabilities in respect of other entities

The Company has provided the following guarantees in respect of its interest in jointly controlled entities.

	Eynesbury Joint Venture		Donnybrook Joint Venture		Rochedale Joint Venture	
	30-Jun-16 $'000	30-Jun-15 $'000	**30-Jun-16 $'000**	30-Jun-15 $'000	**30-Jun-16 $'000**	30-Jun-15 $'000
Total financing facilities	**-**	10,356	**11,220**	5,100	**22,000**	-
Facilities utilised at reporting date	**-**	10,000	**9,814**	5,100	**16,039**	-
Bank guarantees utilised at reporting date	**-**	242	**-**	-	**527**	-
Principal amount recoverable by the Company in respect of debt facility	**-%**	50%	**51%**	51%	**50%**	-%

B5 Capital and other commitments

(a) Capital commitments

Villa World Developments Pty Ltd, a wholly owned subsidiary of Villa World Limited, assumed certain contractual obligations in conjunction with the execution of Put and Call Option Agreements (the Agreements) in relation to the acquisition of individual subdivided lots in property developments within Queensland, New South Wales and 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 $13.2 million (30 June 2015: $32.9 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.

	Consolidated	
	30-Jun-16 $'000	30-Jun-15 $'000
Capital commitments in relation to put and call arrangements		
Opening balance	**32,868**	38,465
Crystallised and paid commitments	**(21,276)**	(30,493)
Agreements entered into during the year	**1,571**	24,896
Total commitments	**13,163**	32,868

(b) Lease commitments

Accounting for leases

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

Non-cancellable operating leases

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

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

	Consolidated	
	30-Jun-16 $'000	30-Jun-15 $'000
Within one year	**458**	357
Later than one year but not later than five years	**715**	1,018
Later than five years	**-**	-
	1,173	1,375

C CAPITAL STRUCTURE, FINANCE COSTS AND FINANCIAL RISK MANAGEMENT

This section outlines how the Company manages its capital structure and related financing costs, including its balance sheet liquidity and access to capital markets.

In this section:

C1 Capital risk management

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.

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

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

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

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

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

The Company's policy is to continue to manage debt levels and maintain the gearing ratio between 15% and 30%. As at 30 June 2016, the gearing ratio was 25.6% (30 June 2015: 16.9%).

The Company has complied with the financial covenants of its borrowing facilities during the 2016 and 2015 reporting periods.

		Consolidated	
	Notes	**30-Jun-16 $'000**	30-Jun-15 $'000
Total borrowings (excluding bank guarantees)	C4(a)	**128,594**	92,044
Less: Cash and cash equivalents		**(8,358)**	(22,571)
Net debt		**120,236**	69,473
Total assets		**478,009**	432,673
Less: Cash and cash equivalents		**(8,358)**	(22,571)
		469,651	410,102
Gearing ratio		**25.6%**	16.9%

Notes to the consolidated financial statements
30 June 2016 (continued)

C2 Contributed equity

Contributed equity accounting policy

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.

	Shares 30-Jun-16 '000	Shares 30-Jun-15 '000	**30-Jun-16 $'000**	30-Jun-15 $'000
Ordinary shares				
Opening balance	**110,344**	93,664	**444,286**	413,375
Shares issued as part of the employee share scheme	**3,250**	-	**6,689**	-
Treasury shares	**(3,250)**	-	**(6,689)**	-
Shares issued as part of the capital raising	**-**	14,050	**-**	26,693
Shares issued as part of the share purchase plan	**-**	2,630	**-**	5,000
Transaction costs arising on share issue net of tax	**-**	-	**(15)**	(782)
	110,344	110,344	**444,271**	444,286

(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) Treasury shares

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

(c) Options and Performance Rights

Information relating to the Company, including details of options and performance rights issued, exercised and lapsed during the financial year, is set out in the Remuneration report and in note E2(b) - Equity instrument disclosures relating to key management personnel.

Notes to the consolidated financial statements
30 June 2016 (continued)

C3 Other reserves

(a) Movements in other reserves

	Notes	Consolidated 30-Jun-16 $'000	30-Jun-15 $'000
(i) Profits reserve			
Opening balance		**176,550**	166,013
Transfer current year profit		**33,546**	25,587
Dividends provided for or paid	A4(a)	**(19,862)**	(15,050)
Closing balance		**190,234**	176,550
(ii) Hedging reserve - cash flow hedges			
Opening balance		**(2,677)**	(1,413)
Revaluation - gross		**460**	(1,805)
Deferred tax	A5(b)	**(138)**	541
Closing balance		**(2,355)**	(2,677)
(iii) Share-based payments			
Opening balance		**317**	174
Share-based payments expense	E2(c)	**230**	143
Employee Share Scheme		**1,894**	-
Closing balance		**2,441**	317
Total other reserves		**190,320**	174,190

(b) Nature and purpose of other reserves

(i) Profits reserve

The profits reserve represents opening retained profits and current year profits transferred to a reserve to preserve the characteristic as a profit and not allocate against prior year accumulated losses. Any such profits are available to enable payment of franked dividends in the future should the Directors declare by resolution. Profits are determined and transferred on an entity basis. Losses are retained by the entity.

(ii) Cash flow hedges

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

(iii) Share-based payments

The share-based payments reserve is used to recognise the fair value of options and performance rights issued to key management personnel and executives. Equity instrument disclosures relating to key management personnel can be found in note E2 and section L(ii) within the Remuneration report.

C4 Borrowings

Accounting for borrowings

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

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

Interest expense is accrued at the effective interest rate.

Notes to the consolidated financial statements
30 June 2016 (continued)

C4 Borrowings (continued)

Accounting for borrowings (continued)

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

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

(a) Financing arrangements

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

	Consolidated	
	30-Jun-16 $'000	30-Jun-15 $'000
Total financing facilities secured (i)		
Australia and New Zealand Banking Group	**130,000**	130,000
Westpac Banking Corporation	**50,000**	50,000
	180,000	180,000
Facilities utilised at reporting date		
Loan (secured) (i) - non-current	**128,594**	92,044
	128,594	92,044
Bank guarantees utilised at reporting date		
Loan (secured) (i)	**18,738**	12,981
	18,738	12,981
Facilities unutilised at reporting date		
Loan (secured) (i)	**32,668**	74,975
	32,668	74,975

(i) Club facility

The Company has in place a $180 million Club Financing Arrangement with Australia and New Zealand Banking Group Limited (ANZ) and Westpac Banking Corporation (Westpac), to provide funding for the Company's ongoing requirements for its core business. It comprises a facility of $130 million with ANZ and a facility of $50 million with Westpac.

The maturity of the ANZ facility has been staggered, with $80 million expiring on 1 March 2019 and $50 million expiring on 30 October 2020. The facility of $50 million with Westpac expires on 2 March 2018.

As at 30 June 2016 the facility was drawn exclusive of bank guarantees at $128.6 million (30 June 2015: $92.0 million). Bank guarantees issued total $18.7 million (30 June 2015: $13.0 million). The bank guarantees are also disclosed in note B4(e) - Contingencies.

No restrictions have been imposed on this facility by the financiers during the year ending 30 June 2016 and drawdowns continue to be made in the ordinary course of business. All covenants under the facility were met within the required timeframes during the year.

Interest is payable based on a margin over bank bill swap rate. The Company entered into interest rate swap contracts to fix the interest rate at 3.69% (excluding the margin and line fees applicable under the loan agreement) on $90 million of borrowings. Refer to note C6(d)(ii) - Derivative financial instruments. The swap contract matures on 12 June 2018.

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

Notes to the consolidated financial statements
30 June 2016 (continued)

C4 Borrowings (continued)

(b) Assets pledged as security

All of the consolidated entity's assets are pledged as security for the Company's finance facilities. The carrying amounts of assets pledged as security are set out below:

	Consolidated	
	30-Jun-16 $'000	30-Jun-15 $'000
Total inventory:		
Current inventory	**186,037**	191,318
Non-current inventory	**187,660**	148,326
Aggregate carrying amount	**373,697**	339,644

C5 Finance costs

Accounting for finance costs

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

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

	Consolidated	
	30-Jun-16 $'000	30-Jun-15 $'000
Loan interest and charges		
Financial institutions	**6,748**	6,616
Unwind of discount deferred consideration	**721**	1,436
Borrowing costs	**355**	551
Fair value loss on interest swap cash flow hedge - transfer from equity	**293**	-
	8,117	8,603
Amount capitalised[1]	**(3,203)**	(3,096)
Unwind of amount capitalised	**4,550**	4,689
Total finance costs included within the income statement	**9,464**	10,196

1. The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 8.6% (30 June 2015: 7.80%).

C6 Financial risk management

The Company's activities are exposed to a variety of financial risks:

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

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

Notes to the consolidated financial statements
30 June 2016 (continued)

C6 Financial risk management (continued)

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 holds the following financial instruments:

	Valuation basis	Consolidated 30-Jun-16 $'000	30-Jun-15 $'000
Financial assets			
Cash and cash equivalents	Amortised cost	**8,358**	22,571
Trade and other receivables	Amortised cost	**72,351**	41,907
Financial liabilities			
Trade and other payables	Amortised cost	**91,019**	102,378
Borrowings	Amortised cost	**128,594**	92,044
Derivative payable	Fair value	**3,656**	3,823

(a) Market risk

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

Interest rate risk

The Company's main interest rate risk arises from borrowings issued at variable interest rates. Borrowings issued at variable rates expose the Company to cash flow interest rate risk.

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

The Company policy is to maintain a minimum of $90.0 million (2015: $90.0 million) of its borrowings fixed by way of interest rate swaps.

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

Consolidated	30 June 2016		30 June 2015	
	Weighted average interest rate %[1]	**Balance $'000**	Weighted average interest rate %[1]	Balance $'000
Club facility	**1.9%**	**128,594**	2.1%	92,044
Interest rate swaps - syndicated loans	**3.7%**	**(90,000)**	3.7%	(90,000)
Net exposure to cash flow interest rate risk		**38,594**		2,044

1. Does not include any margin and line fees applicable under the loan agreement.

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

Sensitivity analysis

At 30 June 2016, 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 $0.04 million lower/higher (30 June 2015: $0.02 million lower/higher), mainly as a result of higher/lower interest expense from interest bearing liabilities. Other components of equity would have been $0.4 million lower/higher (30 June 2015: $0.6 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 the risk that a contracting entity will not complete its obligation under a financial instrument or contractual arrangement. Credit risk is managed on a consolidated basis.

Notes to the consolidated financial statements
30 June 2016 (continued)

C6 Financial risk management (continued)

(b) Credit risk (continued)

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

Credit risk arises primarily from trade receivables relating to the sale of properties (including the sale of house and land packages or land only) but also from the Company's cash and deposits with financial counterparties.

(i) Trade and receivables

This group of receivables is primarily from the sale of land or house and land packages.

The Company's revenue recognition policy is set out in note A1 - Revenue and gross profit and in note B2 - Trade and other receivables.

The Company has no significant concentrations of credit risk to any single counterparty for trade receivables. The Company also has policies to ensure that sales of properties are made to customers with an appropriate credit history. Trade receivables are secured against those properties until the proceeds are received.

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

The Company did not recognise any trade receivable impairment losses in the current year (30 June 2015: nil).

Overall, the trade receivable balance is low relative to the scale of the balance sheet and, owing to the short-term nature of the ageing of the balance and balances secured against property, the credit risk of trade receivables is considered to be low.

(ii) Cash and deposits

For cash and deposits held with banks and financial institutions, only independently rated parties with a minimum rating of "AA-" are accepted.

(c) Liquidity risk

This is the risk that suitable funding for the Company's activities may not be available. The Company addresses this risk through review of rolling cash flow forecasts throughout the year to assess and monitor the current and forecast availability of funding, and to ensure sufficient headroom against facility limits and compliance with banking covenants.

At 30 June 2016, the Company carried forward 464 sales contracts worth $165.6 million (incl GST). Of these 335 contracts worth $120.0 million will settle in 1H17. Further detail is provided in the Operating and Financial Review on page 12.

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

The Company's gearing policy is discussed in note C1 - Capital risk management and the Company's borrowings are set out in note C4 - Borrowings.

The Club Financing Arrangement with Australia and New Zealand Banking Group Limited (ANZ) and Westpac Banking Corporation (Westpac) is the Company's primary banking facility and provides funding for the Company's core business.

The Board considers that the use of two credit providers will minimise the concentration of risks and therefore mitigate financial loss through potential counterparty failure. Each facility with ANZ and Westpac is able to be negotiated and extended with the consent of that lender, independent of the other. Refer note C4 - Borrowings.

At 30 June 2016 the company had unutilised borrowing facilities of $32.7 million (30 June 2015: $75.0 million).

(i) Maturities of financial liabilities

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

Notes to the consolidated financial statements
30 June 2016 (continued)

C6 Financial risk management (continued)

(i) Maturities of financial liabilities (continued)

Contractual maturities of financial liabilities	Less than 6 months	6 - 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying amount (assets)/ liabilities
At 30 June 2016	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Non-derivatives							
Commitments	**-**	**13,163**	**-**	**-**	**-**	**13,163**	**-**
Trade payables	**42,803**	**-**	**9,137**	**-**	**-**	**51,940**	**51,940**
Club facility	**3,149**	**3,107**	**5,908**	**135,612**	**-**	**147,776**	**128,594**
Total non-derivatives	**45,952**	**16,270**	**15,045**	**135,612**	**-**	**212,879**	**180,534**
Derivatives							
Net settled (interest rate swaps)	**861**	**925**	**1,870**	**-**	**-**	**3,656**	**3,656**
Total derivatives	**861**	**925**	**1,870**	**-**	**-**	**3,656**	**3,656**
At 30 June 2015							
Non-derivatives							
Commitments	1,628	-	18,077	13,163	-	32,868	-
Trade payables	47,313	19,985	7,668	-	-	74,966	74,966
Club facility	2,872	2,847	60,362	36,841	-	102,922	92,044
Total non-derivatives	51,813	22,832	86,107	50,004	-	210,756	167,010
Derivatives							
Net settled (interest rate swaps)	835	753	1,325	910	-	3,823	3,823
Total derivatives	835	753	1,325	910	-	3,823	3,823

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

(d) Fair value measurements

(i) Carrying amounts versus fair values

At 30 June 2016, the carrying amounts of the Company's financial assets and liabilities approximate their fair values.

(ii) 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, the Company does not hold or issue derivative financial instruments for trading purposes.

It is policy to protect part of the Club Facility of $180.0 million from exposure to fluctuating interest rates. Accordingly the Company has entered into an interest rate swap contract 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 is designated as a cash flow hedging instrument.

The Club facility for the Company bears an average variable interest rate of 8.6% (including line and facility fees).

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-16 %[3]	Valuation as at 30-Jun-16 $'000
Club Facility - Swap	90,000	12-Jun-18	180,000	50.0%	3.69%	1.9%	$3,656

1. % of loan facility limit.
2. The swap rate outlined above does not include any margin and line fees applicable under the loan agreement.
3. Variable rate is 30 day BBSY @ 30 June 2016.

C6 Financial risk management (continued)

(ii) Derivative financial instruments (continued)

The fair value of the interest rate swap liability at 30 June 2016 was $3.7 million (30 June 2015: $3.8 million).

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

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured 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.

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and accumulated in the hedging reserve. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss within finance costs. There is no material ineffectiveness for the year ended 30 June 2016.

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

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

Fair value hierarchy

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

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1),

(b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2), and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

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

The fair value measurement of interest rate swap liability of $3.7 million (30 June 2015: $3.8 million) has been categorised as Level 2. This is the Company's only financial instrument included on the balance sheet measured at fair value.

Notes to the consolidated financial statements
30 June 2016 (continued)

D GROUP STRUCTURE

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

In this section:

D1 Subsidiaries

Accounting for subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of all subsidiaries at 30 June 2016. Subsidiaries are all entities (including structured entities) over which the Company has control. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the entity's activities. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

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

Significant investments in subsidiaries

Name of entity	Country of incorporation	Class of shares	Equity holding 2016 %	2015 %
Parent entity				
Villa World Limited[1]				
Controlled entities of Villa World Limited				
Villa World Developments Pty Ltd[1]	Australia	Ordinary	**100**	100
Villa World (Vic) Pty Ltd	Australia	Ordinary	**100**	100
GPDQ Pty Ltd[1]	Australia	Ordinary	**100**	100
Hervey Bay (JV) Pty Ltd[1]	Australia	Ordinary	**100**	100
Villa World Thornlands Pty Ltd[1]	Australia	Ordinary	**100**	100
Villa World Redlands Pty Ltd[1]	Australia	Ordinary	**100**	100
Villa World Seascape Pty Ltd[1]	Australia	Ordinary	**100**	100
Villa World Properties Pty Ltd[1, 2]	Australia	Ordinary	**100**	100
Villa World Rochedale Pty Ltd	Australia	Ordinary	**100**	100
Villa World Realty Pty Ltd[3]	Australia	Ordinary	**100**	100
Villa World ESS Pty Ltd as trustee for Villa World Employee Share Scheme Trust	Australia	Ordinary	**100**	-
Villa World Byron Pty Ltd	Australia	Ordinary	**100**	-
Villa World Strathpine Pty Ltd[1]	Australia	Ordinary	**100**	-

1. These companies are parties to the Deed of Cross Guarantee and members of the Closed Group as at 30 June 2016. They have been granted relief from the necessity to prepare financial reports in accordance with ASIC Corporations (Rounding in Financial/Directors' Report) Instrument 98/1418 issued by the Australian Securities and Investments Commission (Refer note D2 Deed of cross guarantee).
2. Formerly known as Villa World Greenacre Pty Ltd.
3. Formerly known as Villa World Pinelands Pty Ltd.

D2 Deed of cross guarantee

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

Notes to the consolidated financial statements
30 June 2016 (continued)

D2 Deed of cross guarantee (continued)

ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 98/1418 (as amended) dated 13 August 1998, provides relief to parties to the Deed from the *Corporations Act 2001* requirements for preparation, audit and lodgement of Financial Reports and Directors' reports, subject to certain conditions as set out therein. This Class Order does not apply to trusts.

Pursuant to the requirements of this Class Order, a summarised consolidated Statement of Comprehensive Income, for the year ended 30 June 2016 and consolidated Balance Sheet as at 30 June 2016, comprising the members of the Closed Group after eliminating all transactions between members are set out below. The Deed of Cross Guarantee was not in place at 30 June 2015.

(a) Consolidated statement of comprehensive income

Set out below is a consolidated statement of comprehensive income for the year ended 30 June 2016 of the closed group.

	30-Jun-16 $'000
Revenue from continuing operations	
Revenue from land development, residential building and construction contracts	387,002
Cost of land development, residential building and construction contracts	(286,400)
Gross Margin	100,602
Development and project management fee	2,159
Other income	697
Net impairment of development land	(83)
Share of net profits of associates and joint venture partnership accounted for using the equity method	24
Other expenses from ordinary activities	
Property sales and marketing expenses	(22,090)
Land holding costs	(3,777)
Legal and professional costs	(1,483)
Employee benefits	(23,405)
Depreciation and amortisation expense	(607)
Administration costs and other expenses	(4,438)
Finance costs	(9,463)
	(65,263)
Profit before income tax	38,136
Income tax expense	(13,282)
Profit for the period	24,854
Other comprehensive income	
Items that may be reclassified to profit or loss	
Changes in the fair value of cash flow hedges	460
Income tax relating to these items	(138)
Other comprehensive income for the period, net of tax	(322)
Total comprehensive income for the period	25,176

Notes to the consolidated financial statements
30 June 2016 (continued)

D2 Deed of cross guarantee (continued)

(b) Consolidated balance sheet

Set out below is a consolidated balance sheet as at 30 June 2016 of the closed group.

	30-Jun-16 $'000
Current assets	
Cash and cash equivalents	**8,346**
Trade and other receivables	**81,127**
Inventories	**182,350**
Other current assets	**3,155**
Total current assets	**274,978**
Non-current assets	
Inventories	**189,267**
Property, plant and equipment	**1,169**
Investments accounted for using the equity method	**8,459**
Deferred tax assets	**1,417**
Total non-current assets	**200,312**
Total assets	**475,290**
Current liabilities	
Trade and other payables	**77,013**
Current tax liabilities	**5,992**
Employee benefits	**772**
Service warranties	**14,392**
Other provisions	**45**
Total current liabilities	**98,214**
Non-current liabilities	
Trade and other payables	**11,988**
Borrowings	**128,594**
Other provisions	**64**
Employee benefits	**375**
Intercompany loan payable	**2,851**
Total non-current liabilities	**143,872**
Total liabilities	**242,086**
Net assets	**233,204**
Equity	
Contributed equity	**62,637**
Other reserves	**185,014**
Accumulated losses	**(14,447)**
Total equity	**233,204**

D3 Investments accounted for using the equity method

A joint venture is either a venture or operation over whose activities the Company has joint control established by contractual agreement. Investments in joint venture entities are accounted for on an equity accounted basis. Under the equity method, the share of profits or losses of the joint venture are recognised in the income statement. The share of post-acquisition movements in reserves is recognised in other comprehensive income.

Investments in joint ventures are assessed for impairment when indicators or impairment are present and if required, written down to the recoverable amount. Transactions with the joint venture are eliminated to the extent of the Company's interest in the joint venture until such time as they are realised by the joint venture on consumption or sale.

Notes to the consolidated financial statements
30 June 2016 (continued)

D3 Investments accounted for using the equity method (continued)

The Company has the following interests in jointly controlled entities.

Name of Entity	Notes	% Owned	Purpose
Eynesbury Holdings Pty Ltd		50	The owner of the Eynesbury Development Joint Venture Land, Victoria, as Trustee. The balance land was sold and settled in two tranches during FY14 and FY16. The entity will be deregistered in due course.
Eynesbury Pastoral Trust		50	The owner of the Eynesbury Development Joint Venture Land, Victoria. The balance land was sold and settled in two tranches during FY14 and FY16. The entity will be wound up in due course.
Eynesbury Golf Pty Ltd		50	The golf course and homestead hospitality business were sold and settled during FY14. The entity will be deregistered in due course.
Eynesbury Development Joint Venture	D3(a)	50	Residential development at Eynesbury has ceased and the final lots settled during FY15. The entity will be wound up once the remaining assets and liabilities are cleared.
Expression Homes Pty Ltd		50	Residential development and construction projects primarily in Victoria.
Donnybrook JV Pty Ltd	D3(b)	51	Residential development at Donnybrook, Victoria
Villa World Rochedale Pty Ltd and Ausin Rochedale Pty Ltd as trustee for Ausin Rochedale Trust	D3(c)	50	Residential development at Rochedale, Queensland

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

	Eynesbury Joint Venture		Donnybrook Joint Venture		Rochedale Joint Venture		Total	
	30-Jun-16 $'000	30-Jun-15 $'000	**30-Jun-16 $'000**	30-Jun-15 $'000	**30-Jun-16 $'000**	30-Jun-15 $'000	**30-Jun-16 '000**	30-Jun-15 '000
Opening balance	**10,902**	17,968	**5,877**	-	**-**	-	**16,779**	17,968
Add: Cash contribution	**-**	-	**2,558**	6,366	**8,700**	-	**11,258**	6,366
Add: Share of net profit / (loss) of associates and joint ventures	**3,678**	1,934	**24**	(106)	**(257)**	-	**3,445**	1,828
Less: Repayment to Company	**(13,000)**	(9,000)	**-**	(383)	**-**	-	**(13,000)**	(9,383)
Total	**1,580**	10,902	**8,459**	5,877	**8,443**	-	**18,482**	16,779

(a) Eynesbury joint venture

The equity accounted investment in the Company's Eynesbury Township joint venture as at 30 June 2016 is $1.6 million (30 June 2015: $10.9 million).

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

Payments totalling $13 million have been released to the joint venture for the year ended 30 June 2016. The Company's share of profit from the Eynesbury joint venture for the year ended 30 June 2016 is $3.7 million (30 June 2015: $1.9 million).

(b) Donnybrook joint venture

The equity accounted investment in the Company's Donnybrook joint venture as at 30 June 2016 is $8.5 million (30 June 2015: $5.9 million).

Notes to the consolidated financial statements
30 June 2016 (continued)

D3 Investments accounted for using the equity method (continued)

(b) Donnybrook joint venture (continued)

Summarised financial information of the Donnybrook joint venture is set out below:

	Consolidated	
	30-Jun-16 $'000	30-Jun-15 $'000
Villa World's share of assets and liabilities in Donnybrook Joint Venture		
Assets including inventories $25.8m (2015: $24.9m); cash and cash equivalents $0.5m (2015: $0.5m); trade debtors and other receivables $0.5m (2015:$0.05m)	**26,745**	25,390
Total assets	**26,745**	25,390
Current liabilities including trade and other payables $0.3m (2015: $8.8m) and bill facility of nil (2015: $5.1m).	**344**	13,866
Non-current liabilities including bill facility	**9,814**	-
Total liabilities	**10,158**	13,866
Equity	**16,587**	11,524
Proportion of the Company's ownership	**51%**	51%
Equity attributable to the investment	**8,459**	5,877

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

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

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

This joint venture will free up a significant amount of capital for the Company to recycle into other projects, while participating in profits on the land component as well as generating acquisition fees, development management fees and construction profits for the 167 premium house builds outside the joint venture.

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

Summarised financial information of the Rochedale joint venture is set out below:

	Consolidated
	30-Jun-16 $'000
Villa World's share of assets and liabilities in Rochedale Joint Venture	
Assets including inventories $32.4m; cash and cash equivalents $0.7m	**33,142**
Total assets	**33,142**
Liabilities including bill facility of $16.0m (2015: nil)	**16,256**
Total liabilities	**16,256**
Equity	**16,886**
Proportion of the Company's ownership	**50%**
Equity attributable to the investment	**8,443**

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

D4 Parent entity financial information

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

Notes to the consolidated financial statements
30 June 2016 (continued)

D4 Parent entity financial information (continued)

(a) Summary financial information

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

	30-Jun-16 $'000	30-Jun-15 $'000
Balance sheet		
Current assets	**32,313**	17,835
Net assets	**181,674**	199,605
Shareholders' equity		
Issued capital	**127,247**	120,573
Reserves	**61,474**	79,212
Retained earnings	**(7,047)**	(180)
Total equity	**181,674**	199,605
(Loss) / profit for the period	**(6,867)**	4,018

(b) Contingent liabilities of the parent entity

The parent entity has provided a financial guarantee in respect of the Club Facility with Australia and New Zealand Banking Group and Westpac Banking Corporation. Details of the parent entity's contingent liabilities are disclosed in note B4 - Provisions and contingencies.

Notes to the consolidated financial statements
30 June 2016 (continued)

E OTHER INFORMATION

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

In this section:

E1 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, except for financial assets and liabilities (including derivative instruments) which are measured 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 judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed within the relevant note. Estimates and underlying assumptions are reviewed on an ongoing basis. 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.

E2 Key management personnel disclosures

(a) Key management personnel compensation

	Consolidated	
	30-Jun-16	30-Jun-15
	$	$
Short-term employee benefits	**1,768,827**	1,406,453
Post-employment benefits	**78,213**	66,142
Long-term benefits	**37,546**	8,259
Termination benefits	**-**	445,692
Share-based payments	**290,422**	83,333
	2,175,008	2,009,879

Detailed remuneration disclosures are provided in the remuneration report.

Notes to the consolidated financial statements
30 June 2016 (continued)

E2 Key management personnel disclosures (continued)

(b) Equity instrument disclosures relating to key management personnel

Villa World Limited Option Plan

The Villa World Ltd Option Plan was introduced in FY14 and was designed to attract and retain key personnel and align the interest of employees with those of shareholders.

Under the plan, share-based compensation benefits in the form of options are granted to executives and eligible employees. The options only vest if the participating employees continue their respective service agreements with the Company for three years from the grant date.

No options were granted or vested during FY16. Options under this plan were last granted on 17 February, 2014 and will expire on 11 August, 2017. Options will commence vesting on 26 July, 2016. This plan is no longer used and has been replaced by the Villa World Limited Executive Long Term Incentive Plan.

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. It recognises the impact of the revision to original estimates, if any, in the profit or loss, with a corresponding adjustment to equity.

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 to key management personnel and other senior employees under the Villa World Ltd Option Plan which will effect remuneration in the future reporting period:

Grant Date	Balance as at 1 July 2016	Forfeited / lapsed during year	Balance as at 30 June 2016	Expiry Date	Vesting date	Exercise Price	Expected price volatility of shares	Expected dividend yield	Risk free interest rate
26/07/2013	3,750,000	500,000	3,250,000	26/01/2017	26/07/2016	$1.25	25%	9.0%	2.57%
05/11/2013	250,000	250,000[1]	-	05/05/2017	05/11/2016	$1.60	30%	5.5%	3.15%
11/02/2014	150,000	-	150,000	11/08/2017	11/02/2017	$1.60	30%	7.1%	3.10%

1. Options were forfeited on 8 July 2016 with communication and approval by Board prior 30 June 2016.
* The value of options at grant date is 10 cents per option for those issued on 26 July 2013, 27 cents per option for those issued on 5 November 2013 and 41 cents per option for those issued 11 February, 2014. The value of options are calculated in accordance with AASB2 Share-based Payments.

Villa World Limited Executive Long Term Incentive Plan

The grant of performance rights were introduced as a Long Term Incentive (LTI) in FY16 on 30 November 2015 subsequent to approval of the plan at the FY15 Annual General Meeting. The plan is intended to be the Company's principal vehicle for granting LTI awards to executives and other eligible employees.

Under the Plan, awards granted will be tested against relative performance measures over three financial years until the date the performance rights vest and at which time it is determined whether rights are exercisable.

A portion of the Rights are subject to Relative Total Shareholder Return performance hurdles (75%). The percentage of Rights that Vest is determined by references to the percentile ranking achieved by the Company as compared to nominated peer companies over the period. These Rights vest independently of those Rights issued with Non-market Vesting Conditions.

A portion of the Rights are subject to Absolute Return on Assets performance hurdles (25%). These Rights vest independently of those Rights issued with Market Vesting Conditions.

The fair value at grant date is estimated using a binomial pricing model, taking into account the terms and conditions upon which the Rights were granted.

No awards have vested during FY16.

Notes to the consolidated financial statements
30 June 2016 (continued)

E2 Key management personnel disclosures (continued)

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

Villa World Limited Executive Long Term Incentive Plan (continued)

The table below sets out the terms of performance rights awarded to executives during the period ended 30 June 2016.

Grant Date	Granted as compensation	Balance as at 30 June 2016	Expiry Date	Vesting date	Weighted average price of Rights	Expected price volatility of shares	Expected dividend yield	Risk free interest rate
30/11/2016	485,916	485,916	31/08/2018	30/06/2018	$1.06	27%	7.6%	2.1%

(c) Expenses arising from share-based payment transactions

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

	Consolidated	
	30-Jun-16 $'000	30-Jun-15 $'000
Options issued to key management personnel	**124**	83
Performance rights issued to key management personnel	**166**	-
Options issued to senior employees	**(66)**	60
Performance rights issued to senior employees	**6**	-
	230	143

(d) Loans to KMP

For the financial year ended 30 June 2016, there were no loans to key management personnel (2015: $nil).

E3 Remuneration of auditors

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

	Consolidated	
	30-Jun-16 $	30-Jun-15 $
Audit and other assurance services		
Audit and review of financial statements	**130,000**	130,000
Total remuneration for audit and other assurance services	**130,000**	130,000
Other services:		
Taxation services	**159,334**	29,547
Other services	**81,054**	74,064
Total remuneration for other services	**240,388**	103,611
Total remuneration of Ernst & Young	**370,388**	233,611

E4 Events occurring after the reporting period

Final Dividend

On 16 August 2016 the Board declared a fully franked final dividend of 10.0 cents per share. The ex-dividend date is 1 September 2016 and the record date for this dividend is 2 September 2016. Payment will be made on 30 September 2016.

The balance of the franking account is $8.2 million and includes franking credits that will arise from the payment of tax recognised as a liability at the reporting date. Refer note A4(c) - Franking credits.

Club facility

During August 2016, Villa World and ANZ agreed a credit approved term sheet to extend the ANZ facility to $140 million. This comprised a further $10 million unsecured facility to expire in August 2018 and will provide the Company with further financial flexibility to implement its business strategy.

Notes to the consolidated financial statements
30 June 2016 (continued)

E4 Events occurring after the reporting period (continued)

Club Facility (continued)

At 30 June 2016 the $50 million Westpac facility was due to mature on 2 March 2018. Post year end, this facility has been extended with a credit approved term sheet in hand. The formal documentation process is expected to be completed in September 2016. The facility will be extended through to March 2019.

E5 Other accounting policies

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

(a) Expense recognition

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

(b) Property, plant and equipment

(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) 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.

(c) 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.

E5 Other accounting policies (continued)

(c) Impairment of assets (continued)

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.

(d) 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.

(e) Employee benefits

(i) Short-term obligations

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

(ii) Other long-term employee benefit obligations

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

(iii) Bonus plans

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

(iv) Termination benefits

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

(f) Goods and Services Tax (GST)

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

(g) Rounding of amounts

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

Notes to the consolidated financial statements
30 June 2016 (continued)

E5 Other accounting policies (continued)

(h) New accounting standards and interpretations

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Company for the annual reporting period ended 30 June 2016. The Company's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Company are set out below.

New standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2016 have been adopted by the Company. The Company has assessed the impact of the following new standards and interpretations and has determined there is no material impact.

(i) AASB9 Financial Instruments and its consequential amendments

AASB9 *Financial Instruments* includes requirements for the classification, measurement and derecognition of financial assets. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The standard is not applicable to the Company until 1 July 2018 but is available for early adoption. The Company is currently assessing the impact of the new guidance.

(ii) AASB15 Revenue from Contracts with Customers

AASB15 Revenue from Contracts with Customers supersedes nearly all existing revenue recognition guidance under Australian Accounting Standards. The core principle of AASB15 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. AASB15 defines a five step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing Australian Accounting Standards. These include, but are not limited to, identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation.

AASB15 will be required to be applied by the Company for the financial year ended 30 June 2019, however is available for early adoption. On application, the standard will be applied using either of two methods: (i) retrospective to each prior reporting period presented with the option to elect certain practical expedients as defined in AASB15; or (ii) the cumulative effect of initially applying AASB15 recognized at the date of initial application, with no restatement of comparatives presented. The Company is currently evaluating the potential impact on its consolidated financial statements resulting from the application of AASB15.

(iii) AASB16 Leases

AASB16 Leases introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligations to make lease payments.

AASB16 substantially carries forward the lessor accounting requirements in *AASB117 Leases*. Accordingly a lessor continues to classify its leases as operating leases, and to account for those two types of leases differently.

AASB16 requires enhanced disclosures for both lessees and lessors to improve information disclosed about an entity's exposure to leases.

This new standard is applicable to annual reporting periods beginning on or after 1 January 2019, with early application permitted. The Company is currently assessing the impact of the new guidance.

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

Directors' declaration
30 June 2016

In the Directors' opinion:

(a) the financial statements and notes set out on pages 50 to 88 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 2016 and of its performance for the year ended on that date, and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

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

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

Craig Treasure
Chief Executive Officer and Managing Director

Gold Coast
16 August 2016

Ernst & Young
111 Eagle Street
Brisbane QLD 4000 Australia
GPO Box 7878 Brisbane QLD 4001

Tel: +61 7 3011 3333
Fax: +61 7 3011 3100
ey.com/au

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 2016, 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 E1, 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 judgement, 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.

EY
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 2016 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 E1.

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2016. 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 2016, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Ric Roach
Partner
Brisbane
16 August 2016

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 8 August 2016)

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

	No of shares held
UniSuper Limited	6,989,481
Westpac Banking Corporation	6,216,610
Brazil Farming Pty Ltd	5,567,286
Industry Super Holdings Pty Ltd	5,549,979

Distribution of Shareholders (as at 31 July 2016):

Range	Total holders
1 – 1,000	771
1,001 – 5,000	1,718
5,001 – 10,000	742
10,001 – 100,000	943
100,001 and over	77
Total	**4,251**

The total number of shareholders with less than a marketable parcel of 211 shares is 189.

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 8 August 2016 is 3,400,000.

Classes of units and voting rights

As at 30 June 2016 there were 4,244 shareholders (30 June 2015: 3,911). The voting rights attaching to the shares, as set out in section 253C of the Corporations Act were:

(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 resolutions; 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 8 August 2016)

Name	Units	% of Units
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	19,408,872	17.09
J P MORGAN NOMINEES AUSTRALIA LIMITED	9,458,508	8.33
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	6,989,481	6.15
BRAZIL FARMING PTY LTD	6,617,286	5.83
NATIONAL NOMINEES LIMITED	6,453,363	5.68
CITICORP NOMINEES PTY LIMITED	4,894,909	4.31
VILLA WORLD ESS PTY LTD <EMPLOYEE SHARE SCHEME A/C>	3,250,000	2.86
BNP PARIBAS NOMS PTY LTD <DRP>	1,752,694	1.54
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <BKCUST A/C>	1,722,914	1.52
BRISPOT NOMINEES PTY LTD <HOUSE HEAD NOMINEE NO 1 A/C>	998,678	0.88
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <PISELECT>	819,710	0.72
MR MALCOLM JOHN ROSS + MRS JUNE ROSS	813,880	0.72
CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	704,264	0.62
DEBUSCEY PTY LTD	644,235	0.57
HORRIE PTY LTD	612,432	0.54
GEOMAR SUPERANNUATION PTY LTD <CHAPMAN SUPER FUND A/C>	607,198	0.53
CRAIG G TREASURE PTY LTD <TREASURE SUPER FUND A/C>	582,432	0.51
ZERO NOMINEES PTY LTD	550,000	0.48
MAYHAMPTON PTY LTD <THE TRACIE FAMILY A/C>	464,568	0.41
SHAYANA PTY LTD <HATELEY SUPER FUND ACCOUNT>	434,593	0.38
Totals: Top 20 holders of FULLY PAID ORDINARY SHARES (TOTAL)	**67,780,017**	**59.67**

THIS PAGE IS LEFT BLANK INTENTIONALLY

THIS PAGE IS LEFT BLANK INTENTIONALLY

THIS PAGE IS LEFT BLANK INTENTIONALLY

YEARS
EST. 1986

VILLAWORLD

Villa World Limited ABN 38 117 546 326
Level 1 Oracle West, 19 Elizabeth Avenue, Broadbeach QLD 4218
PO Box 1899, Broadbeach QLD 4218
+61 7 5588 8888 **villaworld.com.au**

quadrant.com.au VW042897