

# ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED  
30 JUNE 2017



# SHAREHOLDERS INFORMATION

## **VILLA WORLD LIMITED**

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## **Shareholder information and enquiries**

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Parkside - Coomera

# 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

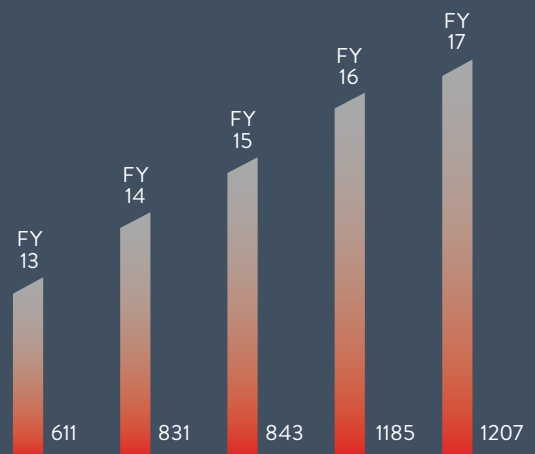
We value and appreciate our people, partners and customers.



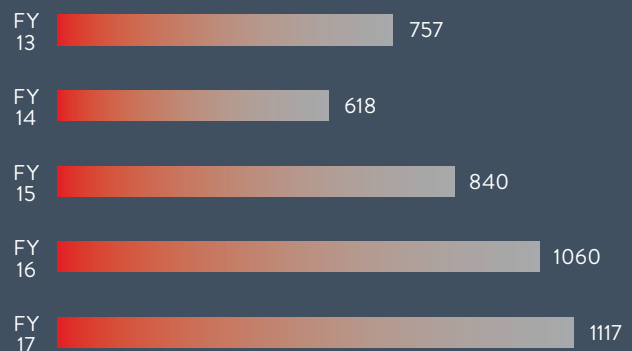
# KEY HIGHLIGHTS



## SALES PER FY



## LAND DELIVERED



EARNINGS  
PER SHARE (CPS)

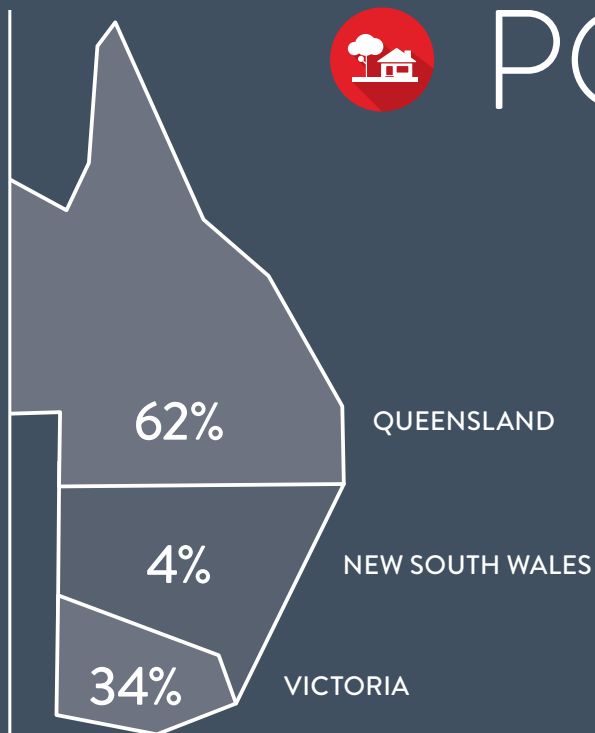
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DIVIDEND  
(CPS)

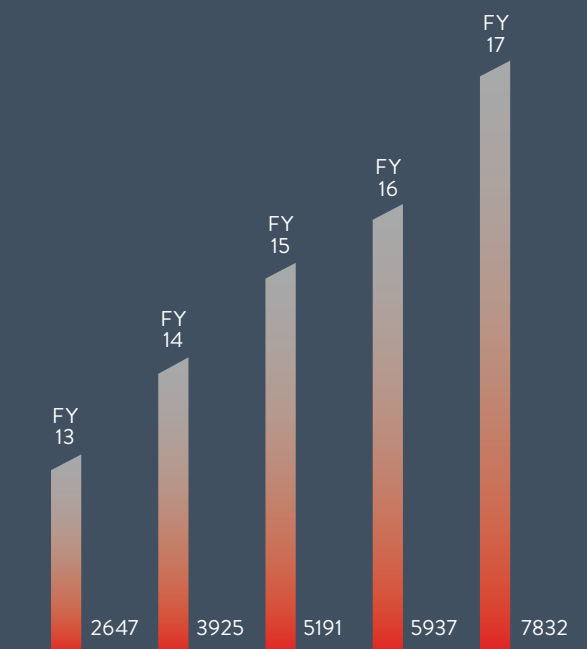
18.5



# PORTFOLIO



Portfolio of **7,832** lots representing 6.5 years sales diversified across and within east coast states



# JOINT CHAIRMAN'S AND MANAGING DIRECTOR'S REVIEW



VILLA WORLD AND ITS SHAREHOLDERS CONTINUE TO ENJOY SUCCESS THROUGH PROPERTY. WE HAVE DELIVERED ANOTHER IMPRESSIVE FINANCIAL PERFORMANCE AND CONTINUE TO BUILD CONFIDENTLY TOWARD OUR STRATEGY.

For the fourth consecutive year, the Company has delivered strong growth. This year's statutory after tax profit of \$37.8 million represents an increase of 12% on the previous year. It is a result that reflects consistently strong revenue, gross margin and joint venture contribution.

The success of the Company's debt and equity transactions earlier this year and the strong backing of our investors has provided an excellent platform for the next phase of our growth.

Villa World continues to be one of the highest yielding stocks on the ASX. This year, the Board is pleased to declare total full year dividends of 18.5 cents per share, representing a yield of greater than 8% fully franked. This is consistent with the Company's Dividend Policy of distributing 50-75% of annual net profit after tax.

An unsung story of Villa World's success has been our cumulative Earnings Per Share (EPS) growth of over 14%pa since FY14. We continue our commitment to growth with a forward cumulative average EPS target of greater than 10%.

Our Company strategy continues to guide Villa World on its growth path.

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

Our success over the medium term is demonstrated across-the-board in our results. Sales have ramped up from 831 in FY14 to 1207 in FY17, adding a further 2% growth to last year's strong sales figure of 1185.

Company revenue has increased 68% over the four-year term, from \$229.5 million in FY14 to \$386.8 million this year as we continue to deliver more houses and land than ever before. This has resulted in a near doubling of

profit from \$19.1 million in FY14 to \$37.8 million this year, making FY17 another double-digit growth year for Villa World.

With continued strength in demand for our product, Villa World has maintained its focus on our core business and in the markets we know well. As we see new, larger projects come to market in Victoria, New South Wales and Queensland, we look forward to further revenue growth as these projects contribute to increased earnings in the years ahead.

The outlook for the coming year remains bright, as we move closer towards our target of a 40/40/20 split with Victoria and our traditionally strong Queensland market, and expand further in New South Wales.

Our carried-forward sales of 526 lots, valued at \$175.7 million provide a supportive platform for the year ahead, with a pipeline of new projects in place to deliver growth, particularly in FY19.

The Company has provided a profit guidance for FY18 of \$41.6 million, representing growth of 10%, with an even stronger outlook beyond.

Villa World continues to benefit from the strength and capability of our management team and our staff, along with our proven experience and investment in valued relationships with our suppliers and contractors.

The Board and the Company acknowledge the contribution of our departing Chief Financial Officer Paulene Henderson, who leaves a tremendous legacy. She helped steer Villa World's financial progress out of the GFC, and through the significant growth that we've enjoyed in recent years.

In wishing Paulene well for her personal future, we know that she leaves Villa World in the knowledge that the Company is in safe hands.

We continue to maintain a strong balance sheet and cash flow position. Net debt at year-end was \$73.8 million. While gearing at 30 June 2017 was 12.9%, due to the timing of land acquisition payments and operating cash flows, we will continue to maintain a prudent gearing target of 15-30%.





“COMPANY REVENUE HAS INCREASED 68% OVER THE FOUR-YEAR TERM, FROM \$229.5 MILLION IN FY14 TO \$386.8 MILLION THIS YEAR”

Net tangible assets at year-end were at \$287.7 million, compared to \$236.9 million last year, and representing \$2.27 per share before the declaration of the final dividend.

Villa World’s successes are due to the hard work of our management team and staff. We would like to take this opportunity to sincerely thank them for their dedication and their role in the Company’s achievements in FY17.

Acknowledgement is given to fellow directors David Rennick and Donna Hardman who share our vision for success through property for all our shareholders.

The Company began this year with the celebration of our 30th year as a listed company, and we ended the financial year with our sights firmly set on delivering against our vision for where we want to be at the 40-year mark.

**Craig Treasure**  
Managing Director and  
Chief Executive Officer

**Mark Jewell**  
Chairman



Craig Treasure and Mark Jewell inspecting construction at Leabright, Jacobs Well

# VILLA WORLD IN THE COMMUNITY

**DURING FY17, THE COMPANY RALLIED THE SUPPORT OF 90 LOCAL BUSINESSES TO BUILD A CRISIS CARE FACILITY FOR HOMELESS YOUNG PEOPLE ON THE GOLD COAST.**



Known as Bill Boyer House, the seven-bedroom facility at Labrador was built for the Gold Coast Project for Homeless Youth (GCPHY). It is the second such facility Villa World has helped to build for the organisation.

The Company's strong, long-term relationships with suppliers and subcontractors helped make the project a reality through donations of labour, materials and money.

Villa World welcomed the opportunity to deliver a much needed service as part of its commitment to the Gold Coast community.

GCPHY president Andrew Antonopoulos said almost a quarter of the 3,000 homeless people on the Gold Coast each night were young people.

"In the past 12 months, more than 150 young people have been turned away due to full capacity which just demonstrates the timeliness of this project," he said.

"Kids as young as 12 years old are living on the streets in danger and this seriously needs to change."

Villa World CEO and Managing Director, Craig Treasure said the \$550,000 construction cost of Bill Hoyer House was significantly reduced through donations from Villa World and its suppliers, contractors and consultants.

"Our project partners share our ethos when it comes to giving back to the community," he said.

"In 2010, we built Lawson House, the Gold Coast Project for Homeless Youth's first crisis care facility and so when the opportunity to build another one presented itself, we jumped on board and so did our subcontractors."

Davis Brothers Plumbing is one of many companies to contribute to Bill Hoyer House, giving close to \$25,000. Its suppliers donated around \$15,000 and Davis Brothers provided more than 200 hours in free labour. Other high level contributors who donated supplies and labour included Dynamic Bradview Roofing, Bradnams Windows and Doors, Australian Timber and Trusses, Acoustics RB and Scorpio Screens and Blinds.



World IronMan Champion Shannon Eckstein commenced his role as a Villa World Ambassador during FY17



*Bill Hoyer House, handed over to the GCPHY during FY17*



*Bill Hoyer House - Labrador*

# OPERATING FINANCIAL REVIEW



## FINANCIAL RESULT

Villa World has again delivered double-digit profit growth as the Company continues to build confidently toward its strategy.

For the fourth consecutive year, the Company recorded strong growth, reporting a statutory net profit after tax of \$37.8 million (32.5 cps) for the year to 30 June 2017, a 12% increase on the \$33.7 million (30.6 cps) in FY16.

## REVENUE FROM LAND DEVELOPMENT, RESIDENTIAL BUILDING AND CONSTRUCTION CONTRACTS

Continued sales momentum combined with \$165.6 million<sup>1</sup> of carried forward sales from FY16, and an outstanding delivery of land and housing resulted in 1116<sup>2</sup> wholly owned accounting settlements in FY17 (FY16: 1073). As a result, \$386.8 million (FY16: \$387.0 million) in revenue was recorded.

The revenue mix reflects the Company's continued focus on its core capabilities in house and land, as well as strong land only settlements, particularly in Bayside Brisbane, northern Brisbane and Victoria. House and land product generated 65% of revenue (FY16: 73%), with Queensland and New South Wales continuing as the main source of revenue at 80% (FY16: 83%).

Average revenue per lot was \$344,900 down from \$355,500 in the previous year, and is reflective of product mix. The average revenue per house and land lot rose 2% to \$432,100. A large number of settlements of the Company's premium land only product in Bayside Brisbane brought the average land-only revenue up to \$250,800 per lot. The result for the previous year was impacted by settlements at the affordable land only project Cardinia Views in Victoria.

Pleasingly, 3 - 6% revenue growth was achieved at select projects (Augustus, Circa, Era, Lavinia and Cardinia Views) during the year.

## GROSS MARGIN

The reported gross margin was \$106.3 million or 27.5% (FY16: \$100.6 million or 26.0%). All aspects of the Silverstone proceedings were concluded in 1H17, with \$0.6 million released back into reported gross profit<sup>3</sup>. The underlying gross margin was \$105.7m or 27.3%, exceeding the targeted range of 24%-26%, due to sales price increases and cost savings.

<sup>1</sup> Inclusive of GST

<sup>2</sup> 1116 settlements of Company owned lots (FY16: 1073), and 38 lots relating to joint ventures (FY16: nil), which are reflected in Share of Joint Venture Profits.

<sup>3</sup> Refer note B5(d) Financial Statements

## REVENUE – DEVELOPMENT AND PROJECT MANAGEMENT AND SHARE OF PROFIT FROM EQUITY ACCOUNTED INVESTMENTS

During FY17 the Company continued to progress its strategy to grow development and project management income streams by deploying development management skills into joint venture arrangements. These ventures delivered \$5.4 million in fee income and share of profit (FY16: \$4.6 million), above forecast of \$3.4 million due to strong sales and settlements at the Rochedale joint venture project.

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

## OTHER INCOME

Other income of \$0.8 million (FY16: \$0.7 million) was generated this year and was largely made up of bank interest received and penalty interest on delayed settlements.

## OPERATIONAL PERFORMANCE

Projects at various points in the lifecycle contributed to 1207 sales during FY17 (FY16: 1185). The Company largely sold out of 18 projects mid year, including strong performing projects in Bayside Brisbane and Melbourne<sup>4</sup>. The Company successfully released eight new projects for sale, predominantly in 2H17, including flagship projects in the Logan, Gold Coast, Bayside Brisbane and Melbourne growth corridors<sup>5</sup>. These projects will make a full year contribution to sales in FY18.

A further nine projects will commence selling in mid FY18 across key growth corridors of northern Brisbane, Logan, north and north-east Melbourne and south-east Melbourne, including flagship projects The Meadows (Strathpine), Chambers Ridge (Park Ridge), Covella (Greenbank), Wollert and Clyde.

<sup>4</sup> 723 lots in 18 largely sold out projects, including Era, Ellabay, Affinity and Waterline in Bayside Brisbane, as well as Sienna, Lavinia and Cardinia Views in Melbourne.

<sup>5</sup> Killara, Arundel Springs, Seascape and Sienna Rise respectively.



Queensland has continued to perform very well, contributing 71% of sales (FY16: 74%). Pleasingly, the Company has experienced continued strength in its Victorian projects, contributing 21% of sales (FY16: 26%), with New South Wales making up the remaining 8% of sales (FY16: nil). The Company's strategy of targeting growth corridors continues to reap excellent results in Queensland, with strong sales in all south-east Queensland corridors and in Hervey Bay. Land and turnkey housing product continued to sell very strongly in Melbourne. The Company's land only estate south of Sydney sold out during the year, and the recently released housing product in the south-west growth corridor has been well received by the market.

The Company maintains a solid position in all customer segments – the core being the retail market (comprising owner occupiers including first home buyers), as well as builders and predominantly local investors<sup>6</sup>.

The Company delivered 1117 lots of land, up 5.4% on the 1060 lots delivered in FY16. The Company's housing operations delivered 548 homes across New South Wales, Queensland and Victoria (FY16: 632).

## SALES CONTRACTS CARRIED FORWARD

At 30 June 2017, the Company carried forward 526 sales contracts valued at \$175.7 million<sup>7</sup>, with 75% of contracts (392 lots valued at \$127.6 million) due to settle in 1H18, 18% of contracts (96 lots valued at \$38.6 million) in 2H18, with the balance (38 lots valued at \$9.5 million) settling in FY19. These strong carried forward sales, when combined with the Company's continued sales focus, place the Company in a very strong position.

<sup>6</sup> Less than 5% of FY17 sales were to international investors (FY16: less than 5%).

<sup>7</sup> Represents gross sales price including GST.

## PROPERTY SALES AND MARKETING COSTS

The sales and marketing strategy introduced in 2015, which shifted focus onto the Villa World brand and targeted regional marketing campaigns, has continued to benefit both sales, and sales and marketing costs, which were 5.6% of revenue (FY16: 5.7% of revenue).

## EMPLOYEE BENEFITS

The Company finished FY17 with 146 full time equivalent employees (FY16: 113). Additional roles were added primarily in sales and marketing and project delivery, to support greater operations and strategy delivery. Some additional support roles were also added to cover increased transactional volumes.

The full year salary contribution of the new employees hired in FY16, as well as the new employees hired in FY17 resulted in a 23% increase in staff costs year on year. Employee costs represented 5.3% of revenue (FY16: 4.3%).

In FY18, the Victorian and New South Wales operations will be expanded to prepare for a step change in delivery in FY19. Administration roles will also be added to support the increased business operations. The full year salary contribution of the new employees hired in FY17 as well as roles to be added in FY18, are expected to result in an increase in employee cost of 25-30%.

## OPERATING FINANCIAL REVIEW CONT.

### ASSETS AND NTA

Gross assets increased to \$577.7 million at 30 June 2017 from \$478.0 million, as acquisition momentum continued. The NTA per share increased to \$2.27, prior to the declaration of the 10.5 cent fully franked dividend (FY16: \$2.15, prior to the declaration of 10 cent dividend).

### CAPITAL MANAGEMENT

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.

During the year, the Company operated a \$190 million club facility with Westpac and ANZ. In 2H17, the term of the ANZ facility was extended. The maturity was staggered, with \$10 million maturing in August 2018 (unchanged), \$80 million extended through to October 2020, \$40 million extended through to October 2021 and \$10 million to March 2022. The \$50 million Westpac facility is due to mature in March 2019.

At 30 June 2017, the cash on hand was \$7.7 million (30 June 2016: \$8.4 million) and unused capacity in the facility was \$142.1 million (30 June 2016: \$32.7 million). Gearing at 30 June 2017 was 12.9% (25.6% as at 30 June 2016), due to the timing of land acquisition payments and operating cash flows. The Company continues to maintain a prudent gearing target of 15-30%. Net debt as at 30 June 2017 was \$73.8 million.

The Company issued \$50 million of simple corporate bonds during the year. The Bonds were issued in order to diversify the Company's capital structure, extend the debt maturity and support growth objectives. The Bonds pay a variable interest rate of 4.75% margin above 3 month BBSW and mature in April 2022.

The Company completed a \$30 million equity capital raising during the year which has been applied towards acquisitions. The capital raising comprised a \$20 million institutional placement and \$10 million share purchase plan. Both transactions were well oversubscribed at the issue price of \$2.25, which represented a 5.5% discount to the last close price.

Strong sales and settlements during the year generated \$190.2 million (FY16: \$146.9 million) in operating cash. Strong cash flow, combined with headroom in the debt facility enabled \$123.3 million in acquisitions to be settled.

Continued strong cash flow, the unused capacity in the facility and the use of joint venture and capital lite structures will enable the continued execution of the acquisition strategy throughout FY18. The Company anticipates acquisition spend during FY18 will be \$110 - 130 million plus \$45 million in capital lite transactions.

The average cost of debt during the year was 9.0%, consistent with the prior year of 8.6%. A \$90 million fixed interest rate swap of 3.69% remains in place through to June 2018.

### DIVIDENDS

Shareholders have benefited from the strong financial performance during the year with the Directors declaring total dividends of 18.5 cps fully franked in relation to the 2017 financial year. This represents 3% growth year on year. An interim dividend of 8cps was paid in March 2017. A final dividend has been declared post year end of 10.5 cps and will be paid in September 2017.

The full year dividend of 18.5 cps represents an annual payout of 59% of NPAT (FY16: 60%), which is within the Company's stated dividend policy (payout ratio of 50% - 75% of annual NPAT, paid semi-annually).

### ACQUISITIONS

Following the capital raising transactions in March 2017, the Company executed on its acquisition strategy to replenish land stock through strategic purchases in proven growth corridors, and to take advantage of opportunities to diversify its geographic footprint along the east coast.

In FY17, the Company acquired 3454 lots, including significant land parcels in growth corridors in northern Brisbane, Logan, north-west and south-east Melbourne, which will provide product continuity for several years into these strong markets.

As at 30 June 2017 the Company had a portfolio of 7832 lots (FY16: 5937 lots), representing approximately 6.5 years of sales<sup>8</sup>.

In the near term, Queensland remains central to the Company's business, however, the portfolio is diversified across the east coast States, and across strong growth corridors within each State. Importantly, the Company has broadened its reach across product and price point adding to the Company's resilience and providing strong and sustainable cash flows.

The land acquisition payable at 30 June 2017 is \$139.3 million in total (current \$116.0 million and non-current \$23.3 million). Since year end, \$30.6 million has been paid, and the balance will be settled from operating cash flows, existing debt facilities and settlement proceeds from third party settlements.

<sup>8</sup> At the FY17 sales rate of 1207.

## THE VILLA WORLD STRATEGY

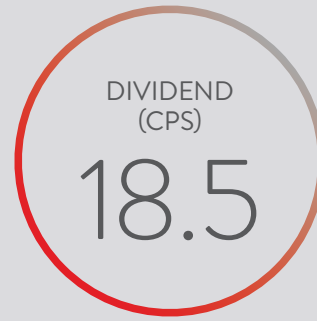
Villa World's continued strong performance in FY17 reflects the success of its business strategy and a commitment to achieving its long-term goal of being recognised as a leading Australian property group.

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 its core capabilities in the residential land and housing market.

The Company made a number of strategic land acquisitions in FY17 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

The Company has a risk management framework in place to identify, understand and manage key strategic, financial and operational 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.

The Company offers well located land, and affordable to mid-priced housing in the growth corridors of east coast Australia, providing greater resilience to market



Parkside - Coomera

## OPERATING FINANCIAL REVIEW CONT.

cycles. 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, and the Company makes general provision for such warranty claims (refer to Note B5 in the 2017 financial statements).

## OUTLOOK

In FY18 the Company's focus will remain on delivering and settling carried forward sales and releasing flagship projects including The Meadows (Strathpine), Chambers Ridge (Park Ridge), Covella (Greenbank), Wollert and Clyde. With in excess of 15 substantial projects selling during FY18, the Company expects to achieve at least 1400 sales.

The Company continues to progress its strategy of growing joint venture arrangements. In FY18, these arrangements are expected to contribute approximately \$7.0 million to profit comprising development and project management fees, and share of profit, primarily from the Rochedale and Greenbank joint venture projects, with the Donnybrook joint venture project to follow from FY19.

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 FY18 gross margin is expected to be within the range of 24% to 26%, with an increased proportion of capital lite projects contributing to profit. While such projects deliver a lower gross margin, they provide a strong return on investment.







Seascope - Redland Bay

## GUIDANCE

Assuming general consumer confidence is maintained, interest rates remain low and first home buyer grants remain in place, the Company is targeting a 10% growth in statutory profit after tax to \$41.6 million in FY18 (FY17: \$37.8 million). This represents EPS of 32.8 cps (FY17: 32.5 cps). Earnings will be significantly weighted to 2H18 due to the timing of delivery. 1H18 NPAT is expected to be \$10 - 12 million.

This guidance is underpinned by strong carried forward sales, continued sales momentum across the Company's markets, full year contribution from flagship projects released in FY17 and nine new project releases throughout FY18 across key (and historically strong) growth corridors, including an increased presence in the Victorian and New South Wales markets, 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% to 75% of annual NPAT, paid semi-annually. The Board anticipates paying total dividends of at least 18.5 cents per share fully franked in FY18. 1H18 dividend is expected to be 8 cps.

## FY18 ACQUISITION STRATEGY

Following the deployment of capital to acquisitions in FY17, the Company has significantly progressed the expansion of its project footprint, and is closer to cementing its longer-term position as a leading east coast residential developer. The Company will be selective in acquiring projects to build the pipeline beyond FY19. Acquisitions will predominantly be on deferred terms and/or through joint ventures and partnering arrangements. The Company expects cash outflow for acquisitions of \$110 million to \$130 million in FY18 funded from existing debt facilities and working capital and \$45 million in capital lite transactions.



Construction Team - Concourse

# CURRENT PORTFOLIO VIC

## MELBOURNE NORTH WEST

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

In nearby Plumpton, the Company now has a significant footprint with several projects underway or in planning. **Sienna**, a 166-lot mixed land and homes development which was launched in FY16 is almost complete. Neighbouring **Sienna Rise** has sold strongly since it was released in May 2017. The Company recently purchased an adjoining site, extending Sienna Rise to 555 land lots. Complementing the Sienna Rise land offering, the Company will deliver another **Plumpton** site for 382 Villa World homes.

## MELBOURNE NORTH

Melbourne's Northern corridor, with its proximity to Melbourne Airport and ease of access to the CBD, continues to attract strong interest from family buyers. **Lavinia** at Greenvale, comprising 131 designer homes bordering the Greenvale Reserve is expected to be completed during FY18, along with 30 terrace style homes at the boutique **Roxburgh Park Central** project close to Greenvale.

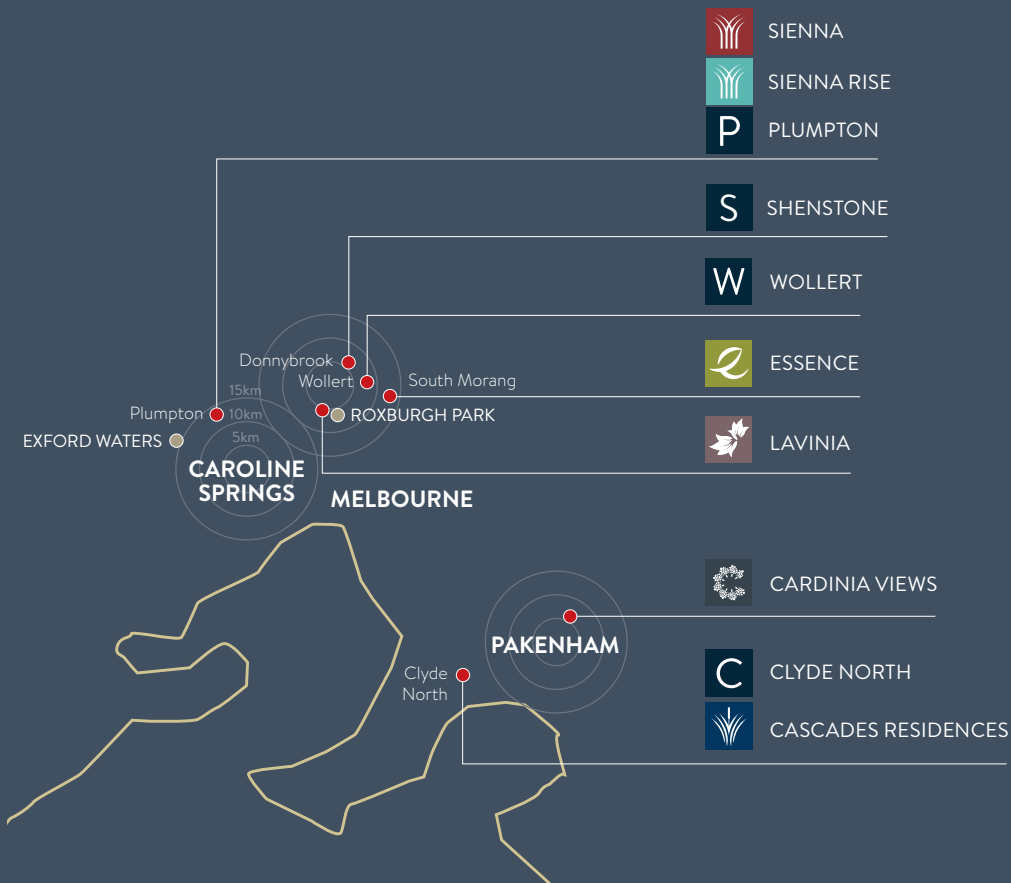
The Company's presence in this market will be maintained with the sales release in FY18 of a 287-lot project at **Wollert** and 1,300 lot joint venture project **Shenstone**, at Donnybrook, coming to market in FY19. The Wollert project has been community master plan approved under a Precinct Structure Plan (PSP), and development applications have been lodged. Shenstone is under the PSP approval process.



Artist's impression of Sienna Rise - Plumpton



Sienna Rise - Plumpton



1445  
LOTS ACQUIRED

# CURRENT PORTFOLIO VIC

## MELBOURNE NORTH EAST

South Morang has been one of Australia's fastest growing suburbs during the past decade. Though the Metropolitan Ring Road provides direct freeway links to Melbourne CBD, the Victorian Government's MerndaRail project will improve local connectivity by extending the rail line and walking path network from South Morang Station some 8km to the planned Mernda Town Centre. This incorporates a new station at Marymede, due to open in 2019, located 1.6km from Villa World's 59-lot townhome project, **Essence**. The project has development approval and construction will start in FY18.

## MELBOURNE SOUTH EAST

Pakenham, around 60km south-east of the Melbourne CBD, offers a distinct semi-rural identity. Land at Villa World's 320-lot **Cardinia Views** project launched in FY15 and neared sell-out in FY17.

All developed land at the 1138 lot **Cascades on Clyde** project in Clyde North previously sold out. The balance of the site, known as **Cascades Residences**, will be developed and marketed during FY18. It offers 29 homes located adjacent to parklands and an existing wetland.

The Company's foothold in this corridor will be maintained with the release in FY18 of a 412-lot land project on Pattersons Road, **Clyde North**.



*Cascades on Clyde - Clyde North*



*Pattersons Road - Clyde North*



*Artist's impression of Cascades Residences - Clyde North*



*Victorian Team*

# CURRENT PORTFOLIO NSW

## NORTH WEST SYDNEY

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

At Box Hill, the Company's new **Allure** project with 42 designer homes is under construction and due for launch early in FY18. In planning on a neighbouring site is the **Hillsbrook** project, offering a further 32 designer homes.





Allure - Box Hill



273  
LOTS ACQUIRED

# CURRENT PORTFOLIO NSW

## SOUTH WEST SYDNEY

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

The Company has strategically positioned itself in Oran Park with a variety of housing products. **Concourse**, which comprises 48 homes close to the town centre, is under construction and selling. Its partner project, **The Chase**, is currently in the planning stage and will add a further 93 townhomes to the Oran Park inventory.

In the adjacent parkland suburb of Cobbitty, the Company is currently constructing and selling a boutique collection of 10 homes, called **Harmony**.

## ILLAWARRA

The coastal region of Illawarra remains one of the nation's favourite places to live. In Albion Park, south of the Wollongong CBD, the Company's 87-lot land project known as **Bella Vista** is under construction, with final sell-out of this project expected in early FY18.



Concourse - Oran Park



Concourse - Oran Park





*Harmony in Cobbitty, looking towards The Chase & Concourse in Oran Park*

# CURRENT PORTFOLIO QLD



## BRISBANE NORTH

Brisbane North has been a highly successful market for the Company and the Company will continue to maintain a strong inventory of both land and homes projects in this region.

Key projects including **Park Vista** at Mango Hill, **Riva** at Joyner, **Circa** at Nudgee and **Eminence** at Bridgeman Downs sold out during FY17. Park Vista yielded more than 640 lots in a mix of homes, town houses and land over five years and has set the pace for the next generation of Villa World developments in this market.

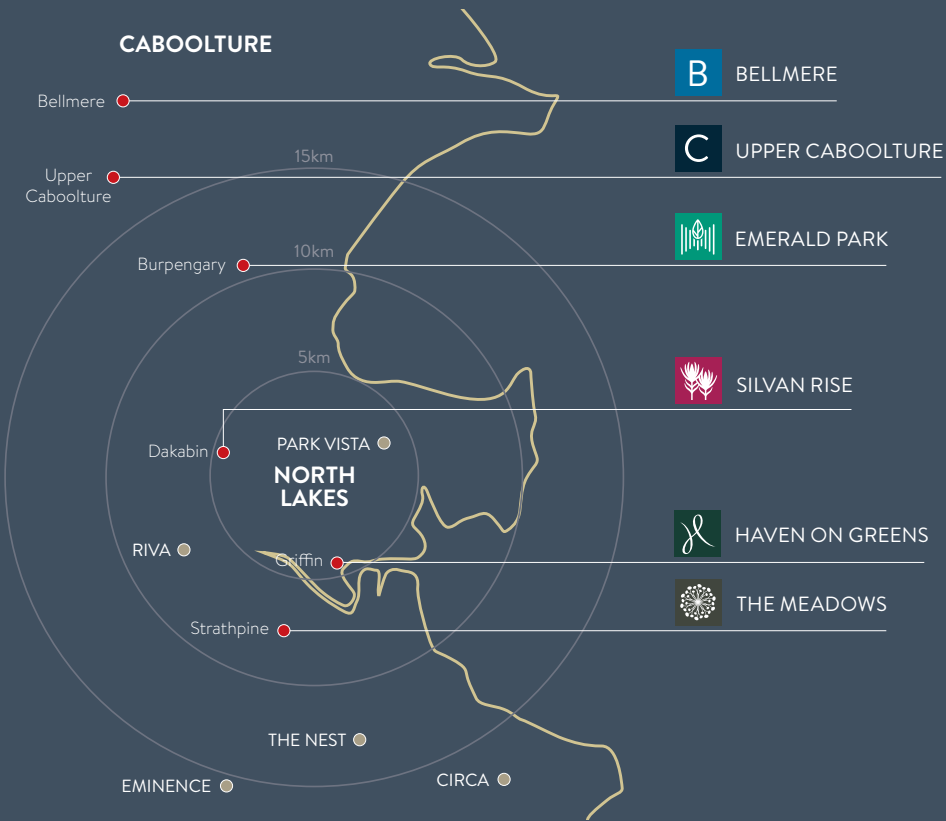
The Company has ensured continuance of supply for the next five years and beyond with approvals in place and construction commenced at Strathpine. Set to commence sales in FY18 and become Villa World's signature new address in the Brisbane North region, this project known as **The Meadows**, will deliver 402 family sized homes.

Also in this market is a 291-lot land project under planning in **Upper Caboolture**, close to the Caboolture River and a short drive west of the Morayfield retail heart. To ensure land supply in this market for the medium term, an additional 450 lots in the neighbouring suburb of **Bellmere** is also under planning for release in FY19.

New homes projects also commenced in Brisbane North during FY17 including **Haven on Greens**, a boutique project of 66 homes in Griffin close to North Lakes; **Emerald Park** at Burpengary which will deliver 54 homes during FY18; and **Silvan Rise** at Dakabin, just 5 minutes from North Lakes, which will comprise 109 designer homes located close to local amenities.



Haven on Greens in Griffin, looking towards North Lakes



- B** BELLMERE
- C** UPPER CABOOLTURE
- EMERALD PARK
- SILVAN RISE
- HAVEN ON GREENS
- THE MEADOWS

1736  
LOTS ACQUIRED

# CURRENT PORTFOLIO QLD

## BRISBANE SOUTH

Located less than 18km from the Brisbane CBD, the Upper Mt Gravatt business district centred around Garden City, is a retail and commercial hub of the southside. Just minutes away in the blue chip residential suburb of Rochedale is Villa World's flagship address, **Rochedale Grand**, which comprises 167 prestige architect-designed homes within walking distance of the future Rochedale Town Centre. Sales to date have been strong and the Company anticipates completion of this project early in FY19.

With development approvals in place and construction about to commence is a 149-lot project located at Doolandella on the northern fringe of the Logan Motorway, called **The Orchard**. This will comprise land in the main plus a boutique release of townhomes.

## BRISBANE BAYSIDE

Redland, with its bayside lifestyle and family-friendly infrastructure, has been a highly successful market for the Company during the past few years. Key projects in the region including the 200 home **Era**, at Capalaba, and the 572 home **Mt Cotton Village**, at Mt Cotton, both sold out during FY17, along with a further 84 homes at **Ellabay** in Redland Bay.

Villa World plans to maintain a solid inventory of both land and homes projects in this region, delivering strong, consistent sales results. The Company's Redland Bay

project, called **Seascape**, close to the proposed Weenam Creek marina development, is the key development project in this market. During FY17, the Company made the strategic decision to cater to both land and home buyers by dividing this 187-lot project into a land project and a designer townhome address, with a community garden, residents' swimming pool and BBQ facilities. Project completion is expected during FY19.

Two additional bayside land projects, **Waterline** (227 lots), and **Affinity** (118 lots), both at Thornlands, are fast approaching sell out.





## LOGAN

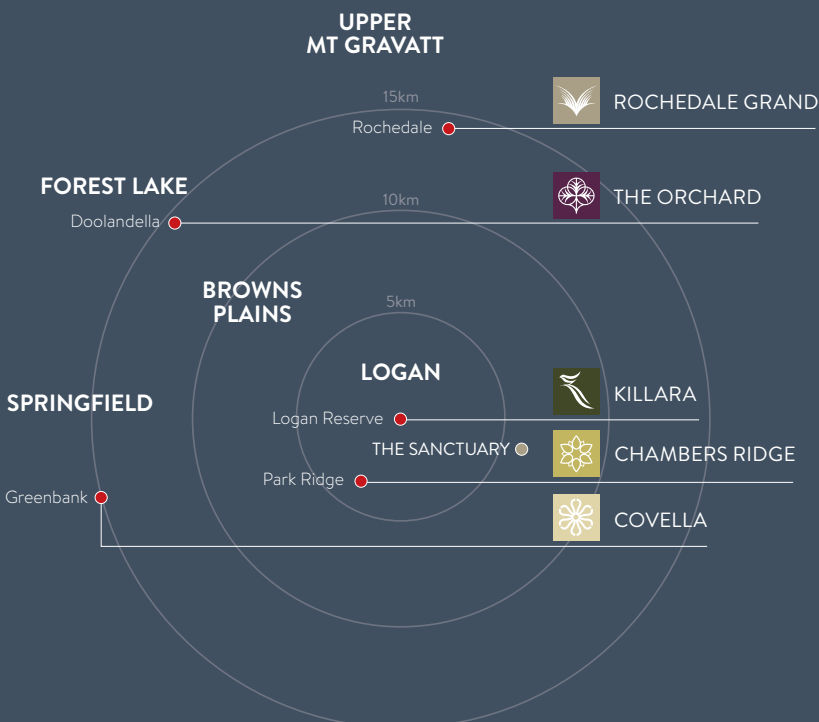
Located in the Brisbane-Gold Coast growth corridor, the City of Logan is the fifth largest local government area in Australia, with a population of more than 310,000.

Villa World has made a significant long-term commitment in Logan with planned development of more than 2,500 lots over the next decade.

FY18 will see the launch of the Company's most significant undertaking in the region, **Covella** at Greenbank, offering 1,500 lots in a joint venture. A significant portion of Covella will be preserved as open green space, parks and playing fields.

Also designed for a healthy, active living, **Killara** (714 lots) is Villa World's contemporary master planned address at Logan Reserve, featuring parkland spaces with adventure trails, bike tracks and interactive play areas. Sales of parkland homesites commenced in mid FY17 and are progressing very well, with a large builder display village due to open during FY18.

Launching early in FY18, is our new 300-home project **Chambers Ridge**, Park Ridge. Designed around a community park with playground equipment, picnic shelters and a barbecue area, Chambers Ridge is also designed for the family market.



# CURRENT PORTFOLIO

## QLD

### GOLD COAST

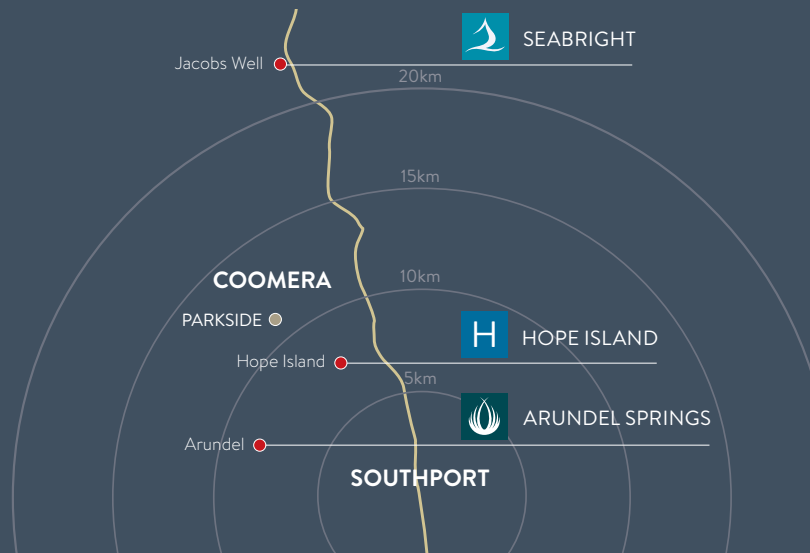
With the construction of facilities for the Gold Coast 2018 Commonwealth Games virtually completed and the new Gold Coast University Hospital precinct already open, the central Gold Coast is benefiting from a significant increase in residential development and employment, resulting in strong economic growth.

FY17 saw the Company's most significant project launch in the central Gold Coast in several years, with the opening of **Arundel Springs**, a prestige parkland address beside the protected Coombabah Lakelands Conservation Area at Arundel. The project comprises 306 premium homesites plus parks, walking and cycling tracks, exercise and play zones and lush landscapes. Sales success to date has been excellent. A further portion of the site has been earmarked for townhome developments (85 lots).

Now in the planning stage, is a project located in **Hope Island** comprising 110 designer townhomes and 15 premium waterfront homesites.

Sales at **Seabright** at Jacobs Well, which comprises 107 homes within walking distance of the village, have been strong. We anticipate sell-out being achieved early in FY18.

**Parkside**, the 179-home project, just minutes from the future Coomera Town Centre at Coomera was sold out during FY17.



Artist's impression of Arundel Springs - Arundel

## REGIONAL QUEENSLAND

During FY17, the Company continued to market its contemporary lifestyle projects on the Central Queensland Coast. **Augustus** is located in the picturesque seaside town of Hervey Bay. Master planned for 763 homes, the project sold consistently in FY17 offering affordable house and land packages primarily to first home buyers and downsizers.

**Little Creek** in Gladstone is a 663-lot project which offers a mix of land and homes set around the Little Creek parklands, an established network of parks with playgrounds and recreation facilities.



Augustus - Hervey Bay



# VILLA WORLD LIMITED

ABN 38 117 546 326

## ANNUAL REPORT

30 JUNE 2017

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

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

Its registered office is:

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

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

The financial statements were authorised for issue by the Directors on 15 August 2017. 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](http://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 2017.

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

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



#### **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 (25 June 2013 - 23 September 2016)
- G&C Mutual Bank (1 September 2016 - 23 September 2016)
- Australian Military Bank (since 1 July 2017)



## DIRECTORS (CONTINUED)



### 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)

Other directorships (current and recent)

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

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

## COMPANY SECRETARY



### Paulene Henderson BBus Acc, MBA, CA, GAICD

Chief Financial Officer 13 April 2010 - 3 July 2017  
Company Secretary 19 November 2012 - 3 July 2017

As Chief Financial Officer, Paulene has been responsible for guiding Villa World's capital management strategy. This has included three highly successful equity raisings and a restructuring of the Company's debt facilities to provide flexibility, tenure and diversity, including the issue of a simple corporate bond to 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 on 19 November 2012. Paulene gave notice of resignation as Chief Financial Officer and Company Secretary on 5 June 2017 effective as at 3 July 2017.



### Brad Scale LLB

General Counsel since 29 October 2012  
Company Secretary since 3 July 2017

Brad's legal career spans 30 years, much of which was spent in private practice specialising in property law. He was a senior partner of a leading Queensland property firm, where he advised domestic and international developers on major acquisitions and disposals, master-planned residential communities and mixed-use projects. Prior to joining Villa World, Brad

had a 4 year in-house role as Chief Legal Officer with a large financial services group, specialising in corporate governance, regulation and compliance, risk management and claims management.

## DIRECTORS' INTERESTS

### Directors' interests in shares and performance rights of Villa World Limited as at the date of this report

|                | Ordinary Shares | Performance Rights |
|----------------|-----------------|--------------------|
| Mark Jewell    | 107,127         | -                  |
| Craig Treasure | 1,334,864       | 704,430            |
| David Rennick  | 51,146          | -                  |
| Donna Hardman  | 28,737          | -                  |

### Meetings of directors

The number of meetings held by Villa World Limited's Board of Directors and of each Board Committee during the year ended 30 June 2017, including the number of meetings attended by each Director are:

|                | Board meetings <sup>1</sup> |    | Audit and Risk Committee |   | Remuneration and Nomination Committee |   |
|----------------|-----------------------------|----|--------------------------|---|---------------------------------------|---|
|                | A                           | B  | A                        | B | A                                     | B |
| Mark Jewell    | 16                          | 16 | 4                        | 4 | 4                                     | 4 |
| Craig Treasure | 16                          | 16 | 4                        | 4 | 4                                     | 4 |
| David Rennick  | 16                          | 16 | 4                        | 4 | 4                                     | 4 |
| Donna Hardman  | 16                          | 16 | 4                        | 4 | 4                                     | 4 |

A = Number of meetings attended.

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

<sup>1</sup> The Board recognises the importance of developing and implementing the strategy for the Company and during FY17 dedicated three Board meetings for these purposes.

### Principal activities

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

### Review of operations and consolidated results

| Group Financial Summary         | Consolidated        |                     |
|---------------------------------|---------------------|---------------------|
|                                 | 30-Jun-17<br>\$'000 | 30-Jun-16<br>\$'000 |
| <b>Revenue<sup>1</sup></b>      | <b>395,124</b>      | 392,303             |
| <b>Expenses</b>                 | <b>(334,079)</b>    | (335,592)           |
| Finance costs                   | (7,058)             | (9,464)             |
| <b>Profit before income tax</b> | <b>53,987</b>       | 47,247              |
| Income tax expense              | (16,151)            | (13,534)            |
| <b>Profit for the period</b>    | <b>37,836</b>       | 33,713              |
| Profit is attributable to:      |                     |                     |
| Owners of Villa World Limited   | <b>37,836</b>       | 33,713              |

<sup>1</sup> Includes revenue from land and development, residential building and construction contracts, development and project management fee, other income, share of profit/(loss) from equity accounted investments, net reversal of impairment in development land and reversal of impairment of investment in equity accounted investment. The breakdown of revenue can be found in the Statement of Comprehensive Income on page 57.

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.

### Dividends

The Board declared an interim dividend of 8.0 cents per share fully franked on 14 February 2017. Payment was made to shareholders on 31 March 2017.

## MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

### Final Dividend

On 15 August 2017, the Board declared a fully franked final dividend of 10.5 cents per share. The ex-dividend date is 4 September 2017 and the record date for this dividend is 5 September 2017. Payment will be made on 29 September 2017.

The balance of the franking account is \$14.4 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.

### Investment in the Villa Green Joint Venture

On 28 July 2017, equity contributions totalling \$6 million were made by each joint venture partner, with the carrying value of the investment increasing to \$10.9 million. This contribution was recognised as a commitment at 30 June 2017. Refer Note B6(b) - Joint Venture commitments.

### Cash settlements for land

Since year end \$30.6 million has been paid in relation to settlements of land. These include Hillsbrook, Concourse and the adjoining parcel to Sienna Rise which were all recognised as a liability at 30 June 2017.

## ENVIRONMENTAL REGULATION

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

### (i) Land development approvals

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

### (ii) Dwelling construction/building approvals

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

## CORPORATE GOVERNANCE STATEMENT 30 JUNE 2017

### 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 2017, which is available in the Corporate Governance section of its website at <http://www.villaworld.com.au/corporate-governance-statement-2017>

## ANNUAL STATEMENT BY THE REMUNERATION AND NOMINATION COMMITTEE CHAIR

The Villa World Board understands that Shareholders appreciate transparency and simplicity when it comes to remuneration reporting. Equally important is our demonstration of clear linkages between Company strategy and performance to remuneration outcomes for our executives. We have maintained this mindset during FY17.

We also believe that remuneration must be aligned to the sustainable growth of our Company and long-term value creation for Shareholders. This is as important during a strong performance year, such as this one, as it is in preparing for times when the market becomes potentially more challenging.

The Board, together with Managing Director and CEO Craig Treasure, has continued to focus on building leadership capability. Achievement of broader, forward-focused people goals remains a key consideration of the Remuneration and Nomination Committee.

This year, General Manager Sales and Marketing, Robyn Valmadre, was recognised as key management personnel (KMP). This continued expansion of talent provides enhanced succession options, drives sustainable growth and strengthens the strategic position of the Company for the future.

Sustained performance results from the strong employee engagement and motivation of all Villa World employees to perform at their best. This was acknowledged during the Company's 30th anniversary celebrations with a Board-approved gift of \$1,000 Villa World shares to every staff member. In addition, an Employee Share Acquisition Plan allowing eligible staff to purchase up to \$5,000 in Villa World shares each year on a salary sacrifice basis was also introduced this year.

The Villa World remuneration framework aims to attract, motivate and retain the best people to achieve the Company's strategic and operational objectives. Deliberate attention has been given to driving sustainable, consistent performance both now and into the future.

### Pay for performance FY17

FY17 was a strong performance year with a Net Profit After Tax of \$37.8 million, up 12% on the previous period.

The Committee maintained a consistent approach to remuneration, with no material changes to the Villa World Long Term Incentive Plan (LTIP). We believe the program offers a competitive reward and drives the right outcomes, being growth in shareholder wealth and the efficient use of assets. The measures remain at:

- 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).

We have continued to encourage the CEO to focus on long term, sustainable performance, increasing the LTI from 100% to 120% in FY17. While we note that Villa World is weighting long term remuneration higher than our sector peers, the Committee is confident that this structure has the elements set appropriately to drive positive outcomes for our Shareholders.

### Looking forward to FY18

The Villa World Board will continue to advance a competitive remuneration mix based on performance and optimising Shareholder outcomes. We will also maintain our investment in key leadership talent, encouraging diverse perspectives and flexibility in thinking. This approach to reward and recognition supports Villa World's broader strategic goals, leading to a higher level of creativity, innovation and organisational agility.

I would like to thank the Remuneration and Nomination Committee for their robust challenge and judicious work this year trusting that together we have produced a Remuneration Report that is useful and informative for you; our Shareholders.



Donna Hardman  
Chair, Remuneration and Nomination Committee

## REMUNERATION REPORT 2017 (AUDITED)

The Villa World Limited Board is pleased to present the Remuneration Report for FY17. 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.

### Structure of this report

The Board is committed to the clear and transparent communication of its remuneration arrangements by providing an executive remuneration framework that fosters a strong performance culture and links the remuneration outcomes for executives with the Company's strategy and forward plan and the creation of long term shareholder value.

The Report is organised as follows:

|                  |   |  |         |
|------------------|---|--|---------|
| <b>SECTION A</b> | Scope of the remuneration report                |  | page 38 |
| <b>SECTION B</b> | FY17 Remuneration snapshot                      |  | page 38 |
| <b>SECTION C</b> | Remuneration strategy and governance            | (i) Remuneration governance<br>(ii) Remuneration framework and link to business strategy<br>(iii) Use of remuneration advisors<br>(iv) Clawback of remuneration<br>(v) Securities dealing policy<br>(vi) Remuneration report approval at FY16 Annual General Meeting (AGM) | page 40 |
| <b>SECTION D</b> | Our assets: Our people                          |  | page 42 |
| <b>SECTION E</b> | Remuneration outcomes and corporate performance | (i) FY17 remuneration of KMP<br>(ii) KMP remuneration mix<br>(iii) FY17 STI review<br>(iv) FY17 LTI outcome<br>(v) Five year company performance   | page 43 |
| <b>SECTION F</b> | Remuneration framework                          | (i) Total fixed remuneration<br>(ii) Short-term incentives<br>(ii) Long-term incentives  | page 47 |
| <b>SECTION G</b> | Employment agreements                           | (i) KMP employment service agreements<br>(ii) Termination provisions   | page 51 |
| <b>SECTION H</b> | Non-Executive Directors' remuneration           | (i) Service agreements<br>(ii) Maximum aggregate NED fee pool<br>(iii) NED remuneration  | page 51 |
| <b>SECTION I</b> | Equity instrument disclosures relating to KMP   | (i) KMP shareholdings<br>(ii) KMP interests in bonds<br>(iii) KMP performance rights holdings<br>(iv) Expenses arising from share-based payment transactions   | page 52 |

### REMUNERATION REPORT GLOSSARY

|               |  |             |  |
|---------------|--|-------------|--|
| <b>AGM</b>    | Annual General Meeting                       | <b>LTIP</b> | Villa World Limited executive long-term incentive plan |
| <b>CEO/MD</b> | Chief Executive Officer / Managing Director  | <b>NED</b>  | Non-Executive Director                                 |
| <b>CFO</b>    | Chief Financial Officer                      | <b>NPBT</b> | Net profit before tax                                  |
| <b>EY</b>     | Ernst and Young                              | <b>RNC</b>  | Remuneration and Nomination Committee                  |
| <b>FY17</b>   | The 2017 fiscal year                         | <b>ROA</b>  | Return on assets                                       |
| <b>KMP</b>    | Key Management Personnel                     | <b>SBP</b>  | Share based payments                                   |
| <b>KPI</b>    | Key Performance Indicator, the basis for STI | <b>STI</b>  | Short-term incentive                                   |
| <b>LTI</b>    | Long-term incentive                          | <b>TSR</b>  | Total shareholder return                               |



## REMUNERATION REPORT 2017 (AUDITED)

### SECTION A: SCOPE OF THE REMUNERATION REPORT

This Report outlines how the Company's FY17 performance has been reflected in remuneration outcomes for KMP as defined in AASB 124 *Related Party Disclosures*.

The Company's KMP comprise of NED's, Executive Directors and senior 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      |
|--------------------------------|--|-----------|
| <b>Non-Executive Directors</b> |  |           |
| Mark Jewell                    | Independent Chairman                                   | Full Year |
| David Rennick                  | Independent Non-Executive Director                     | Full Year |
| Donna Hardman                  | Independent Non-Executive Director                     | Full Year |
| <b>Executive Director</b>      |  |           |
| Craig Treasure                 | Chief Executive Officer and Managing Director (CEO/MD) | Full Year |
| <b>Senior Executives</b>       |  |           |
| Paulene Henderson <sup>1</sup> | Chief Financial Officer and Company Secretary          | Full Year |
| Michael Vinodolac              | General Manager Operations                             | Full Year |
| Robyn Valmadre <sup>2</sup>    | General Manager - Sales & Marketing                    | Full Year |

<sup>1</sup> Paulene Henderson tendered her resignation as CFO and Company Secretary on 5 June 2017 but remained a KMP until 3 July 2017.

<sup>2</sup> Robyn Valmadre was recognised as a KMP on 1 July 2016 based on her increased responsibility in driving the strategic delivery of the Sales and Marketing functions across the business.

### SECTION B: FY17 REMUNERATION SNAPSHOT

The RNC noted the Company's strong performance in FY17 achieving year-on-year growth in revenue and profitability. The Company's success was underpinned by strong sales and efficient product delivery, as well as sustained strength in the balance sheet enabling effective cash flow management across the portfolio.

Continued company growth, complexity and geographical diversification has resulted in greater leadership capability requirements, leading to the continued expansion of roles and responsibilities for the executive team. Appropriately, the RNC reviewed salary levels based on performance outcomes associated with the required capability to deliver on this strategy.

Key remuneration outcomes for FY17 are as follows:

|                            |   |
|----------------------------|---|
| <b>Fixed Remuneration</b>  | Executives received increases (~5%-17%) in fixed remuneration in recognition for high performance, increased responsibilities, change in roles and delivery of business strategy.   |
| <b>CEO/MD Remuneration</b> | Aligned with the success of the Company's financial performance and to ensure competitive compensation in relation to peers, fixed remuneration for the CEO/MD increased by 5% from FY16 to FY17. Total STI remained at 40% of fixed salary. Total remuneration for the CEO/MD is tabled in Section E.  |
| <b>STI's</b>               | The STI pool awarded to all employees, including those awarded to executives totalled \$1.5 million in FY17 (FY16: \$1.2 million). The increase reflected the Companies' strong financial performance in FY17 and the Boards assessment of performance against individual KPI measures. STI's for executives remain between 20-40% of fixed salary. |
| <b>LTI's</b>               | <b>Villa World Limited Option Plan</b><br>During FY17, the Villa World Limited Option Plan was finalised and a fixed number of options awarded to eligible KMP vested and were exercised.   |



## REMUNERATION REPORT 2017 (AUDITED)

### SECTION B: FY17 REMUNERATION SNAPSHOT (CONT.)

|                            |   |
|----------------------------|---|
| LTI's (continued)          | <p><b>Villa World Limited Executive Long-Term Incentive Plan</b></p> <p>The second allocation of performance rights for the CEO/MD under the The Villa World Limited Executive Long-Term Incentive Plan was approved at the 2016 Annual General Meeting. The maximum LTI opportunities during FY17 were equivalent to 120% of fixed remuneration for the CEO and up to 100% 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 TSR and ROA over 3 years.</p>  |
| Employee Share Allocations | <p><b>Employee Share Acquisition Plan</b></p> <p>The employee share acquisition plan was introduced on 1 January 2017 to provide eligible employees with the opportunity to purchase up to \$5,000 annually, in Villa World shares using their pre-tax salary. This plan offers employees at all levels an opportunity to become an active shareholder of the Company, generating increased motivation to deliver shareholder value and be rewarded for their contribution towards the long-term success of Villa World.</p> <p><b>Anniversary Share Grant</b></p> <p>The Board acknowledged the dedication and support of existing staff by approving a special award of \$1,000 free shares as part of the Company's 30th anniversary celebrations. This grant has a 3 year trading restriction period from the date of allocation. If employment ceases during the restriction period, the employee is entitled to keep the shares and the trading restriction ceases at the time the employment ends.</p> |
| NED fees                   | <p>NED's received increases (~6%-11%) in base fees to reflect additional workloads as well as market relativities. Total Board and Committee Fees paid during FY17 were \$350k (see Section H) which is within the current maximum aggregate amount of \$600k. NEDs do not receive variable pay.</p>  |



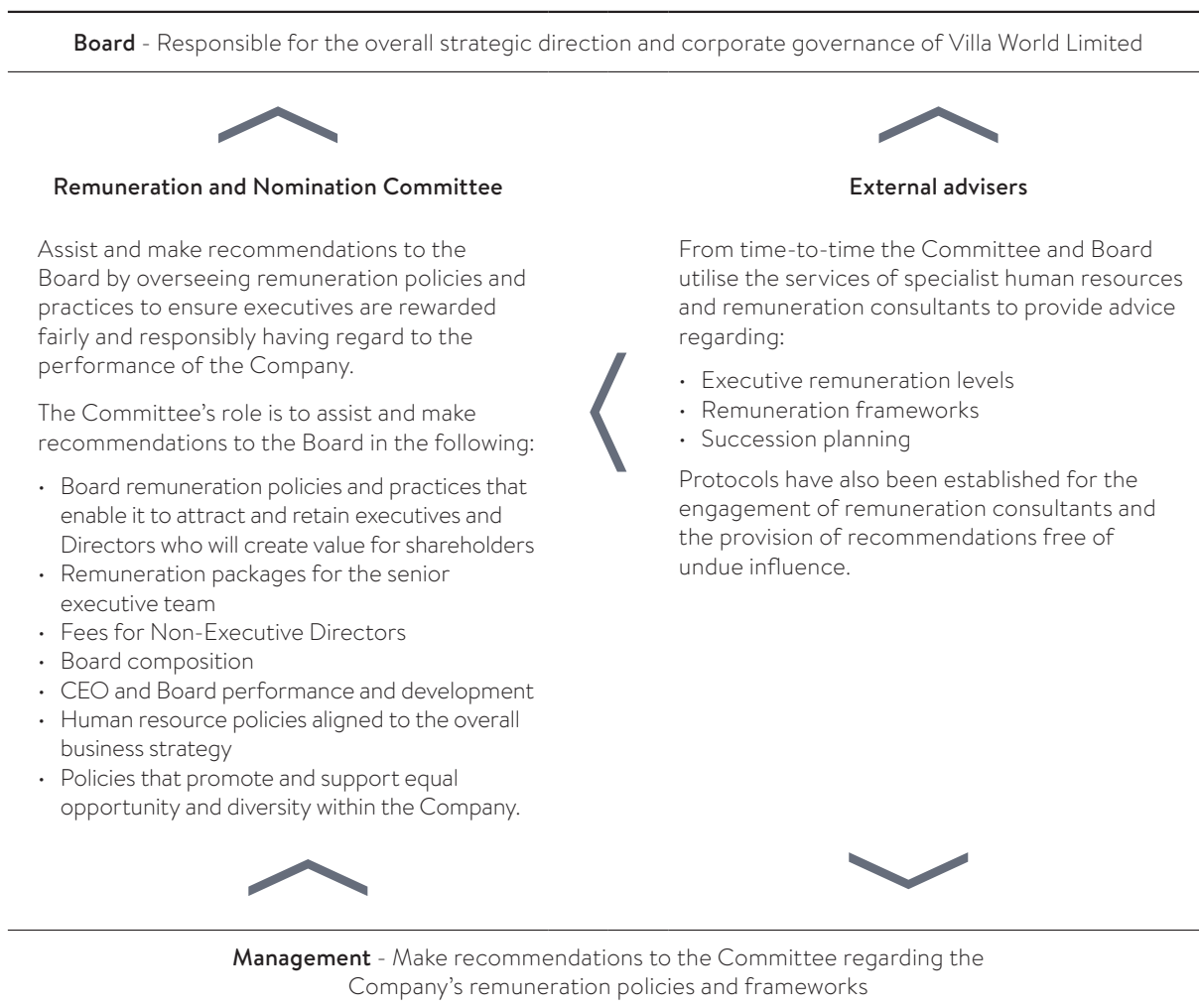
## REMUNERATION REPORT 2017 (AUDITED)

### SECTION C: REMUNERATION STRATEGY AND GOVERNANCE

#### (i) Remuneration Governance

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

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



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 and optimised shareholder outcomes. 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.

#### (ii) 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 Company must achieve at least 80% of NPBT target in order for full STI awards to be paid to executives.

## REMUNERATION REPORT 2017 (AUDITED)

### SECTION C: REMUNERATION STRATEGY AND GOVERNANCE (CONT.)

#### (ii) Remuneration framework and link to business strategy (cont.)

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   | <b>Total fixed remuneration</b><br>Base salary, superannuation contributions and other non-monetary benefits   | <ul style="list-style-type: none"> <li>Retention and attraction - market competitive, bench marked against peer Company</li> <li>Positioned at a level that reflects the contribution and value to the Company</li> <li>Recognises capability, expertise and performance of the executive</li> </ul>                                   |
| At risk remuneration | <b>STI Cash</b><br>A cash bonus awarded based on successful achievement of Board KPIs and delivering longer term business plan against target          | <ul style="list-style-type: none"> <li>Rewards and motivates achievement of Company annual business plan</li> <li>Creates transparent link between performance and remuneration</li> <li>Individual KPIs encourage accountability and consider a broader view of performance and specific strategic priorities</li> </ul>              |
|                      | <b>LTI</b><br>A deferred equity award of conditional rights or options subject to performance conditions measured over a three year performance period | <ul style="list-style-type: none"> <li>Rewards sustainable long-term performance</li> <li>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</li> <li>Retention and shareholder alignment</li> </ul> |

#### (iii) 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.

The RNC has engaged Ernst & Young (EY) as its external remuneration advisor to ensure that it is fully informed when making remuneration decisions and to assist with the review of the overall executive remuneration framework. EY's global governance guidelines and terms of engagement include specific strict guidelines designed to protect their independence, as part of this service to existing audit clients.

#### (iv) 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 clawback 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.



## REMUNERATION REPORT 2017 (AUDITED)

### SECTION C: REMUNERATION STRATEGY AND GOVERNANCE (CONT.)

#### (v) 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*.

#### (vi) Remuneration report approval at FY16 Annual General Meeting (AGM)

Of the eligible votes cast at the Company's AGM held on 3 November 2016, 98.3% were in favour of the remuneration report for FY16. The Company did not receive any specific feedback at the AGM on its remuneration practices.

### SECTION D: 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.

Villa World believes in the importance of providing its people with ownership opportunities and the chance to share in the Company's success and recognises the importance of driving the engagement and performance of all employees. During FY17 the Company introduced the Villa World Employee Share Acquisition Plan. The Plan is available to all eligible employees giving them the opportunity to purchase up to \$5,000 Villa World shares using their pre-tax salary. Shares acquired under the Plan will be subject to trading restrictions during the Restriction Period.



## REMUNERATION REPORT 2017 (AUDITED)

### SECTION E: REMUNERATION OUTCOMES AND CORPORATE PERFORMANCE

#### (i) FY17 Remuneration of KMP

Remuneration earned by executive KMP reflects the Company's strong financial 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 during the year.

|   |      | Short-term benefits |                | Post-employment               | Long-term benefits              | Share-based payments <sup>6</sup> |                    | TOTAL            |
|---|------|---------------------|----------------|-------------------------------|---------------------------------|-----------------------------------|--------------------|------------------|
|   |      | Salary and fees     | Cash Bonus     | Super-annuation contributions | Long service leave <sup>5</sup> | Share options                     | Performance Rights |                  |
|   |      | \$                  | \$             | \$                            | \$                              | \$                                | \$                 | \$               |
| <b>Non-Executive Directors</b>          |      |                     |                |                               |                                 |                                   |                    |                  |
| Mark Jewell (Chairman)                  | 2017 | 136,986             | -              | 13,014                        | -                               | -                                 | -                  | 150,000          |
|   | 2016 | 123,288             | -              | 11,712                        | -                               | -                                 | -                  | 135,000          |
| David Rennick                           | 2017 | 91,324              | -              | 8,676                         | -                               | -                                 | -                  | 100,000          |
|   | 2016 | 82,192              | -              | 7,808                         | -                               | -                                 | -                  | 90,000           |
| Donna Hardman <sup>1</sup>              | 2017 | 91,324              | -              | 8,676                         | -                               | -                                 | -                  | 100,000          |
|   | 2016 | 30,242              | -              | 2,873                         | -                               | -                                 | -                  | 33,115           |
| Gerald (Gerry) Lambert <sup>2</sup>     | 2017 | -                   | -              | -                             | -                               | -                                 | -                  | -                |
|   | 2016 | 28,662              | -              | 2,723                         | -                               | -                                 | -                  | 31,385           |
| <b>Total Non-Executive Directors</b>    | 2017 | <b>319,634</b>      | <b>-</b>       | <b>30,366</b>                 | <b>-</b>                        | <b>-</b>                          | <b>-</b>           | <b>350,000</b>   |
|   | 2016 | 264,384             | -              | 25,116                        | -                               | -                                 | -                  | 289,500          |
| <b>Executive Director and KMP</b>       |      |                     |                |                               |                                 |                                   |                    |                  |
| Craig Treasure (CEO and MD)             | 2017 | 689,306             | 270,000        | 19,616                        | 16,402                          | -                                 | 297,985            | 1,293,309        |
|   | 2016 | 655,692             | 240,000        | 19,308                        | 18,128                          | 100,000                           | 111,972            | 1,145,100        |
| Paulene Henderson                       | 2017 | 305,384             | 75,000         | 19,616                        | 11,656                          | -                                 | (39,812)           | 371,844          |
|   | 2016 | 280,692             | 66,145         | 19,308                        | 7,930                           | 8,333                             | 39,812             | 422,220          |
| Michael Vinodolac <sup>3</sup>          | 2017 | 341,243             | 60,000         | 19,616                        | 19,324                          | 11,958                            | 66,745             | 518,886          |
|   | 2016 | 210,519             | 51,395         | 14,481                        | 11,488                          | 15,375                            | 14,930             | 318,188          |
| Robyn Valmadre <sup>4</sup>             | 2017 | 310,384             | 63,000         | 19,616                        | 2,237                           | -                                 | 36,801             | 432,038          |
|   | 2016 | -                   | -              | -                             | -                               | -                                 | -                  | -                |
| <b>Total Executive Director and KMP</b> | 2017 | <b>1,646,317</b>    | <b>468,000</b> | <b>78,464</b>                 | <b>49,619</b>                   | <b>11,958</b>                     | <b>361,719</b>     | <b>2,616,077</b> |
|   | 2016 | 1,146,903           | 357,540        | 53,097                        | 37,546                          | 123,708                           | 166,714            | 1,885,508        |
| <b>TOTAL</b>                            | 2017 | <b>1,965,951</b>    | <b>468,000</b> | <b>108,830</b>                | <b>49,619</b>                   | <b>11,958</b>                     | <b>361,719</b>     | <b>2,966,077</b> |
|   | 2016 | 1,411,287           | 357,540        | 78,213                        | 37,546                          | 123,708                           | 166,714            | 2,175,008        |

<sup>1</sup> Donna Hardman was appointed Non-Executive Director on 17 February 2016.

<sup>2</sup> Gerald (Gerry) Lambert resigned as Non-Executive Director 5 November 2015.

<sup>3</sup> Michael Vinodolac was appointed a KMP on 1 October 2015.

<sup>4</sup> Robyn Valmadre was recognised as a KMP on 1 July 2016 based on her increased responsibility in driving the strategic delivery of the Sales and Marketing functions across the business.

<sup>5</sup> Long service leave represents the amount expended by the Company for the period.

<sup>6</sup> The amount shown in share-based payments represents the amount expended by the Company.



## REMUNERATION REPORT 2017 (AUDITED)

### SECTION E: REMUNERATION OUTCOMES AND CORPORATE PERFORMANCE (CONT.)

#### (ii) KMP remuneration mix

The Company has achieved a 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 FY17.

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 FY17, this portion was increased, with greater emphasis on long-term incentives for the CEO and Company executives compared to FY16, with a continued view to increasing shareholder alignment for this key group.

The relative mix of these components for different roles for FY17 is summarised in the table below.

|                           | Total remuneration package components |      |      |      |                  |      |
|---------------------------|---------------------------------------|------|------|------|------------------|------|
|                           | TFR                                   |      | STI  |      | LTI              |      |
|                           | 2017                                  | 2016 | 2017 | 2016 | 2017             | 2016 |
| <b>Executive Director</b> |                                       |      |      |      |                  |      |
| Craig Treasure            | 56%                                   | 60%  | 21%  | 21%  | 23%              | 19%  |
| <b>Other KMP</b>          |                                       |      |      |      |                  |      |
| Paulene Henderson         | 63%                                   | 72%  | 15%  | 16%  | 22% <sup>1</sup> | 12%  |
| Michael Vinodolac         | 73%                                   | 73%  | 12%  | 17%  | 15%              | 10%  |
| Robyn Valmadre            | 76%                                   | -    | 15%  | -    | 9%               | -    |

<sup>1</sup> Paulene Henderson's LTI component of 22% has been reversed due to the forfeiture of her performance rights allocation.

Fixed remuneration for the CEO and CFO increased in FY17 by 5% and 8.3% respectively. This increase ensures that KMP remuneration remains competitive with companies of comparable size and complexity. Total fixed remuneration is in line with the average/median remuneration rewarded to executives in comparable companies and roles, while maximum total remuneration, which includes STI and LTI awards, continues to support the Company focus and direction on a competitive higher performance-based remuneration structure compared to industry peers. Villa World believes this is the right combination to driving greater medium to long-term shareholder value.



## REMUNERATION REPORT 2017 (AUDITED)

### SECTION E: REMUNERATION OUTCOMES AND CORPORATE PERFORMANCE (CONT.)

#### (iii) FY17 STI review

The following table sets out the performance conditions for STI's and the weighting between these measures for executives for FY17.

|                            |   | Weighting of financial measure |       |                            |                                     |
|----------------------------|---|--------------------------------|-------|----------------------------|-------------------------------------|
| Metric                     |   | CEO                            | CFO   | General Manager Operations | General Manager Sales and Marketing |
| Financial measures         | <b>Operational performance</b><br>• Achieve FY17 financial plan   | 30% ●                          | 25% ● | 35% ●                      | 25% ●                               |
|                            | <b>Financial performance</b><br>• Gearing and interest cover within Board policy limit<br>• NTA/share against target  | 15% ●                          | 15% ● | 15% ●                      |                                     |
| Business growth measures   | <b>Business growth and sustainability</b><br>• Build, replenish and diversify the Company portfolio<br>• Develop current pipeline with acceptable level of risk<br>• Achieve production and supply of inventory measured against targets<br>• Develop five year growth and sustainability strategy to support business<br>• Develop and build nationally recognised brand<br>• Develop robust financial, operational and communication strategies for all new business initiatives<br>• Define corporate structure to support future performance and sustainability | 25% ●                          | 20% ● | 20% ●                      | 20% ●                               |
|                            | <b>People and Culture</b><br>• Attract, motivate and retain staff<br>• Be a preferred employer<br>• Succession planning and leadership development<br>• Drive efficiencies through cost, time and resource effectiveness  | 20% ●                          | 15% ● | 20% ●                      | 15% ●                               |
| Position specific measures | <b>Compliance with financial institutions including review of cash facility</b><br>• Sourcing of financing options & maintaining relationships with banks   |                                | 10% ● |                            |                                     |
|                            | <b>Corporate governance &amp; Company Secretarial compliance</b><br>• Audit, tax, GST, ASX reporting  |                                | 5% ●  |                            |                                     |
|                            | <b>Shareholder engagement and support</b><br>• Raise corporate awareness and understanding, strengthen corporate image through regular, transparent, two way communication with the financial community and other stakeholders<br>• Contribute to Company's shares achieving a fair valuation   | 10% ●                          | 10% ● |                            |                                     |
|                            | <b>Acquisition strategy</b><br>• Define, Implement and communicate the Company's acquisition strategy and quarterly review processes<br>• Enhance investment discipline to ensure Return on Assets when considering new investments   |                                |       | 10% ●                      |                                     |
|                            | <b>Sales and Marketing</b><br>• Successful completion of marketing budgets for all new projects as as reflected in board approved feasibilities<br>• Achieve budgeted sales to meet market demand and profit targets  |                                |       |                            | 40% ●                               |

Performance assessment: ● Below threshold hurdle ● At target



## REMUNERATION REPORT 2017 (AUDITED)

### SECTION E: REMUNERATION OUTCOMES AND CORPORATE PERFORMANCE (CONT.)

#### (iv) FY17 LTI outcome

##### Villa World Limited Executive Long-Term Incentive Plan

The Board introduced the Villa World Limited Executive LTI Plan in FY16. The key driver for the LTI Plan is to provide a variable remuneration component that is competitive and is aligned to shareholder returns over a longer period. It has been structured to appropriately incentivise executives and promote retention. The first grant of performance rights under the LTI Plan was made on 30 November 2015. The second allocation of performance rights under the LTIP was approved at the 2016 AGM.

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 F (iii) for the plans terms and conditions.

No awards have vested during FY17.

The table below sets out the performance rights awarded to KMP:

| KMP                            |      | Performance rights awarded | Value  | Value of performance rights at grant date <sup>2</sup> | Expiry date | Vesting date | Expected price volatility of shares | Expected dividend yield | Risk free interest rate | Forfeited |           |
|--------------------------------|------|----------------------------|--------|--|-------------|--------------|-------------------------------------|-------------------------|-------------------------|-----------|-----------|
|                                |      |                            |        |  |             |              |                                     |                         |                         | Vested    | Forfeited |
| Craig Treasure                 | FY17 | 387,528                    | \$1.44 | \$558,040  | 23/08/2019  | 30/06/2019   | 25%                                 | 8.15%                   | 1.87%                   | -         | -         |
|                                | FY16 | 316,902                    | \$1.06 | \$335,916  | 31/08/2018  | 30/06/2018   | 27%                                 | 7.6%                    | 2.1%                    | -         | -         |
| Paulene Henderson <sup>1</sup> | FY17 | 150,969                    | \$1.44 | \$217,395  | 23/08/2019  | 30/06/2019   | 25%                                 | 8.15%                   | 1.87%                   | -         | 100%      |
|                                | FY16 | 112,676                    | \$1.06 | \$119,437  | 31/08/2018  | 30/06/2018   | 27%                                 | 7.6%                    | 2.1%                    | -         | 100%      |
| Michael Vinodolac              | FY17 | 97,582                     | \$1.44 | \$140,518  | 23/08/2019  | 30/06/2019   | 25%                                 | 8.15%                   | 1.87%                   | -         | -         |
|                                | FY16 | 56,338                     | \$1.06 | \$59,718   | 31/08/2018  | 30/06/2018   | 27%                                 | 7.6%                    | 2.1%                    | -         | -         |
| Robyn Valmadre                 | FY17 | 76,669                     | \$1.44 | \$110,403  | 23/08/2019  | 30/06/2019   | 25%                                 | 8.15%                   | 1.87%                   | -         | -         |
|                                | FY16 | -                          | -      | -  | -           | -            | -                                   | -                       | -                       | -         | -         |

<sup>1</sup> Paulene Henderson tendered her resignation as CFO and Company Secretary on 5 June 2017 but remained a KMP until 3 July 2017. Her performance rights were forfeited on 14 July 2017 with communication and approval by the Board prior 30 June 2017.

<sup>2</sup> The value of performance rights reflects the fair value at the time of grant.

##### Villa World Limited Option Plan

The Villa World Limited Option Plan was finalised in FY17 with all options vested and exercised by eligible KMP. To align with market practice and support the Company's business strategy, it has been replaced by the Villa World Limited Executive LTI 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.

The following table discloses the number of share options which vested and were exercised 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. As at 30 June 2017 the number of options over unissued ordinary shares in the Company held by Directors and each of the other KMP is nil.



## REMUNERATION REPORT 2017 (AUDITED)

### SECTION E: REMUNERATION OUTCOMES AND CORPORATE PERFORMANCE (CONT.)

#### Villa World Limited Option Plan (cont.)

| KMP               | Grant date | Expiry date | Exercise price | Granted as compensation | Value of options at grant date <sup>1</sup> | Vesting date | Expected price volatility of shares | Expected dividend yield | Risk free interest rate | Vested/exercised |
|-------------------|------------|-------------|----------------|-------------------------|---|--------------|-------------------------------------|-------------------------|-------------------------|------------------|
| Craig Treasure    | 26/07/2013 | 26/01/2017  | \$1.25         | 3,000,000               | \$300,000                                   | 26/07/2016   | 25%                                 | 9.0%                    | 2.57%                   | 100%             |
| Paulene Henderson | 26/07/2013 | 26/01/2017  | \$1.25         | 250,000                 | \$25,000                                    | 26/07/2016   | 25%                                 | 9.0%                    | 2.57%                   | 100%             |
| Michael Vinodolac | 11/02/2014 | 11/08/2017  | \$1.60         | 150,000                 | \$61,500                                    | 11/02/2017   | 30%                                 | 7.1%                    | 3.10%                   | 100%             |

<sup>1</sup> 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*.

#### (v) Five year company performance

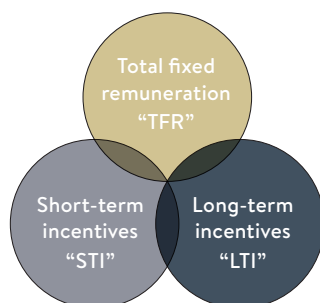
The RNC recognises that remuneration is an area of particular interest to shareholders. Shareholder views are taken into account in setting and considering changes to remuneration.

The Company has a reward system that ties KMP remuneration to the financial results and, at the same time, rewards executives for creating shareholder value in both the short term and long-term. Pay-for-performance is integral to this system. KMP are incentivised within the STI structure to improve key financial results year-on-year and are rewarded according to their achievements against KPI's that are both measurable and outcome-based.

The table below illustrates the Company's achievements in the areas that drive shareholder wealth during the past five years and highlights the correlation between results achieved and STI's received during FY17.

| Performance KPI                         | FY13<br>\$m | FY14<br>\$m | FY15<br>\$m | FY16<br>\$m | FY17<br>\$m |
|---|-------------|-------------|-------------|-------------|-------------|
| Revenue                                 | \$169.4     | \$229.5     | \$321.6     | \$387.0     | \$386.8     |
| Net profit after tax                    | (\$13.5)    | \$19.1      | \$25.6      | \$33.7      | \$37.8      |
| Debt                                    | \$70.0      | \$69.1      | \$92.0      | \$128.6     | \$81.5      |
| Gearing                                 | 24.4%       | 18.7%       | 16.9%       | 25.6%       | 12.9%       |
| NTA per security (cents)                | 185.0       | 192.0       | 200.0       | 215.0       | 227.0       |
| <b>Dividends (relating to the year)</b> |             |             |             |             |             |
| Interim dividend (cents)                | -           | 6.0         | 6.0         | 8.0         | 8.0         |
| Final dividend (cents)                  | -           | 9.0         | 10.0        | 10.0        | 10.5        |
| Earnings per share (cents)              | (18.2)      | 21.5        | 25.6        | 30.6        | 32.5        |
| Share price at 30 June                  | \$1.13      | \$2.02      | \$2.00      | \$2.08      | \$2.25      |

### SECTION F: REMUNERATION FRAMEWORK



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.



## REMUNERATION REPORT 2017 (AUDITED)

### SECTION F: REMUNERATION FRAMEWORK (CONT.)

#### (i) Total fixed remuneration

|                    |   |
|--------------------|---|
| <b>Objective</b>   | Provide a level of fixed compensation which is fair, reasonable and appropriate to attract and retain executives having regard to the seniority of the position.  |
| <b>Composition</b> | Cash, superannuation, insurance, car allowance or lease and other fringe benefits.  |
| <b>Benchmarks</b>  | Reviewed annually by the RNC based on the scale and complexity of the role, benchmarked against comparable industry roles. Fixed compensation is set taking into account the levels of STI and LTI opportunities. TFR will reflect the core performance requirements and expectations of the Company. |

#### (ii) Short-term incentives

Executives and eligible employees have a target STI opportunity depending on the accountabilities of their role and impact on the Company's performance. The Company's STI structure is outlined below.

|                             |  |
|-----------------------------|--|
| <b>Objective</b>            | Link executive remuneration to the achievement of annual operational targets and individual performance specific KPI's. Designed to create a strong, transparent link between performance and remuneration.  |
| <b>Eligibility</b>          | Executives and eligible employees  |
| <b>Composition</b>          | Cash   |
| <b>Opportunity</b>          | Actual STI awards can range from 0-40% of TFR  |
| <b>Performance measures</b> | STI's are awarded based on the successful achievement of pre-determined Board approved KPI's. KPI's are set at the start of each financial year and are objective and measureable. Performance is assessed against both Company and individual performance criteria.                         |
| <b>Review</b>               | Each year the Board considers the appropriate targets and KPI's to link to the STI plan and the weightings if targets are met for executives. This may include setting a maximum payout under the STI plan and minimum levels of performance to trigger payment of STI.                      |
| <b>Clawback</b>             | The clawback 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 STI. |

#### (iii) Long-term incentives

##### Villa World Limited Executive Long-Term Incentive Plan

The grant of performance rights was introduced as a LTI on 30 November 2015 subsequent to approval of the plan at the 2015 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.

## REMUNERATION REPORT 2017 (AUDITED)

### SECTION F: REMUNERATION FRAMEWORK (CONT.)

#### Villa World Limited Executive Long-Term Incentive Plan (cont.)

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

|                           |   |
|---------------------------|---|
| <b>Eligibility</b>        | Executives and other eligible employees of the Company who are considered to have the capacity to impact the long-term performance of the Company. Non-Executive Directors are not eligible to participate.   |
| <b>Instrument</b>         | 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.  |
| <b>Opportunity</b>        | Maximum LTI opportunities are equivalent to 120% of fixed remuneration for the CEO/MD and up to 100% of fixed remuneration for other executives.  |
| <b>Performance period</b> | The "Base rights" granted during the plan's first three years (FY16-FY18) will begin to vest on 30 June 2018. All subsequent "Base rights" granted will vest three years after the respective grant date. The vesting is conditional on the executive remaining employed with the Company and achievement of performance hurdles. |



## REMUNERATION REPORT 2017 (AUDITED)

### SECTION F: REMUNERATION FRAMEWORK (CONT.)

#### Villa World Limited Executive Long-Term Incentive Plan (cont.)

**Performance measures** Vesting conditions may include performance and/or service conditions that must be satisfied before the performance right vests. After careful consideration of the long-term financial focus and strategic direction of the Company, the Board has determined the performance condition 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 TSR for the Company is measured over three financial years.

The proportion of performance rights that may vest based on TSR performance is determined based on the following vesting schedule:

| <b>Relative TSR performance</b>  | <b>Percentage vesting</b>             |
|----------------------------------|---------------------------------------|
| 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                                   |

##### **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:

| <b>ROA performance</b>                      | <b>Percentage vesting</b>             |
|---|---------------------------------------|
| 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.

**Termination / Forfeiture** 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.

## REMUNERATION REPORT 2017 (AUDITED)

### SECTION G: EMPLOYMENT AGREEMENTS

#### (i) KMP employment service agreements

Remuneration and other terms of employment for KMP 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 2017 are set out in the table below:

|  | Base fee inclusive of superannuation | Term of agreement | Notice period | Review period | Maximum annual cash bonus (%) <sup>2</sup> |
|--|--------------------------------------|-------------------|---------------|---------------|--|
| <b>Chief Executive Officer and Managing Director</b> |                                      |                   |               |               |  |
| Craig Treasure                                       | \$695,000                            | Rolling           | 6 months      | Annual        | 40%  |
| <b>Other KMP</b>                                     |                                      |                   |               |               |  |
| Paulene Henderson <sup>1</sup>                       | \$325,000                            | Rolling           | 6 months      | Annual        | 25%  |
| Michael Vinodolac                                    | \$350,000                            | Rolling           | 3 months      | Annual        | 25%  |
| Robyn Valmadre                                       | \$330,000                            | Rolling           | 3 months      | Annual        | 20%  |

<sup>1</sup> Paulene Henderson tendered her resignation as CFO and Company Secretary on 5 June 2017 but remained a KMP until 3 July 2017.

<sup>2</sup> 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 H: 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.

There is no requirement for NEDs to hold shares in the Company. Whilst encouraged, the Company has left this choice to the discretion of each NED.

#### (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 NEDs fees paid for the year ended 30 June 2017 is \$350,000 (30 June 2016: \$289,500).



## REMUNERATION REPORT 2017 (AUDITED)

### SECTION H: NON-EXECUTIVE DIRECTORS' REMUNERATION (CONT.)

#### (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 Chairman, NEDs receive additional fees if they are appointed Chairman 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 FY17, the Board decided to increase the base fee for NEDs to reflect additional workloads as well as national benchmarks. The FY18 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              | FY17      | FY16      |
|------------------------|-----------|-----------|
| Chair                  | \$150,000 | \$135,000 |
| Other NEDs             | \$85,000  | \$80,000  |
| <b>Additional fees</b> |           |           |
| Committee - Chair      | \$15,000  | \$10,000  |

### SECTION I: EQUITY INSTRUMENT DISCLOSURES RELATING TO KMP

#### (i) KMP Shareholdings

|                   | Balance at the start of the year |                  | Granted during the year |                  | Exercise of options <sup>1</sup> |                  | Other changes during the year |                  | Balance at the end of the year |                  |
|-------------------|----------------------------------|------------------|-------------------------|------------------|----------------------------------|------------------|-------------------------------|------------------|--------------------------------|------------------|
|                   | Direct holding                   | Indirect holding | Direct holding          | Indirect holding | Direct holding                   | Indirect holding | Direct holding                | Indirect holding | Direct holding                 | Indirect holding |
| <b>Directors</b>  |                                  |                  |                         |                  |                                  |                  |                               |                  |                                |                  |
| Mark Jewell       | -                                | 103,390          | -                       | -                | -                                | -                | -                             | 3,737            | -                              | 107,127          |
| Craig Treasure    | 252,432                          | 582,432          | -                       | -                | 3,000,000                        | -                | (2,500,000)                   | -                | 752,432                        | 582,432          |
| David Rennick     | -                                | 45,000           | -                       | -                | -                                | -                | 2,234                         | 3,737            | 2,234                          | 48,737           |
| Donna Hardman     | -                                | -                | -                       | -                | -                                | -                | -                             | 28,737           | -                              | 28,737           |
| <b>Other KMP</b>  |                                  |                  |                         |                  |                                  |                  |                               |                  |                                |                  |
| Paulene Henderson | -                                | 86,468           | 428                     | -                | 250,000                          | -                | (247,766)                     | 12,474           | 2,662                          | 98,942           |
| Michael Vinodolac | 3,192                            | -                | 428                     | -                | 150,000                          | -                | (103,766)                     | -                | 49,854                         | -                |
| Robyn Valmadre    | -                                | 7,000            | 428                     | -                | -                                | -                | -                             | -                | 428                            | 7,000            |
| <b>Total</b>      | <b>255,624</b>                   | <b>824,290</b>   | <b>1,284</b>            | <b>-</b>         | <b>3,400,000</b>                 | <b>-</b>         | <b>(2,849,298)</b>            | <b>48,685</b>    | <b>807,610</b>                 | <b>872,975</b>   |

<sup>1</sup> 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.

#### (ii) KMP Interests in bonds

During the financial year, Paulene Henderson indirectly acquired 300 Villa World Bonds (ASX:VLWHA). The balance of Ms Henderson's bond holding as at 30 June 2017 remains at 300.

#### (iii) KMP performance rights holdings

The number of performance rights over unissued ordinary shares in the Company held during the financial year by Directors and each of the other KMP is set out over. When exercisable, each performance right is convertible into one ordinary share of Villa World Limited.

## REMUNERATION REPORT 2017 (AUDITED)

### SECTION I: EQUITY INSTRUMENT DISCLOSURES RELATING TO KMP (CONT.)

#### (iii) KMP performance rights holdings (cont.)

|                   | Balance at the start of the year | Granted during the year | Exercised during the year | Lapsed/ forfeited during the year | Balance at the end of the year | Vested and exercisable at the end of the year |
|-------------------|----------------------------------|-------------------------|---------------------------|-----------------------------------|--------------------------------|---|
| <b>Directors</b>  |                                  |                         |                           |                                   |                                |   |
| Mark Jewell       | -                                | -                       | -                         | -                                 | -                              | -   |
| Craig Treasure    | 316,902                          | 387,528                 | -                         | -                                 | 704,430                        | -   |
| David Rennick     | -                                | -                       | -                         | -                                 | -                              | -   |
| Donna Hardman     | -                                | -                       | -                         | -                                 | -                              | -   |
| <b>Other KMP</b>  |                                  |                         |                           |                                   |                                |   |
| Paulene Henderson | 112,676                          | 150,969                 | -                         | (263,645)                         | -                              | -   |
| Michael Vinodolac | 56,338                           | 97,582                  | -                         | -                                 | 153,920                        | -   |
| Robyn Valmadre    | -                                | 76,669                  | -                         | -                                 | 76,669                         | -   |
| <b>Total</b>      | <b>485,916</b>                   | <b>712,748</b>          | <b>-</b>                  | <b>(263,645)</b>                  | <b>935,019</b>                 | <b>-</b>                                      |

#### (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-17<br>\$'000 | 30-Jun-16<br>\$'000 |
| Performance rights issued to KMP    | 402                 | 166                 |
| Performance rights forfeited by KMP | (40)                | -                   |
| Options issued to KMP               | 12                  | 124                 |
|                                     | <b>374</b>          | <b>290</b>          |



## INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

### Indemnification

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

### Insurance premiums

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

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

The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer 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 Audit and Risk Committee reviewed all non-audit services to ensure they did not impact the auditor's impartiality and objectivity.

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


### Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 55.

### Rounding of amounts

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

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



Craig Treasure  
Chief Executive Officer and Managing Director

Gold Coast  
15 August 2017

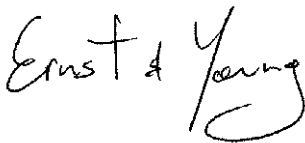


## Auditor's Independence Declaration to the Directors of Villa World Limited

As lead auditor for the audit of Villa World Limited for the financial year ended 30 June 2017, 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  
15 August 2017

# Annual report - 30 June 2017

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**Consolidated statement of comprehensive income**  
**For the year ended 30 June 2017**

|  | Notes | Consolidated        |                     |
|--|-------|---------------------|---------------------|
|  |       | 30-Jun-17<br>\$'000 | 30-Jun-16<br>\$'000 |
| <b>Revenue from continuing operations</b>                                      |       |                     |                     |
| Revenue from land development, residential building and construction contracts | A1    | 386,790             | 387,002             |
| Cost of land development, residential building and construction contracts      | A1    | (280,537)           | (286,400)           |
| <b>Gross Margin</b>  |       | <b>106,253</b>      | 100,602             |
| Development and project management fee   |       | 2,427               | 1,159               |
| Other income   | A1    | 754                 | 697                 |
| Net reversal / (impairment) of development land                                |       | 1,516               | (83)                |
| Share of profit / (loss) from associates and joint ventures                    | D3    | 3,010               | 3,445               |
| Reversal of impairment of investment in equity accounted investment            | D3    | 627                 | -                   |
| <b>Other expenses from ordinary activities</b>                                 |       |                     |                     |
| Property sales and marketing expenses  |       | (21,730)            | (22,090)            |
| Land holding costs   |       | (4,086)             | (3,777)             |
| Legal and professional costs   |       | (1,693)             | (1,489)             |
| Employee benefits  |       | (20,630)            | (16,705)            |
| Depreciation and amortisation expense  |       | (577)               | (607)               |
| Administration costs and other expenses  |       | (4,826)             | (4,441)             |
| Finance costs  | C5    | (7,058)             | (9,464)             |
| <b>Profit before income tax</b>  |       | <b>53,987</b>       | 47,247              |
| Income tax expense   | A5(a) | (16,151)            | (13,534)            |
| <b>Profit for the period</b>   |       | <b>37,836</b>       | 33,713              |
| Profit is attributable to:   |       |                     |                     |
| Owners of Villa World Limited  |       | 37,836              | 33,713              |

|  |    | Cents | Cents |
|--|----|-------|-------|
| <b>Earnings per share for profit attributable to the ordinary equity holders of the Company:</b> |    |       |       |
| Basic earnings per share   | A2 | 32.5  | 30.6  |
| Diluted earnings per share   | A2 | 32.4  | 30.1  |

|   | Notes        | Consolidated        |                     |
|---|--------------|---------------------|---------------------|
|   |              | 30-Jun-17<br>\$'000 | 30-Jun-16<br>\$'000 |
| <b>Profit for the period</b>                                  |              | <b>37,836</b>       | 33,713              |
| <b>Other comprehensive income</b>                             |              |                     |                     |
| Items that may be reclassified to profit or loss              |              |                     |                     |
| Changes in the fair value of cash flow hedges                 | C3(a)        | 1,561               | 460                 |
| Income tax relating to these items                            | C3(a), A5(b) | (468)               | (138)               |
| <b>Other comprehensive income for the period, net of tax</b>  |              | <b>1,093</b>        | 322                 |
| <b>Total comprehensive income for the period, net of tax</b>  |              | <b>38,929</b>       | 34,035              |
| Total comprehensive income for the period is attributable to: |              |                     |                     |
| Owners of Villa World Limited                                 |              | 38,929              | 34,035              |

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

**Consolidated balance sheet  
As at 30 June 2017**

|  | Notes | Consolidated        |                     |
|--|-------|---------------------|---------------------|
|  |       | 30-Jun-17<br>\$'000 | 30-Jun-16<br>\$'000 |
| <b>ASSETS</b>  |       |                     |                     |
| <b>Current assets</b>  |       |                     |                     |
| Cash and cash equivalents  |       | 7,663               | 8,358               |
| Trade and other receivables  | B2    | 52,628              | 72,363              |
| Inventories  | B1    | 206,757             | 186,037             |
| Other current assets   | B4    | 3,347               | 3,145               |
| <b>Total current assets</b>  |       | <b>270,395</b>      | <b>269,903</b>      |
| <b>Non-current assets</b>  |       |                     |                     |
| Inventories  | B1    | 271,205             | 187,660             |
| Property, plant and equipment                                      |       | 1,195               | 1,169               |
| Investments accounted for using the equity method                  | D3    | 24,869              | 18,482              |
| Deferred tax assets  | A5(c) | -                   | 795                 |
| Other non-current assets   | B4    | 10,000              | -                   |
| <b>Total non-current assets</b>                                    |       | <b>307,269</b>      | <b>208,106</b>      |
| <b>Total assets</b>  |       | <b>577,664</b>      | <b>478,009</b>      |
| <b>LIABILITIES</b>   |       |                     |                     |
| <b>Current liabilities</b>   |       |                     |                     |
| Trade and other payables   | B3    | 165,435             | 79,030              |
| Deferred income  |       | 467                 | 527                 |
| Current tax liabilities  | A5(a) | 10,775              | 4,868               |
| Employee benefits  |       | 1,053               | 772                 |
| Service warranties   | B5(a) | 4,219               | 14,392              |
| Other provisions   |       | 130                 | 45                  |
| <b>Total current liabilities</b>                                   |       | <b>182,079</b>      | <b>99,634</b>       |
| <b>Non-current liabilities</b>                                     |       |                     |                     |
| Trade and other payables   | B3    | 23,760              | 11,989              |
| Borrowings   | C4    | 81,457              | 128,594             |
| Deferred income  |       | 84                  | 473                 |
| Deferred tax liabilities   | A5(c) | 1,972               | -                   |
| Employee benefits  |       | 496                 | 375                 |
| Other provisions   |       | 78                  | 64                  |
| <b>Total non-current liabilities</b>                               |       | <b>107,847</b>      | <b>141,495</b>      |
| <b>Total liabilities</b>   |       | <b>289,926</b>      | <b>241,129</b>      |
| <b>Net assets</b>  |       | <b>287,738</b>      | <b>236,880</b>      |
| <b>EQUITY</b>  |       |                     |                     |
| Contributed equity   | C2    | 477,597             | 444,271             |
| Other reserves   | C3(a) | 208,511             | 190,320             |
| Accumulated losses   |       | (398,370)           | (397,711)           |
| Capital and reserves attributable to owners of Villa World Limited |       | 287,738             | 236,880             |
| <b>Total equity</b>  |       | <b>287,738</b>      | <b>236,880</b>      |

*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 2017**

| Consolidated  | Notes        | Attributable to owners of Villa World Limited |                               |                             |                             |                                 | Total<br>\$'000 |
|---|--------------|---|-------------------------------|-----------------------------|-----------------------------|---------------------------------|-----------------|
|   |              | Contributed<br>equity<br>\$'000               | Cash flow<br>hedges<br>\$'000 | Other<br>reserves<br>\$'000 | Profit<br>Reserve<br>\$'000 | Accumulated<br>losses<br>\$'000 |                 |
| <b>Balance at 1 July 2015</b>   |              | 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             |
| <b>Total comprehensive income for the period</b>                            |              | -   | <b>322</b>                    | -                           | -                           | <b>33,713</b>                   | <b>34,035</b>   |
| Transfer current year profit to profit reserve                              | C3(a)        | -   | -                             | -                           | 33,546                      | (33,546)                        | -               |
| Dividends provided for or paid  | A4(a), C3(a) | -   | -                             | -                           | (19,862)                    | -                               | (19,862)        |
| Share based payments and other expenses                                     | C3(a)        | -   | -                             | 230                         | -                           | -                               | 230             |
| Employee Share Scheme tax impact  | C3(a)        | -   | -                             | 1,894                       | -                           | -                               | 1,894           |
| Transaction costs from capital transactions, net of tax                     | C2           | (15)  | -                             | -                           | -                           | -                               | (15)            |
|   |              | (15)  | -                             | 2,124                       | 13,684                      | (33,546)                        | (17,753)        |
| <b>Balance at 30 June 2016</b>  |              | <b>444,271</b>                                | <b>(2,355)</b>                | <b>2,441</b>                | <b>190,234</b>              | <b>(397,711)</b>                | <b>236,880</b>  |
| Balance at 1 July 2016  |              | 444,271                                       | (2,355)                       | 2,441                       | 190,234                     | (397,711)                       | 236,880         |
| Profit for the year as reported in the 2017 financial statements            |              | -   | -                             | -                           | -                           | 37,836                          | 37,836          |
| Movement in hedge reserve (net of tax)                                      |              | -   | 1,093                         | -                           | -                           | -                               | 1,093           |
| <b>Total comprehensive income for the period</b>                            |              | -   | <b>1,093</b>                  | -                           | -                           | <b>37,836</b>                   | <b>38,929</b>   |
| Securities issued from capital raising                                      | C2           | 20,000  | -                             | -                           | -                           | -                               | 20,000          |
| Securities issued under the share purchase plan                             | C2           | 9,997   | -                             | -                           | -                           | -                               | 9,997           |
| Transaction costs from capital transactions, net of tax                     | C2           | (590)   | -                             | -                           | -                           | -                               | (590)           |
| Dividends provided for or paid  | A4(a)        | -   | -                             | -                           | (20,445)                    | -                               | (20,445)        |
| Share based payments and other expenses                                     | C3(a)        | -   | -                             | 405                         | -                           | -                               | 405             |
| Employee Share Scheme tax impact  | C3(a)        | -   | -                             | (1,357)                     | -                           | -                               | (1,357)         |
| Transfer current year profit to profit reserve                              | C3(a)        | -   | -                             | -                           | 38,495                      | (38,495)                        | -               |
| Proceeds from exercise of options under the Villa World Limited Option Plan | C2           | 4,303   | -                             | -                           | -                           | -                               | 4,303           |
| Shares acquired by Employee Share Scheme Trust                              | C2           | (384)   | -                             | -                           | -                           | -                               | (384)           |
|   |              | 33,326  | -                             | (952)                       | 18,050                      | (38,495)                        | 11,929          |
| <b>Balance at 30 June 2017</b>  |              | <b>477,597</b>                                | <b>(1,262)</b>                | <b>1,489</b>                | <b>208,284</b>              | <b>(398,370)</b>                | <b>287,738</b>  |

*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 2017**

|   | Notes | Consolidated        |                     |
|---|-------|---------------------|---------------------|
|   |       | 30-Jun-17<br>\$'000 | 30-Jun-16<br>\$'000 |
| <b>Cash flows from operating activities</b>                                 |       |                     |                     |
| Receipts from customers (inclusive of goods and services tax)               |       | 443,559             | 361,114             |
| Receipts from the transfer of development rights                            |       | -                   | 26,400              |
| Payments to suppliers and employees (inclusive of goods and services tax)   |       | (253,353)           | (240,586)           |
|   |       | <b>190,206</b>      | <b>146,928</b>      |
| Payments for land acquired  |       | (123,294)           | (162,930)           |
| Interest received   |       | 316                 | 445                 |
| Interest paid   |       | (5,764)             | (6,494)             |
| Corporate tax paid  |       | (9,049)             | (1,616)             |
| Borrowing costs   |       | (249)               | (250)               |
| GST paid  |       | (15,261)            | (7,712)             |
| <b>Net cash inflow / (outflow) from operating activities</b>                | A6    | <b>36,905</b>       | <b>(31,629)</b>     |
| <b>Cash flows from investing activities</b>                                 |       |                     |                     |
| Payments for property, plant and equipment                                  |       | (594)               | (850)               |
| Payments for equity accounted investments                                   | D3    | (5,000)             | (11,258)            |
| Distributions received from equity accounted investments                    | D3    | 2,250               | 13,000              |
| <b>Net cash (outflow) / inflow from investing activities</b>                |       | <b>(3,344)</b>      | <b>892</b>          |
| <b>Cash flows from financing activities</b>                                 |       |                     |                     |
| Proceeds from borrowings  |       | 175,454             | 193,886             |
| Repayment of borrowings   |       | (270,976)           | (157,500)           |
| Proceeds from issue of Villa World Bonds                                    | C4(a) | 50,000              | -                   |
| Transaction costs arising from issue of Villa World Bonds                   | C4(a) | (1,615)             | -                   |
| Proceeds from share capital issue   | C2    | 20,000              | -                   |
| Proceeds from securities issued under the share purchase plan               | C2    | 9,997               | -                   |
| Transactions costs from capital transactions                                | C2    | (590)               | -                   |
| Proceeds from exercise of options under the Villa World Limited Option Plan | C2    | 4,303               | -                   |
| Shares acquired by the Employee Share Scheme Trust                          | C2    | (384)               | -                   |
| Dividends paid to Company's shareholders                                    | A4(a) | (20,445)            | (19,862)            |
| <b>Net cash (outflow) / inflow from financing activities</b>                |       | <b>(34,256)</b>     | <b>16,524</b>       |
| <b>Net (decrease) in cash and cash equivalents</b>                          |       | <b>(695)</b>        | <b>(14,213)</b>     |
| Cash and cash equivalents at the beginning of the financial year            |       | 8,358               | 22,571              |
| <b>Cash and cash equivalents at end of period</b>                           |       | <b>7,663</b>        | <b>8,358</b>        |
| <b>Reconciliation to cash at the end of the year:</b>                       |       |                     |                     |
| Cash and cash equivalents   |       | 7,663               | 8,358               |
| <b>Cash and cash equivalents at the end of the year:</b>                    |       | <b>7,663</b>        | <b>8,358</b>        |

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



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Notes to the consolidated financial statements  
30 June 2017 (continued)

## RESULTS FOR THE YEAR

A

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

In this section:

- A1 Revenue and gross profit
- A2 Earnings per share
- A3 Segment information
- A4 Dividends
- A5 Taxes
- A6 Reconciliation of profit after income tax to net cash inflow from operating activities

### A1 Revenue and gross profit

|   | Consolidated   |                |
|---|----------------|----------------|
|   | 30-Jun-17      | 30-Jun-16      |
|   | \$'000         | \$'000         |
| Revenue from land only development  | 134,551        | 106,128        |
| Revenue from land development, residential building and construction contracts        | 252,239        | 280,874        |
| <b>Revenue from land development, residential building and construction contracts</b> | <b>386,790</b> | <b>387,002</b> |
| Cost of land only development   | 93,086         | 71,243         |
| Cost of land development, residential building and construction contracts             | 187,705        | 213,040        |
| Other direct costs <sup>1</sup>   | (254)          | 2,117          |
| <b>Costs of land development, residential building and construction contracts</b>     | <b>280,537</b> | <b>286,400</b> |
| <b>Gross profit</b>   | <b>106,253</b> | <b>100,602</b> |
| <b>Gross margin</b>   | <b>27.5%</b>   | <b>26.0%</b>   |

1. Includes unused provision of \$0.6 million in relation to legal claims settled (2016: \$0.9 million). Refer Note B5 (c) - Movements in provisions.

|                     | Consolidated |            |
|---------------------|--------------|------------|
|                     | 30-Jun-17    | 30-Jun-16  |
|                     | \$'000       | \$'000     |
| <b>Other income</b> |              |            |
| Rebates received    | 14           | 60         |
| Other income        | 740          | 637        |
|                     | <b>754</b>   | <b>697</b> |

### 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 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.



Notes to the consolidated financial statements  
30 June 2017 (continued)

## 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-17<br>\$'000 | 30-Jun-16<br>\$'000 |
| Profit attributable to the ordinary equity holders of the Company                        | 37,836              | 33,713              |
|  | Number<br>'000      | Number<br>'000      |
| Weighted average number of ordinary shares used in calculating basic earnings per share  | 116,360             | 110,344             |
| Weighted average number of diluted shares used in calculating diluted earnings per share | 116,798             | 111,895             |
| Basic earnings per share   | Cents<br>32.5       | Cents<br>30.6       |
| Diluted earnings per share   | Cents<br>32.4       | Cents<br>30.1       |

### Accounting for earnings per share

#### Basic earnings per share

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

#### Diluted earnings per share

Diluted earnings per share adjusts the basic earnings per share for the dilutive effect of any instrument, such as performance rights and options, that could be converted into ordinary securities. Refer Note E2 - Key management personnel disclosures for equity instruments outstanding as at 30 June 2017.

## A3 Segment information

### (a) Identification of reportable operating segments

The Company is organised into two reportable segments:

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

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

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

Notes to the consolidated financial statements  
30 June 2017 (continued)

**A3 Segment information (continued)**

**(a) Identification of reportable operating segments (continued)**

The segment information provided to the leadership team for the reportable segments for the year ended 30 June 2017 is as follows:

|   | Consolidated        |                     |
|---|---------------------|---------------------|
|   | 30-Jun-17<br>\$'000 | 30-Jun-16<br>\$'000 |
| <b>From continuing operations</b>   |                     |                     |
| <b>Segment revenue from land development, residential building and construction contracts</b>       |                     |                     |
| New South Wales and Queensland  | 307,939             | 330,326             |
| Victoria  | 78,851              | 56,676              |
| <b>Total segment revenue from land development, residential building and construction contracts</b> | <b>386,790</b>      | <b>387,002</b>      |
| <b>Segment cost of land development, residential building and construction contracts</b>            |                     |                     |
| New South Wales and Queensland  | 225,054             | 240,683             |
| Victoria  | 55,483              | 45,717              |
| <b>Total segment cost of land development, residential building and construction contracts</b>      | <b>280,537</b>      | <b>286,400</b>      |
| <b>Segment gross margin</b>   |                     |                     |
| New South Wales and Queensland  | 82,885              | 89,643              |
| Victoria  | 23,368              | 10,959              |
| <b>Total segment gross margin</b>   | <b>106,253</b>      | <b>100,602</b>      |

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

**(b) Segment information provided to the leadership team**

**(i) Segment Revenue**

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

**(ii) Segment gross margin**

The leadership team assesses the performance of the operating segments based on a measure of gross margin. This measurement basis consists of revenue 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, 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 2017 (continued)

**A4 Dividends (continued)**

(a) Ordinary shares

|   | Consolidated        |                     |
|---|---------------------|---------------------|
|   | 30-Jun-17<br>\$'000 | 30-Jun-16<br>\$'000 |
| Final fully franked ordinary dividend for the year ended 30 June 2016 of 10.0 cents per fully paid share paid on 30 September 2016 (2015: 10.0 cents per share) |                     |                     |
| Final franked dividend based on tax paid at 30.0%   | 11,359              | 11,034              |
| Interim dividend for the year ended 30 June 2017 of 8.0 cents per fully paid share (2016: 8.0 cents per fully paid share) paid on 31 March 2017.                |                     |                     |
| Interim franked dividend based on tax paid at 30.0%   | 9,086               | 8,828               |
|   | <b>20,445</b>       | <b>19,862</b>       |

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

|  | Consolidated        |                     |
|--|---------------------|---------------------|
|  | 30-Jun-17<br>\$'000 | 30-Jun-16<br>\$'000 |
| In addition to the above dividends, since period end the Directors have recommended the payment of a final dividend of 10.5 cents per fully paid ordinary share (2016: 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 29 September 2017 out of profits reserve at 30 June 2017, but not recognised as a liability at period end, is: | 13,327              | 11,359              |

(c) Franking credits

|   | Consolidated        |                     |
|---|---------------------|---------------------|
|   | 30-Jun-17<br>\$'000 | 30-Jun-16<br>\$'000 |
| Franking credits available for subsequent reporting periods based on a tax rate of 30.0% (2016 - 30.0%)     | 3,641               | 3,354               |
| Franking credits that will arise from the payment of income tax payable as at the end of the financial year | 10,775              | 4,868               |
|   | <b>14,416</b>       | <b>8,222</b>        |

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

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 2017 (continued)

**A5 Taxes (continued)**

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

|   | Consolidated        |                     |
|---|---------------------|---------------------|
|   | 30-Jun-17<br>\$'000 | 30-Jun-16<br>\$'000 |
| Profit from continuing operations before income tax expense         | 53,987              | 47,247              |
| Tax at the Australian tax rate of 30.0% (2016 - 30.0%)              | 16,196              | 14,174              |
| Other   | (111)               | (633)               |
| Adjustments for current tax of prior periods                        | 66                  | (7)                 |
|   | (45)                | (640)               |
| Income tax expense  | 16,151              | 13,534              |
| Current tax amounts recognised in equity                            | 1,357               | (1,893)             |
| Movement in temporary differences                                   | (2,552)             | (6,353)             |
| Income tax payable for the financial year                           | 14,956              | 5,288               |
| Income taxes payable at the beginning of the financial year         | 4,868               | 1,196               |
| Income taxes paid   | (9,049)             | (1,616)             |
| Income tax payable at 30 June                                       | 10,775              | 4,868               |
| <b>Income tax expense</b>   |                     |                     |
| Current tax   | 14,030              | 7,152               |
| Deferred tax  | 2,552               | 6,353               |
| Adjustments for current tax of prior periods                        | (431)               | 29                  |
|   | 16,151              | 13,534              |
| <b>Income tax expense included in income tax expense comprises:</b> |                     |                     |
| Decrease in deferred tax assets                                     | 7,064               | 4,188               |
| (Decrease) / increase in deferred tax liabilities                   | (4,512)             | 2,165               |
|   | 2,552               | 6,353               |

Villa World Ltd 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 expense relating to items of other comprehensive income**

|  | Consolidated        |                     |
|--|---------------------|---------------------|
|  | 30-Jun-17<br>\$'000 | 30-Jun-16<br>\$'000 |
| Cash flow hedges   | (468)               | (138)               |
| <b>Total tax expense relating to items of other comprehensive income</b> | <b>(468)</b>        | <b>(138)</b>        |

Notes to the consolidated financial statements  
30 June 2017 (continued)

**A5 Taxes (continued)**

**(c) Deferred tax assets and tax liabilities**

The balance comprises temporary differences attributable to:

|                                 | Deferred tax assets |                     | Deferred tax liabilities |                     | Net                 |                     |
|---------------------------------|---------------------|---------------------|--------------------------|---------------------|---------------------|---------------------|
|                                 | 30-Jun-17<br>\$'000 | 30-Jun-16<br>\$'000 | 30-Jun-17<br>\$'000      | 30-Jun-16<br>\$'000 | 30-Jun-17<br>\$'000 | 30-Jun-16<br>\$'000 |
| Inventories                     | 12,749              | 17,116              | (3,549)                  | (1,611)             | 9,200               | 15,505              |
| Accruals                        | 500                 | 445                 | -                        | -                   | 500                 | 445                 |
| Employee benefit                | 465                 | 344                 | -                        | -                   | 465                 | 344                 |
| Provisions                      | 1,328               | 4,352               | -                        | -                   | 1,328               | 4,352               |
| Property, plant and equipment   | 292                 | 155                 | -                        | -                   | 292                 | 155                 |
| Other                           | 993                 | 1,248               | (63)                     | -                   | 930                 | 1,248               |
| Capital raising costs           | 418                 | 364                 | -                        | -                   | 418                 | 364                 |
| Trade debtors                   | -                   | -                   | (13,681)                 | (21,022)            | (13,681)            | (21,022)            |
| Other current debtors           | -                   | -                   | (1,424)                  | (596)               | (1,424)             | (596)               |
| <b>Tax assets/(liabilities)</b> | <b>16,745</b>       | <b>24,024</b>       | <b>(18,717)</b>          | <b>(23,229)</b>     | <b>(1,972)</b>      | <b>795</b>          |
| <b>Movements</b>                |                     |                     |                          |                     |                     |                     |
| As at 1 July                    | 24,024              | 28,350              | (23,229)                 | (21,064)            | 795                 | 7,286               |
| - to profit or loss             | (7,064)             | (4,188)             | 4,512                    | (2,165)             | (2,552)             | (6,353)             |
| - through equity                | (215)               | (138)               | -                        | -                   | (215)               | (138)               |
| <b>As at 30 June</b>            | <b>16,745</b>       | <b>24,024</b>       | <b>(18,717)</b>          | <b>(23,229)</b>     | <b>(1,972)</b>      | <b>795</b>          |

**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 there are future taxable profits available to recover the asset.

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

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

**(d) Critical accounting estimates and assumptions for income taxes**

The Company is subject to income taxes in Australia.

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

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

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

There are no revenue tax losses available for utilisation as at 30 June 2017.

Notes to the consolidated financial statements  
30 June 2017 (continued)

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

|   | Consolidated        |                     |
|---|---------------------|---------------------|
|   | 30-Jun-17<br>\$'000 | 30-Jun-16<br>\$'000 |
| Profit for the year   | 37,836              | 33,713              |
| Depreciation and amortisation                                   | 577                 | 607                 |
| Capitalised interest and fees                                   | 1,131               | 2,067               |
| Borrowing costs   | 374                 | 358                 |
| Net gain on disposal of property, plant and equipment           | (10)                | (28)                |
| Share of gain from associate                                    | (3,010)             | (3,445)             |
| (Reversal) / impairment of development land                     | (1,516)             | 83                  |
| Hedge ineffectiveness on interest rate swaps                    | (312)               | 293                 |
| <b>Change in operating assets and liabilities:</b>              |                     |                     |
| Decrease / (increase) in trade debtors                          | 19,734              | (30,442)            |
| Increase in inventories   | (104,266)           | (34,136)            |
| Increase / (decrease) in trade creditors                        | 98,180              | (13,427)            |
| Decrease in deferred tax assets / liabilities                   | 2,767               | 6,491               |
| (Decrease) / increase in other operating assets and liabilities | (10,814)            | 3,373               |
| (Decrease) / increase in other provisions                       | (3,766)             | 2,864               |
| Net cash inflow / (outflow) from operating activities           | 36,905              | (31,629)            |

Notes to the consolidated financial statements  
30 June 2017 (continued)

## OPERATING ASSETS AND LIABILITIES

B

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

In this section:

|    |                               |
|----|-------------------------------|
| B1 | Inventories                   |
| B2 | Trade and other receivables   |
| B3 | Trade and other payables      |
| B4 | Other assets                  |
| B5 | Provisions and contingencies  |
| B6 | Capital and other commitments |

### B1 Inventories

|  | Consolidated        |                     |
|--|---------------------|---------------------|
|  | 30-Jun-17<br>\$'000 | 30-Jun-16<br>\$'000 |
| <b>Current</b>   |                     |                     |
| Acquisition cost of land held for development and resale | 125,794             | 94,909              |
| Development costs  | 78,756              | 89,065              |
| Capitalised interest                                     | 3,930               | 3,618               |
| Impairment of development land                           | (1,723)             | (1,555)             |
|  | <b>206,757</b>      | <b>186,037</b>      |
| <b>Non-current</b>                                       |                     |                     |
| Acquisition cost of land held for development and resale | 238,163             | 152,080             |
| Development costs  | 30,725              | 36,991              |
| Capitalised interest                                     | 7,693               | 6,224               |
| Impairment of development land                           | (5,376)             | (7,635)             |
|  | <b>271,205</b>      | <b>187,660</b>      |
| <b>Total inventory</b>                                   | <b>477,962</b>      | <b>373,697</b>      |

#### 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 during development. When development is completed borrowing costs and other holding charges 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 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.

##### Critical accounting estimates of net realisable value of inventories

The Company is required to carry inventory at lower of cost and net realisable value (NRV). The NRV of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. The net realisable value amount has been determined based on future estimated cash flow of 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 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 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 2017 (continued)**

**B2 Trade and other receivables**

**Accounting for trade and other receivables**

Trade and other receivables are recognised initially at fair value then subsequently measured at amortised cost using the effective interest rate method, less any allowance for impairment. Trade receivables are reviewed on an ongoing basis and at balance date any 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). 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 2017 the balance of trade receivables is \$47.3 million and all 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 these other balances will be received when due.

Accrued income is recognised in accordance with the Company's revenue recognition policy (refer Note A1).

|  | <b>Consolidated</b> |           |
|--|---------------------|-----------|
|  | <b>30-Jun-17</b>    | 30-Jun-16 |
|  | <b>\$'000</b>       | \$'000    |
| Trade receivables                        | 593                 | 210       |
| Trade receivable properties              | 46,735              | 70,075    |
|  | <b>47,328</b>       | 70,285    |
| Other receivables                        | 2,149               | 2,066     |
| Accrued Income                           | 3,151               | 12        |
|  | <b>5,300</b>        | 2,078     |
| <b>Total trade and other receivables</b> | <b>52,628</b>       | 72,363    |

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

The ageing of current trade receivables is as follows:

|               | <b>Consolidated</b> |           |
|---------------|---------------------|-----------|
|               | <b>30-Jun-17</b>    | 30-Jun-16 |
|               | <b>\$'000</b>       | \$'000    |
| 1 to 3 months | 41,026              | 65,492    |
| 3 to 6 months | 4,021               | 3,643     |
| Over 6 months | 2,281               | 1,150     |
|               | <b>47,328</b>       | 70,285    |

**Past due but not impaired**

As of 30 June 2017, trade receivables of the Company of \$nil (30 June 2016: \$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 2017 (continued)

**B3 Trade and other payables (continued)**

|   | Consolidated        |                     |
|---|---------------------|---------------------|
|   | 30-Jun-17<br>\$'000 | 30-Jun-16<br>\$'000 |
| <b>Current</b>                                    |                     |                     |
| Land acquisitions                                 | 116,024             | 37,791              |
| Sub-contractors and materials                     | 2,927               | 5,012               |
| Total trade payables                              | 118,951             | 42,803              |
| <b>Other current payables</b>                     |                     |                     |
| Accrued expenses                                  | 42,586              | 33,694              |
| Other payables <sup>1</sup>                       | 3,898               | 2,533               |
| Total current other payables                      | 46,484              | 36,227              |
| <b>Total current trade and other payables</b>     | <b>165,435</b>      | <b>79,030</b>       |
| <b>Non-current</b>                                |                     |                     |
| Land acquisitions                                 | 23,276              | 9,137               |
| Other payables <sup>2</sup>                       | 484                 | 2,852               |
| <b>Total non-current trade and other payables</b> | <b>23,760</b>       | <b>11,989</b>       |
| <b>Total payables</b>                             | <b>189,195</b>      | <b>91,019</b>       |

1. Includes derivatives payable of \$1.8m (30 June 2016: \$1.8m). Refer Note C6(d) - Fair value measurements.

2. Includes derivatives payable of \$nil (30 June 2016: \$1.9m). Refer Note C6(d) - Fair value measurements.

**B4 Other assets**

**Accounting for other assets**

Current assets include assets held primarily for trading purposes, cash and cash equivalents and assets expected to be realised in, or intended for sale or use in the course of the Company's operating cycle and within 12 months of the reporting date. The remaining other assets are classified as non-current.

|                                       | Consolidated        |                     |
|---------------------------------------|---------------------|---------------------|
|                                       | 30-Jun-17<br>\$'000 | 30-Jun-16<br>\$'000 |
| <b>Current</b>                        |                     |                     |
| Prepayments                           | 1,144               | 773                 |
| Advance commissions                   | 1,595               | 1,411               |
| Other                                 | 608                 | 961                 |
|                                       | 3,347               | 3,145               |
| <b>Non-current</b>                    |                     |                     |
| Other non-current assets <sup>1</sup> | 10,000              | -                   |
|                                       | 10,000              | -                   |
| <b>Total other assets</b>             | <b>13,347</b>       | <b>3,145</b>        |

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

**B5 Provisions and contingencies**

**Accounting for provisions**

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

Notes to the consolidated financial statements  
30 June 2017 (continued)

**B5 Provisions and contingencies (continued)**

**(a) Service warranties**

|                                 | Consolidated        |                     |
|---------------------------------|---------------------|---------------------|
|                                 | 30-Jun-17<br>\$'000 | 30-Jun-16<br>\$'000 |
| <b>Current</b>                  |                     |                     |
| Service warranties              | 4,219               | 14,392              |
| <b>Total current provisions</b> | <b>4,219</b>        | <b>14,392</b>       |

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

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

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

Management estimates the related provision for future warranty claims based on historical warranty claim information, as well as recent trends that might suggest past cost information may differ from future claims. The Company includes legal costs in the provision for warranty claims to the extent 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 actual amounts may differ from this estimate. The assumptions made in relation to the current period are consistent with those in the prior year. There is no longer a specific provision for the Silverstone litigation which was concluded during the reporting period.

**(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 \$254,745 (30 June 2016: \$164,137) 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 service warranty provisions**

|  | Consolidated        |                     |
|--|---------------------|---------------------|
|  | 30-Jun-17<br>\$'000 | 30-Jun-16<br>\$'000 |
| <b>Current liabilities</b>               |                     |                     |
| Carrying amount at the start of the year | 14,392              | 14,983              |
| - additional provisions recognised       | 1,310               | 4,554               |
| Amounts incurred and paid                | (10,840)            | (4,215)             |
| - unused amounts reversed <sup>1</sup>   | (643)               | (930)               |
| <b>Carrying amount at end of period</b>  | <b>4,219</b>        | <b>14,392</b>       |

1. Unused provision reversed in relation to Silverstone litigation. Refer Note (d) - Legal claims. (2016: \$0.9 million unused provision reversed in relation to Thornleigh home warranty claim concluded in 2H16).

Notes to the consolidated financial statements  
30 June 2017 (continued)

**B5 Provisions and contingencies (continued)**

**(d) Legal claims**

**Silverstone litigation**

The Company has previously made a provision for the Silverstone litigation (refer Note B4 (d) - Provisions, Annual Financial Report for the period ended 30 June 2016). All outstanding aspects of the Silverstone proceeding were concluded during 1H17 including payment of the Company's contribution towards settlement of the claim, for amounts that were within the provision that was assessed at 30 June 2016. No further provision is required for this matter.

**(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 2017 (30 June 2016: \$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 2017 (30 June 2016: \$nil).

The Company has provided bank guarantees to the total of \$14.9 million (30 June 2016: \$18.7 million) to authorities and councils in relation to certain works to be undertaken or maintained or in support of contractual commitments. Refer Note C4 (a) - Borrowings.

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

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

|  | Donnybrook Joint Venture <sup>1</sup> |           | Rochedale Joint Venture <sup>2</sup> |           |
|--|---------------------------------------|-----------|--------------------------------------|-----------|
|  | 30-Jun-17                             | 30-Jun-16 | 30-Jun-17                            | 30-Jun-16 |
|  | \$'000                                | \$'000    | \$'000                               | \$'000    |
| Total financing facilities                 | 11,220                                | 11,220    | 11,500                               | 22,000    |
| Facilities utilised at reporting date      | 10,750                                | 9,814     | -                                    | 16,039    |
| Bank guarantees utilised at reporting date | -                                     | -         | 743                                  | 527       |

1. 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.

2. For Rochedale joint venture entities, the joint venture parties have agreed that they will share liabilities in the same proportion as their holding in the joint venture (50% each). If the parties enter into 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.

**B6 Capital and other commitments**

**(a) Capital commitments**

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

The call option gives Villa World Developments Pty Ltd (or a nominated third party) the option to purchase the lot(s) at a nominated price by the call option expiry date. The put option gives the vendor the right to sell to the Company at a nominated price on expiry of the call option. The potential total commitments remaining under the Agreements are \$16.6 million (30 June 2016: \$13.2 million). The commitments are crystallised upon the satisfaction of the conditions under the Agreements and registration of the land by the vendor and will be made available under the terms of the contract. However, some Agreements are severable by development stage and the commitments may be less than the total commitments under the Agreements as outlined below.

|   | Consolidated  |               |
|---|---------------|---------------|
|   | 30-Jun-17     | 30-Jun-16     |
|   | \$'000        | \$'000        |
| <b>Capital commitments in relation to put and call arrangements</b> |               |               |
| Opening balance   | 13,163        | 32,868        |
| Crystallised and paid commitments                                   | (49,402)      | (21,276)      |
| Arrangements entered into during the year                           | 52,791        | 1,571         |
| <b>Total commitments</b>  | <b>16,552</b> | <b>13,163</b> |

30 June 2017 (continued)

## B6 Capital and other commitments (continued)

### (b) Joint Venture commitments

As at 30 June 2017, the Company has commitments of \$22.5 million (30 June 2016: \$nil) which relate to the equity contributions committed under the Joint Venture agreement with Greenfields Development Company.

### (c) Lease commitments

#### Accounting for leases

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

#### 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-17<br>\$'000 | 30-Jun-16<br>\$'000 |
| Within one year                                   | 643                 | 458                 |
| Later than one year but not later than five years | 948                 | 715                 |
|   | <b>1,591</b>        | <b>1,173</b>        |

Notes to the consolidated financial statements  
30 June 2017(continued)

## CAPITAL STRUCTURE, FINANCE COSTS AND FINANCIAL RISK MANAGEMENT



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

In this section:

- C1 Capital risk management
- C2 Contributed equity
- C3 Other reserves
- C4 Borrowings
- C5 Finance costs
- C6 Financial risk management

### C1 Capital risk management

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 industry peers, 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 2017, the gearing ratio was 12.9% (30 June 2016: 25.6%) due to the timing of land acquisition payments and operating cash flows.

The Company has complied with the financial covenants of its borrowing facilities during the 2017 and 2016 reporting periods.

|  | Notes | Consolidated        |                     |
|--|-------|---------------------|---------------------|
|  |       | 30-Jun-17<br>\$'000 | 30-Jun-16<br>\$'000 |
| Total borrowings (excluding bank guarantees) | C4(a) | 81,457              | 128,594             |
| Less: Cash and cash equivalents              |       | (7,663)             | (8,358)             |
| Net debt                                     |       | 73,794              | 120,236             |
| Total assets                                 |       | 577,664             | 478,009             |
| Less: Cash and cash equivalents              |       | (7,663)             | (8,358)             |
|  |       | 570,001             | 469,651             |
| <b>Gearing ratio</b>                         |       | <b>12.9%</b>        | 25.6%               |

**Notes to the consolidated financial statements**  
**30 June 2017 (continued)**

**C2 Contributed equity**

**Accounting for contributed equity**

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

|   | 30-Jun-17      | 30-Jun-16      | 30-Jun-17      | 30-Jun-16      |
|---|----------------|----------------|----------------|----------------|
|   | Shares         | Shares         | \$'000         | \$'000         |
|   | '000           | '000           | \$'000         | \$'000         |
| <b>Ordinary shares</b>  |                |                |                |                |
| Opening balance   | 110,344        | 110,344        | 444,271        | 444,286        |
| Proceeds from exercise of options under the Villa World Limited Option Plan | 3,400          | -              | 4,303          | -              |
| Shares (acquired) / issued by the Employee Share Scheme Trust               | (169)          | 3,250          | (384)          | 6,689          |
| Treasury shares   | -              | (3,250)        | -              | (6,689)        |
| Shares issued as part of the capital raising <sup>1</sup>                   | 8,889          | -              | 20,000         | -              |
| Shares issued as part of the share purchase plan <sup>2</sup>               | 4,443          | -              | 9,997          | -              |
| Transaction costs from capital transactions, net of tax                     | -              | -              | (590)          | (15)           |
|   | <b>126,907</b> | <b>110,344</b> | <b>477,597</b> | <b>444,271</b> |

1. On 23 March 2017, Villa World Limited announced it had completed a fully underwritten institutional placement to raise \$20 million. The placement was completed at an issue price of \$2.25 per share, representing a 5.5% discount to the closing price of the Company's shares on 20 March 2017, a 6.6% discount to the volume weighted average price for the five trading days prior to the announcement.
2. On 23 March 2017, the Company announced a non-underwritten Share Purchase Plan, eligible to shareholders in Australia and New Zealand for up to \$15,000 worth of shares, capped at \$10 million. The record date for the share purchase plan was 21 March 2017. The share purchase plan was offered at the same price per share as the institutional placement.

**(a) Ordinary shares**

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote and upon a poll each share is entitled to one vote. Ordinary shares have no par value and Villa World Limited does not have a limited amount of authorised capital.

**(b) Treasury shares**

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

### C3 Other reserves

#### (a) Movements in other reserves

|  | Notes | Consolidated        |                     |
|--|-------|---------------------|---------------------|
|  |       | 30-Jun-17<br>\$'000 | 30-Jun-16<br>\$'000 |
| <b>(i) Profits reserve</b>                     |       |                     |                     |
| Opening balance                                |       | 190,234             | 176,550             |
| Transfer current year profit                   |       | 38,495              | 33,546              |
| Dividends provided for or paid                 | A4(a) | (20,445)            | (19,862)            |
| Closing balance                                |       | 208,284             | 190,234             |
| <b>(ii) Hedging reserve - cash flow hedges</b> |       |                     |                     |
| Opening balance                                |       | (2,355)             | (2,677)             |
| Revaluation - gross                            |       | 1,561               | 460                 |
| Deferred tax                                   | A5(b) | (468)               | (138)               |
| Closing balance                                |       | (1,262)             | (2,355)             |
| <b>(iii) Share-based payments</b>              |       |                     |                     |
| Opening balance                                |       | 2,441               | 317                 |
| Share-based payments expense                   | E2(c) | 445                 | 230                 |
| Performance rights lapsed / forfeited          | E2(c) | (40)                | -                   |
| Employee Share Scheme                          |       | (1,357)             | 1,894               |
| Closing balance                                |       | 1,489               | 2,441               |
| <b>Total other reserves</b>                    |       | <b>208,511</b>      | <b>190,320</b>      |

#### (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. They are not allocated 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 and 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 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 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 some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Interest expense is accrued at the effective interest rate.

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

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

Notes to the consolidated financial statements  
30 June 2017 (continued)

**C4 Borrowings (continued)**

**(a) Financing arrangements**

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

|                                    | Facility amount | Utilised amount     | Bank guarantees utilised | Available amount | Effective interest rate % |
|------------------------------------|-----------------|---------------------|--------------------------|------------------|---------------------------|
| 30 June 2017                       | \$'000          | \$'000              | \$'000                   | \$'000           |                           |
| <b>Financing arrangements</b>      |                 |                     |                          |                  |                           |
| Bank loans - secured (i)           | 190,000         | 33,005 <sup>1</sup> | 14,860                   | 142,135          | 9.5%                      |
| Villa World Bonds - unsecured (ii) | 50,000          | 48,452 <sup>2</sup> | -                        | -                | 7.2%                      |
|                                    | <b>240,000</b>  | <b>81,457</b>       | <b>14,860</b>            | <b>142,135</b>   |                           |

1. Net of transaction costs as at 30 June 2017.  
2. Net of transaction costs and amortisation as at 30 June 2017. Refer Note (a) (ii) – Villa World Bonds – unsecured.

|                               | Facility amount | Utilised amount      | Bank guarantees utilised | Available amount | Effective interest rate % |
|-------------------------------|-----------------|----------------------|--------------------------|------------------|---------------------------|
| 30 June 2016                  | \$'000          | \$'000               | \$'000                   | \$'000           |                           |
| <b>Financing arrangements</b> |                 |                      |                          |                  |                           |
| Bank loans - secured (i)      | 180,000         | 128,594 <sup>1</sup> | 18,738                   | 32,668           | 8.6%                      |
|                               | <b>180,000</b>  | <b>128,594</b>       | <b>18,738</b>            | <b>32,668</b>    |                           |

1. Net of transaction costs as at 30 June 2016.

**(i) Bank Loan - secured**

During the year the Company's Club Financing Arrangement with Australia and New Zealand Banking Group Limited (ANZ) and Westpac Banking Corporation (Westpac) increased to \$190 million (30 June 2016: \$180 million). The Club Financing Arrangement provides funding for the Company's ongoing core business. It comprises a facility of \$140 million (30 June 2016: \$130 million) with ANZ and a facility of \$50 million with Westpac.

The maturity of the ANZ facility has been staggered, with \$10 million expiring on 16 August 2018, \$80 million expiring on 31 October 2020, \$40 million expiring on 31 October 2021 and \$10 million expiring on 31 March 2022. The \$50 million Westpac facility expires on 31 March 2019.

As at 30 June 2017 the facility was drawn exclusive of bank guarantees at \$33 million (30 June 2016: \$128.6 million). Bank guarantees issued total \$14.9 million (30 June 2016: \$18.7 million). The bank guarantees are also disclosed in Note B5 (e) - Contingencies.

No restrictions have been imposed on this facility by the financiers during the year ending 30 June 2017 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.

**(ii) Villa World Bonds - unsecured**

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

The proceeds of the Bond offer provide the Company with additional financial capacity and will be used for the acquisition of new sites that meet the Company's investment criteria. This transaction diversifies the Company's debt capital structure and will support the Company's growth objectives whilst maintaining prudent gearing levels and extending the maturity of borrowings.

Under the terms of the Bonds, the Company is required to maintain two covenants. The negative pledge (secured gearing ratio) is calculated based on total secured debt divided by total assets. Under the negative pledge the Company must maintain a secured gearing ratio of not greater than 40%. As at 30 June 2017 the secured gearing ratio is 4.2%.





**Notes to the consolidated financial statements**  
**30 June 2017 (continued)**

**C4 Borrowings (continued)**

**(a) Financing arrangements (continued)**

**(ii) Villa World Bonds - unsecured (continued)**

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

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

The Bonds are presented in the Balance Sheet as follows:

|                                 | Consolidated  |           |
|---------------------------------|---------------|-----------|
|                                 | 30-Jun-17     | 30-Jun-16 |
|                                 | \$'000        | \$'000    |
| Villa World Bonds               | 50,000        | -         |
| Transaction and finance costs   | (1,615)       | -         |
| Amortisation of borrowing costs | 67            | -         |
| <b>Non-current liability</b>    | <b>48,452</b> | <b>-</b>  |

Interest is payable based on a 4.75% margin over the 3 month bank bill swap rate. The first interest instalment is payable on 21 July 2017 at an interest rate of 6.5%.

|                          | Consolidated |           |
|--------------------------|--------------|-----------|
|                          | 30-Jun-17    | 30-Jun-16 |
|                          | \$'000       | \$'000    |
| Accrued interest expense | 623          | -         |
|                          | 623          | -         |

**(b) Assets pledged as security**

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

|                                  | Consolidated   |                |
|----------------------------------|----------------|----------------|
|                                  | 30-Jun-17      | 30-Jun-16      |
|                                  | \$'000         | \$'000         |
| <b>Total inventory:</b>          |                |                |
| Current inventory                | 206,757        | 186,037        |
| Non-current inventory            | 271,205        | 187,660        |
| <b>Aggregate carrying amount</b> | <b>477,962</b> | <b>373,697</b> |

**(c) Guarantors**

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

**C5 Finance costs**

**Accounting for finance costs**

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

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

Notes to the consolidated financial statements  
30 June 2017 (continued)

**C5 Finance costs (continued)**

|   | Consolidated        |                     |
|---|---------------------|---------------------|
|   | 30-Jun-17<br>\$'000 | 30-Jun-16<br>\$'000 |
| <b>Loan interest and charges</b>                                |                     |                     |
| Financial institutions  | 7,311               | 6,655               |
| Unwind of discount deferred consideration                       | 844                 | 721                 |
| Interest payable on Villa World Limited Bonds                   | 623                 | -                   |
| Borrowing costs   | 374                 | 355                 |
| Fair value (gain) / loss on interest swap cash flow hedge       | (312)               | 293                 |
|   | <b>8,840</b>        | <b>8,024</b>        |
| Amount capitalised <sup>1</sup>                                 | (6,105)             | (4,933)             |
| Unwind of amount capitalised                                    | 4,323               | 6,373               |
| <b>Total finance costs included within the income statement</b> | <b>7,058</b>        | <b>9,464</b>        |

1. The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 9.5% for club facility borrowings (30 June 2016: 8.6%) and 7.2% for borrowing costs associated with Villa World Bonds.

**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.

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-17<br>\$'000 | 30-Jun-16<br>\$'000 |
| <b>Financial assets</b>      |                 |                     |                     |
| Cash and cash equivalents    | Amortised cost  | 7,663               | 8,358               |
| Trade and other receivables  | Amortised cost  | 52,628              | 72,363              |
| <b>Financial liabilities</b> |                 |                     |                     |
| Trade and other payables     | Amortised cost  | 187,412             | 87,363              |
| Borrowings                   | Amortised cost  | 81,457              | 128,594             |
| Derivative payable           | Fair value      | 1,783               | 3,656               |

**Notes to the consolidated financial statements**  
**30 June 2017 (continued)**

**C6 Financial risk management (continued)**

**(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's current policy is to maintain a minimum of \$90 million (2016: \$90 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 2017   |                   | 30 June 2016   |                   |
|---|--|-------------------|--|-------------------|
|   | Weighted<br>Average<br>interest rate<br>% <sup>1</sup> | Balance<br>\$'000 | Weighted<br>Average<br>interest rate<br>% <sup>1</sup> | Balance<br>\$'000 |
| Club facility                                       | 1.7%   | 33,005            | 1.9%   | 128,594           |
| Villa World Bonds                                   | 1.7%   | 50,000            | -%   | -                 |
| Interest rate swaps - syndicated loans              | 3.7%   | (90,000)          | 3.7%   | (90,000)          |
| <b>Net exposure to cash flow interest rate risk</b> |  | <b>(6,995)</b>    |  | <b>38,594</b>     |

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 2017, 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 \$0.1 million lower/higher (30 June 2016: \$0.04 million lower/higher), mainly as a result of higher/lower interest expense from interest bearing liabilities. Other components of equity would have been \$0.2 million lower/higher (30 June 2016: \$0.4 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.

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 only 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 sale 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 2016: \$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.

**Notes to the consolidated financial statements  
30 June 2017 (continued)**

**C6 Financial risk management (continued)**

**(b) Credit risk (continued)**

**(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 2017, the Company carried forward 526 sales contracts valued at \$175.7 million (incl GST) with 75% of contracts (392 lots valued at \$127.6 million) due to settle in 1H18. Further detail is provided in the Operating and Financial Review on page 10.

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 Company operates a \$190 million club facility with Australia and New Zealand Banking Group Limited (ANZ) and Westpac Banking Corporation (Westpac) which provides funding for the Company's core business. During the year, the Company issued \$50 million simple corporate Bonds for the purpose of diversifying the Company's capital structure, extending the debt maturity and to support growth objectives

The Company aims at maintaining flexibility in funding by keeping committed credit lines available, minimising the concentration of risks and mitigating 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 2017 the company had unutilised borrowing facilities of \$142.1 million (30 June 2016: \$32.7 million).

**(i) Maturities of financial liabilities**

The following table 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 2017 (continued)

**C6 Financial risk management (continued)**

(c) Liquidity risk (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 |
|---|--------------------|---------------|-----------------------|-----------------------|--------------|------------------------------|---------------------------------------|
|   |                    |               |                       |                       |              |                              |                                       |
| <b>At 30 June 2017</b>                          |                    |               |                       |                       |              |                              |                                       |
| <b>Non-derivatives</b>                          |                    |               |                       |                       |              |                              |                                       |
| Commitments                                     | -                  | 7,822         | -                     | 8,730                 | -            | 16,552                       | -                                     |
| Trade payables                                  | 110,180            | 8,771         | 6,194                 | 17,083                | -            | 142,228                      | 142,228                               |
| Club facility                                   | 1,657              | 1,643         | 7,809                 | 32,286                | -            | 43,395                       | 33,005                                |
| Villa World Bond                                | 1,627              | 1,600         | 3,228                 | 58,887                | -            | 65,342                       | 48,452                                |
| <b>Total non-derivatives</b>                    | <b>113,464</b>     | <b>19,836</b> | <b>17,231</b>         | <b>116,986</b>        | <b>-</b>     | <b>267,517</b>               | <b>223,685</b>                        |
| <b>Derivatives</b>                              |                    |               |                       |                       |              |                              |                                       |
| Net settled (interest rate swaps)               | 919                | 864           | -                     | -                     | -            | 1,783                        | 1,783                                 |
| <b>Total derivatives</b>                        | <b>919</b>         | <b>864</b>    | <b>-</b>              | <b>-</b>              | <b>-</b>     | <b>1,783</b>                 | <b>1,783</b>                          |
| <b>At 30 June 2016</b>                          |                    |               |                       |                       |              |                              |                                       |
| <b>Non-derivatives</b>                          |                    |               |                       |                       |              |                              |                                       |
| 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                               |
| <b>Total non-derivatives</b>                    | <b>45,952</b>      | <b>16,270</b> | <b>15,045</b>         | <b>135,612</b>        | <b>-</b>     | <b>212,879</b>               | <b>180,534</b>                        |
| <b>Derivatives</b>                              |                    |               |                       |                       |              |                              |                                       |
| Net settled (interest rate swaps)               | 861                | 925           | 1,870                 | -                     | -            | 3,656                        | 3,656                                 |
| <b>Total derivatives</b>                        | <b>861</b>         | <b>925</b>    | <b>1,870</b>          | <b>-</b>              | <b>-</b>     | <b>3,656</b>                 | <b>3,656</b>                          |

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 2017, the carrying amounts of the Company's financial assets and liabilities approximate their fair values.

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

(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 Company's borrowings of \$240 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.

Total borrowings for the Company bear an average variable interest rate of 9.0% (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 % <sup>1</sup> | Fixed rate % <sup>2</sup> | Variable rate as at 30-Jun-17 % <sup>3</sup> | Valuation as at 30-Jun-17 \$'000 |
|--------------------|----------------------|-------------|----------------------|-------------------------------|---------------------------|--|----------------------------------|
| Total borrowings   | 90,000               | 12-Jun-18   | 240,000              | 37.5%                         | 3.69%                     | 1.7%   | 1,783                            |

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 at 30 June 2017.

**Notes to the consolidated financial statements  
30 June 2017 (continued)**

**C6 Financial risk management (continued)**

**(d) Fair value measurements (continued)**

**(ii) Derivative financial instruments (continued)**

The fair value of the interest rate swap liability at 30 June 2017 was \$1.8 million (30 June 2016: \$3.7 million).

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

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

When a derivative is designated as a cash flow hedging instrument, the effective portion of the change in the fair value of the derivative is recognised in other comprehensive income and accumulated in the hedging reserve. Any ineffective portion of the change 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 2017.

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

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

**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 the interest rate swap liability of \$1.8 million (30 June 2016: \$3.7 million) has been categorised as Level 2.

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





**Notes to the consolidated financial statements  
30 June 2017 (continued)**

**GROUP STRUCTURE**



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

In this section:

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

**D1 Subsidiaries**

**Accounting for subsidiaries**

The consolidated financial statements incorporate the assets, liabilities and results of all subsidiaries at 30 June 2017. 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 |        |
|--|--------------------------|-----------------|----------------|--------|
|  |                          |                 | 2017 %         | 2016 % |
| <b>Parent entity</b>   |                          |                 |                |        |
| Villa World Limited <sup>1</sup>   |                          |                 |                |        |
| <b>Controlled entities of Villa World Limited</b>                              |                          |                 |                |        |
| Villa World Developments Pty Ltd <sup>1</sup>                                  | Australia                | Ordinary        | 100            | 100    |
| Villa World (Vic) Pty Ltd  | Australia                | Ordinary        | 100            | 100    |
| GPDQ Pty Ltd <sup>1</sup>  | Australia                | Ordinary        | 100            | 100    |
| Hervey Bay (JV) Pty Ltd <sup>1</sup>   | Australia                | Ordinary        | 100            | 100    |
| Villa World Thornlands Pty Ltd <sup>1</sup>                                    | Australia                | Ordinary        | 100            | 100    |
| Villa World Redlands Pty Ltd <sup>1</sup>                                      | Australia                | Ordinary        | 100            | 100    |
| Villa World Seascape Pty Ltd <sup>1</sup>                                      | Australia                | Ordinary        | 100            | 100    |
| Villa World Properties Pty Ltd <sup>1</sup>                                    | Australia                | Ordinary        | 100            | 100    |
| Villa World Rochedale Pty Ltd  | Australia                | Ordinary        | 100            | 100    |
| Villa World Realty Pty Ltd   | Australia                | Ordinary        | 100            | 100    |
| Villa World ESS Pty Ltd as trustee for Villa World Employee Share Scheme Trust | Australia                | Ordinary        | 100            | 100    |
| Villa World Byron Pty Ltd  | Australia                | Ordinary        | 100            | 100    |
| Villa World Strathpine Pty Ltd <sup>1</sup>                                    | Australia                | Ordinary        | 100            | 100    |
| Villa World Plumpton Pty Ltd   | Australia                | Ordinary        | 100            | -      |

1. These companies are parties to the Deed of Cross Guarantee and members of the Closed Group as at 30 June 2017. They have been granted relief from the necessity to prepare financial reports in accordance with ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 issued by the Australian Securities and Investments Commission (Refer Note D2 - Deed of cross guarantee).

**D2 Deed of cross guarantee**

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

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

**Notes to the consolidated financial statements**  
**30 June 2017 (continued)**

**D2 Deed of cross guarantee (continued)**

Pursuant to the requirements of this Class Order, a summarised consolidated Statement of Comprehensive Income for the year ended 30 June 2017, summary of movements in consolidated retained earnings and consolidated Balance Sheet as at 30 June 2017, comprising the members of the Closed Group after eliminating all transactions between members is set out below.

**(a) Consolidated statement of comprehensive income**

|  | Closed Group        |                     |
|--|---------------------|---------------------|
|  | 30-Jun-17<br>\$'000 | 30-Jun-16<br>\$'000 |
| <b>Revenue from continuing operations</b>  |                     |                     |
| Revenue from land development, residential building and construction contracts                         | 386,790             | 387,002             |
| Cost of land development, residential building and construction contracts                              | (280,537)           | (286,400)           |
| <b>Gross Margin</b>  | <b>106,253</b>      | 100,602             |
| Development and project management fee   | 1,493               | 2,159               |
| Other income   | 753                 | 697                 |
| Net reversal / (impairment) of development land  | 1,516               | (83)                |
| Share of net profits of associates and joint venture partnership accounted for using the equity method | (67)                | 24                  |
| Other expenses from ordinary activities  |                     |                     |
| Property sales and marketing expenses  | (21,454)            | (22,090)            |
| Land holding costs   | (4,086)             | (3,777)             |
| Legal and professional costs   | (1,667)             | (1,483)             |
| Employee benefits  | (21,022)            | (23,405)            |
| Depreciation and amortisation expense  | (577)               | (607)               |
| Administration costs and other expenses  | (4,820)             | (4,438)             |
| Finance costs  | (7,047)             | (9,463)             |
| Profit before income tax   | 49,275              | 38,136              |
| Income tax expense   | (14,929)            | (13,282)            |
| <b>Profit for the period</b>   | <b>34,346</b>       | 24,854              |

|  | Closed Group        |                     |
|--|---------------------|---------------------|
|  | 30-Jun-17<br>\$'000 | 30-Jun-16<br>\$'000 |
| <b>Profit for the period</b>                                 | <b>34,346</b>       | 24,854              |
| <b>Other comprehensive income</b>                            |                     |                     |
| Items that may be reclassified to profit or loss             |                     |                     |
| Changes in the fair value of cash flow hedges                | 1,561               | 460                 |
| Income tax relating to these items                           | (468)               | (138)               |
| <b>Other comprehensive income for the period, net of tax</b> | <b>1,093</b>        | 322                 |
| <b>Total comprehensive income for the period</b>             | <b>35,439</b>       | 25,176              |

**(b) Summary of movements in consolidated retained earnings**

|   | Closed Group        |                     |
|---|---------------------|---------------------|
|   | 30-Jun-17<br>\$'000 | 30-Jun-16<br>\$'000 |
| Summary of movements in consolidated retained earnings          |                     |                     |
| <b>Retained earnings at the beginning of the financial year</b> | <b>(14,447)</b>     | (5,792)             |
| Profit for the year   | 34,346              | 24,854              |
| Transfer current year profit to profits reserve                 | (37,953)            | (33,509)            |
| <b>Retained earnings at the end of the financial year</b>       | <b>(18,054)</b>     | (14,447)            |



Notes to the consolidated financial statements  
30 June 2017 (continued)

**D2 Deed of cross guarantee (continued)**

**(c) Consolidated balance sheet**

|   | Closed Group        |                     |
|---|---------------------|---------------------|
|   | 30-Jun-17<br>\$'000 | 30-Jun-16<br>\$'000 |
| <b>Current assets</b>                             |                     |                     |
| Cash and cash equivalents                         | 7,652               | 8,346               |
| Trade and other receivables                       | 72,718              | 81,140              |
| Inventories                                       | 206,757             | 186,037             |
| Other current assets                              | 3,280               | 3,142               |
| <b>Total current assets</b>                       | <b>290,407</b>      | <b>278,665</b>      |
| <b>Non-current assets</b>                         |                     |                     |
| Inventories                                       | 241,626             | 187,566             |
| Property, plant and equipment                     | 1,195               | 1,169               |
| Investments accounted for using the equity method | 13,391              | 8,459               |
| Deferred tax assets                               | -                   | 1,417               |
| <b>Total non-current assets</b>                   | <b>256,212</b>      | <b>198,611</b>      |
| <b>Total assets</b>                               | <b>546,619</b>      | <b>477,276</b>      |
| <b>Current liabilities</b>                        |                     |                     |
| Trade and other payables                          | 137,344             | 78,999              |
| Current tax liabilities                           | 10,775              | 4,868               |
| Employee benefits                                 | 1,053               | 772                 |
| Service warranties                                | 4,219               | 14,392              |
| Other provisions                                  | 130                 | 45                  |
| <b>Total current liabilities</b>                  | <b>153,521</b>      | <b>99,076</b>       |
| <b>Non-current liabilities</b>                    |                     |                     |
| Trade and other payables                          | 23,760              | 11,988              |
| Borrowings  | 81,457              | 128,594             |
| Deferred tax liabilities                          | 1,403               | -                   |
| Other provisions                                  | 78                  | 64                  |
| Employee benefits                                 | 496                 | 375                 |
| Intercompany loan payable                         | 4,950               | 3,975               |
| <b>Total non-current liabilities</b>              | <b>112,144</b>      | <b>144,996</b>      |
| <b>Total liabilities</b>                          | <b>265,665</b>      | <b>244,072</b>      |
| <b>Net assets</b>                                 | <b>280,954</b>      | <b>233,204</b>      |
| <b>Equity</b>                                     |                     |                     |
| Contributed equity                                | 96,347              | 62,637              |
| Other reserves                                    | 202,661             | 185,014             |
| Accumulated losses                                | (18,054)            | (14,447)            |
| <b>Total equity</b>                               | <b>280,954</b>      | <b>233,204</b>      |

**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.

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 2017 (continued)

**D3 Investments accounted for using the equity method (continued)**

**Impairment of equity accounted investments**

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

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  |
| Villa Green Pty Ltd  | D3(d) | 50      | Residential development at Greenbank, Queensland  |

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

|  | Eynesbury Joint Venture |                     | Donnybrook Joint Venture |                     | Rochedale Joint Venture |                     | Villa Green Joint Venture |                     | Total               |                     |
|--|-------------------------|---------------------|--------------------------|---------------------|-------------------------|---------------------|---------------------------|---------------------|---------------------|---------------------|
|  | 30-Jun-17<br>\$'000     | 30-Jun-16<br>\$'000 | 30-Jun-17<br>\$'000      | 30-Jun-16<br>\$'000 | 30-Jun-17<br>\$'000     | 30-Jun-16<br>\$'000 | 30-Jun-17<br>\$'000       | 30-Jun-16<br>\$'000 | 30-Jun-17<br>\$'000 | 30-Jun-16<br>\$'000 |
| Opening balance  | 1,580                   | 10,902              | 8,459                    | 5,877               | 8,443                   | -                   | -                         | -                   | 18,482              | 16,779              |
| Add: Cash contribution   | -                       | -                   | -                        | 2,558               | -                       | 8,700               | 5,000                     | -                   | 5,000               | 11,258              |
| Add: Impairment reversal   | 627                     | -                   | -                        | -                   | -                       | -                   | -                         | -                   | 627                 | -                   |
| Add: Share of net profit / (loss) of associates and joint ventures | 94                      | 3,678               | (30)                     | 24                  | 2,983                   | (257)               | (37)                      | -                   | 3,010               | 3,445               |
| Less: Repayment to Company   | (2,250)                 | (13,000)            | -                        | -                   | -                       | -                   | -                         | -                   | (2,250)             | (13,000)            |
| <b>Total</b>   | <b>51</b>               | <b>1,580</b>        | <b>8,429</b>             | <b>8,459</b>        | <b>11,426</b>           | <b>8,443</b>        | <b>4,963</b>              | <b>-</b>            | <b>24,869</b>       | <b>18,482</b>       |

Notes to the consolidated financial statements  
30 June 2017 (continued)

**D3 Investments accounted for using the equity method (continued)**

**(a) Eynesbury joint venture**

The equity accounted investment in the Company's Eynesbury Township joint venture as at 30 June 2017 is \$51,000 (30 June 2016: \$1.6 million).

Due to certain changes in management's estimates, the Company has recorded a reversal of impairment loss in the Eynesbury joint venture during the year ended 30 June 2017.

This impairment reversal of \$0.6 million is based on the Board's assessment of the recoverable amount of the investment at reporting date and as a result of an increase in cash proceeds recovered and expected to be recovered from the investment.

Payments totalling \$2.25 million have been released to the Company for the year ended 30 June 2017. The Company's share of profit from the Eynesbury joint venture for the year ended 30 June 2017 is \$94,000 (30 June 2016: \$3.7 million).

**(b) Donnybrook joint venture**

The equity accounted investment in the Company's Donnybrook joint venture as at 30 June 2017 is \$8.4 million (30 June 2016: \$8.5 million).

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

|   | Consolidated        |                     |
|---|---------------------|---------------------|
|   | 30-Jun-17<br>\$'000 | 30-Jun-16<br>\$'000 |
| <b>Villa World's share of assets and liabilities in Donnybrook Joint Venture</b>  |                     |                     |
| Assets including inventories \$26.6m (2016: \$25.8m); cash and cash equivalents \$0.5m (2016: \$0.5m); trade debtors and other receivables \$0.4m (2016:\$0.5m) | 27,489              | 26,745              |
| <b>Total assets</b>   | <b>27,489</b>       | <b>26,745</b>       |
| Current liabilities including trade and other payables \$0.2m (2016: \$0.3m)  | 211                 | 344                 |
| Non-current liabilities including bill facility \$10.7m (2016: \$9.8m)  | 10,750              | 9,814               |
| <b>Total liabilities</b>  | <b>10,961</b>       | <b>10,158</b>       |
| <b>Equity</b>   | <b>16,528</b>       | <b>16,587</b>       |
| Proportion of the Company's ownership   | 51%                 | 51%                 |
| <b>Equity attributable to the investment</b>  | <b>8,429</b>        | <b>8,459</b>        |

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 equity accounted investment in the Company's Rochedale joint venture as at 30 June 2017 is \$11.4 million (30 June 2016: \$8.4 million).

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

|   | Consolidated        |                     |
|---|---------------------|---------------------|
|   | 30-Jun-17<br>\$'000 | 30-Jun-16<br>\$'000 |
| <b>Villa World's share of assets and liabilities in Rochedale Joint Venture</b>   |                     |                     |
| Assets including inventories \$18.4m (2016: \$32.4m); cash and cash equivalents \$4m (2016: \$0.7m); trade debtors and other receivables \$1.6m (2016: \$nil) | 23,949              | 33,142              |
| <b>Total assets</b>   | <b>23,949</b>       | <b>33,142</b>       |
| Liabilities including bill facility of \$nil (2016: \$16.0m); trade and other payables \$1.1m (2016: \$0.2m)  | 1,096               | 16,256              |
| <b>Total liabilities</b>  | <b>1,096</b>        | <b>16,256</b>       |
| <b>Equity</b>   | <b>22,853</b>       | <b>16,886</b>       |
| Proportion of the Company's ownership   | 50%                 | 50%                 |
| <b>Equity attributable to the investment</b>  | <b>11,426</b>       | <b>8,443</b>        |



Notes to the consolidated financial statements  
30 June 2017 (continued)

**D3 Investments accounted for using the equity method (continued)**

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

Summarised statement of profit or loss of the Rochedale joint venture is set out below:

|   | Consolidated    |           |
|---|-----------------|-----------|
|   | 30-Jun-17       | 30-Jun-16 |
|   | \$'000          | \$'000    |
| <b>Revenue</b>  | <b>28,027</b>   | -         |
| <b>Cost of sales</b>                                  | <b>(19,546)</b> | -         |
| <b>Administrative expenses</b>                        | <b>(1,949)</b>  | (467)     |
| Finance costs   | (566)           | (47)      |
| <b>Profit before income tax</b>                       | <b>5,966</b>    | (514)     |
| Income tax expense                                    | -               | -         |
| <b>Profit / (loss) for the period</b>                 | <b>5,966</b>    | (514)     |
| Proportion of the Company's ownership                 | 50%             | 50%       |
| <b>Profit / (loss) attributable to the investment</b> | <b>2,983</b>    | (257)     |

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 into 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.

**(d) Villa Green joint venture**

The Company advised the market on 16 September 2016 it had entered into a joint venture with Greenfields Development Company and agreed to the unconditional purchase of a 153 hectare site at Greenbank, 34kms south of the Brisbane CBD.

The purchase price is \$50 million (ex GST) with settlement expected to occur in stages during FY18 and FY19. The joint venture intention is to obtain project specific finance for the development.

Upon acquisition the site had approvals for approximately 1,000 lots with a balance medium density parcel. Since acquiring the site the joint venture has developed a master plan for 1,502 traditional freehold lots, removing the medium density product. This will be approved over two development applications. Approval has already been obtained for 1,082 lots by way of an amendment to the existing approval, allowing the joint venture to proceed with the development in accordance with the masterplan. Application for approval for the remaining 420 lots has now been lodged and is being assessed by the relevant authorities, with approval expected during 1H18.

The joint venture will deliver a high quality master planned community capitalising on the extensive greenspace surrounding the site. The project will offer a diverse range of home sites with lots ranging from 300sqm up to 2,000+ sqm. The joint venture is expected to commence contributing to the Company's profit in FY18.

The equity accounted investment in the Company's Villa Green joint venture as at 30 June 2017 is \$5.0 million (30 June 2016: \$nil).

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

|   | Consolidated  |
|---|---------------|
|   | 30-Jun-17     |
|   | \$'000        |
| <b>Villa World's share of assets and liabilities in Villa Green Joint Venture</b>                 |               |
| Assets including inventories \$50.2m (2016: \$nil); cash and cash equivalents \$0.7m (2016:\$nil) | <b>50,906</b> |
| <b>Total assets</b>   | <b>50,906</b> |
| Liabilities including trade and other payables \$41.0m (2016: \$nil)                              | <b>40,980</b> |
| <b>Total liabilities</b>  | <b>40,980</b> |
| <b>Equity</b>   | <b>9,926</b>  |
| Proportion of the Company's ownership   | <b>50%</b>    |
| <b>Equity attributable to the investment</b>  | <b>4,963</b>  |

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

**Notes to the consolidated financial statements  
30 June 2017 (continued)**

**D4 Parent entity financial information**

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

**(a) Summary financial information**

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

|                            | <b>Consolidated</b> |           |
|----------------------------|---------------------|-----------|
|                            | <b>30-Jun-17</b>    | 30-Jun-16 |
|                            | <b>\$'000</b>       | \$'000    |
| <b>Balance sheet</b>       |                     |           |
| <b>ASSETS</b>              |                     |           |
| Current assets             | <b>45,299</b>       | 31,190    |
| <b>Total assets</b>        | <b>252,202</b>      | 186,547   |
| <b>LIABILITIES</b>         |                     |           |
| Current liabilities        | <b>11,380</b>       | 4,873     |
| <b>Total liabilities</b>   | <b>59,329</b>       | 4,873     |
| <b>Net assets</b>          | <b>192,873</b>      | 181,674   |
| <b>EQUITY</b>              |                     |           |
| Issued capital             | <b>160,957</b>      | 127,247   |
| Reserves                   | <b>40,076</b>       | 61,474    |
| Retained earnings          | <b>(8,160)</b>      | (7,047)   |
| <b>Total Equity</b>        | <b>192,873</b>      | 181,674   |
| <b>Loss for the period</b> | <b>(1,113)</b>      | (6,867)   |

**(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 B5 - Provisions and contingencies.



## Notes to the consolidated financial statements 30 June 2017 (continued)

### OTHER INFORMATION

E

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

In this section:

- E1 Basis of preparation
- E2 Key management personnel disclosures
- E3 Remuneration of auditors
- E4 Events occurring after the reporting period
- E5 Other accounting policies

#### E1 Basis of preparation

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

##### (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 liabilities (including derivative instruments) which are measured at fair value through profit or loss.

##### (iii) Critical accounting estimates and judgements

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

##### (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-17        | 30-Jun-16        |
|                              | \$               | \$               |
| Short-term employee benefits | 2,433,951        | 1,768,827        |
| Post-employment benefits     | 108,830          | 78,213           |
| Long-term benefits           | 49,619           | 37,546           |
| Share-based payments         | 373,677          | 290,422          |
|                              | <b>2,966,077</b> | <b>2,175,008</b> |

Detailed remuneration disclosures are provided in the remuneration report on page 37.

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

###### 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.

**Notes to the consolidated financial statements**  
**30 June 2017 (continued)**

**E2 Key management personnel disclosures (continued)**

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

**Villa World Limited Option Plan (continued)**

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.

During FY17 the options awarded to executives under the plan vested. No further options were awarded to executives under the plan during FY17.

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.

This plan is no longer used. To align with market practice and support the Company's business strategy, it has been replaced by the Villa World Limited Executive Long Term Incentive Plan.

Set out below is a summary of the terms and conditions of each grant of options to key management personnel and other senior employees:

| Grant Date | Balance as at 30 June 2016 | Expiry Date | Vesting date | Exercise Price | Weighted                                | Value of options at grant date <sup>1</sup> | Expected                      | Expected dividend yield | Risk free interest rate | Vested and exercised |
|------------|----------------------------|-------------|--------------|----------------|---|---|-------------------------------|-------------------------|-------------------------|----------------------|
|            |                            |             |              |                | average share price at date of exercise |   | price at volatility of shares |                         |                         |                      |
| 26/07/2013 | 3,250,000                  | 26/01/2017  | 26/07/2016   | \$1.25         | \$2.47                                  | \$325,000                                   | 25%                           | 9.0%                    | 2.57%                   | 100%                 |
| 17/02/2014 | 150,000                    | 11/08/2017  | 11/02/2017   | \$1.60         | \$2.49                                  | \$61,500                                    | 30%                           | 7.1%                    | 3.10%                   | 100%                 |

1. The value of options at grant date is 10 cents per option for those issued on 26 July 2013 and 41 cents per option for those issued 17 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 in FY16 subsequent to approval of the Plan at the FY15 Annual General Meeting. The second allocation of performance rights was approved at the FY16 Annual General Meeting.

The key driver for the Plan is to provide a variable remuneration component that is competitive and is aligned to shareholder returns over a longer period. It has been structured to appropriately incentivise executives and promote retention. 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.

The remaining 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.

The volatility assumption is based on annualised historical daily volatility over the 3 year period to the valuation date.

No awards have vested during FY17.

The following table sets out the terms of performance rights awarded to key management personnel and other senior employees.



Notes to the consolidated financial statements  
30 June 2017 (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)**

| Grant Date | Granted as compensation | Forfeited/<br>lapsed during year <sup>1</sup> | Balance as at 30 June |             | Vesting date | Weighted average price of Rights | Expected price volatility of shares | Expected dividend yield | Risk free interest rate |
|------------|-------------------------|---|-----------------------|-------------|--------------|----------------------------------|-------------------------------------|-------------------------|-------------------------|
|            |                         |   | 2017                  | Expiry Date |              |                                  |                                     |                         |                         |
| 30/11/2015 | 485,916                 | 112,676                                       | 373,240               | 31/08/2018  | 30/06/2018   | \$1.06                           | 27%                                 | 7.6%                    | 2.1%                    |
| 30/11/2016 | 778,962                 | 150,969                                       | 627,993               | 31/08/2019  | 30/06/2019   | \$1.44                           | 25%                                 | 8.15%                   | 1.87%                   |

1. Performance Rights were forfeited on 14 July 2017 with communication and approval by Board prior 30 June 2017.

**(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-17<br>\$'000 | 30-Jun-16<br>\$'000 |
| Performance rights issued to key management personnel    | 402                 | 166                 |
| Performance rights forfeited by key management personnel | (40)                | -                   |
| Options issued to key management personnel               | 12                  | 124                 |
| Performance rights issued to senior employees            | 31                  | 6                   |
| Options issued to senior employees                       | -                   | (66)                |
|  | <b>405</b>          | <b>230</b>          |

**(d) Loans to KMP**

For the financial year ended 30 June 2017, there were no loans to key management personnel (2016: \$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-17<br>\$ | 30-Jun-16<br>\$ |
| <b>Audit and other assurance services</b>                        |                 |                 |
| Audit and review of financial statements                         | 184,404         | 130,000         |
| Other assurance services   | 55,750          | -               |
| <b>Total remuneration for audit and other assurance services</b> | <b>240,154</b>  | <b>130,000</b>  |
| <b>Other non-audit services</b>                                  |                 |                 |
| Other corporate advisory services                                | 343,441         | 81,054          |
| Taxation services  | 29,369          | 159,334         |
| <b>Total remuneration for other non-audit services</b>           | <b>372,810</b>  | <b>240,388</b>  |
| <b>Total remuneration of Ernst &amp; Young</b>                   | <b>612,964</b>  | <b>370,388</b>  |

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

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



**Notes to the consolidated financial statements**  
**30 June 2017 (continued)**

**E4 Events occurring after the reporting period**

**Final dividend**

On 15 August 2017 the Board declared a fully franked final dividend of 10.5 cents per share. The ex-dividend date is 4 September 2017 and the record date for this dividend is 5 September 2017. Payment will be made on 29 September 2017.

The balance of the franking account is \$14.4 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.

**Investment in the Villa Green Joint Venture**

On 28 July 2017, equity contributions totalling \$6 million were made by each joint venture partner, with the carrying value of the investment increasing to \$10.9 million. This contribution was recognised as a commitment at 30 June 2017. Refer Note B6 (b) - Joint Venture commitments.

**Cash settlements for land**

Since year end \$30.6 million has been paid in relation to settlements of land. These include Hillsbrook, Concourse and the adjoining parcel to Sienna Rise which were all recognised as a liability at 30 June 2017.

**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.

**Notes to the consolidated financial statements**  
**30 June 2017 (continued)**

**E5 Other accounting policies (continued)**

**(c) Impairment of assets (continued)**

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

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

**(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 non-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. Remeasurements are recognised in profit or loss in the period in which they arise. The obligations are presented as current liabilities in the consolidated balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

**(iii) Bonus plans**

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

**(iv) Termination benefits**

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

**(f) Goods and Services Tax (GST)**

Revenues, expenses and assets/liabilities (other than receivables) are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the 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 2017 (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 2017. 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 is in the process of assessing the impact of the following new standards and interpretations.

**(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 recognise 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 recognised at the date of initial application, with no restatement of comparatives presented.

The Company continues to evaluate the potential impact of AASB15 on its consolidated financial statements. It is likely that revenue from land development and residential housing will be recognised on cash settlement, this being the point in time that the customer controls the related asset. This will potentially represent a change from the existing accounting policy for Queensland and Victoria sales whereby revenue is currently recognised when there is an unconditional sales contract and registration of the land and/or certification of building completion. The Company intends to adopt AASB15 for the first time for the financial year ended 30 June 2019 and is in the process of determining which transition method to adopt. The impact will be quantified when the assessment has been fully completed, as the results of the complete assessment and the resultant impact on revenue will invariably impact the transition method adopted.

**(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 2017**

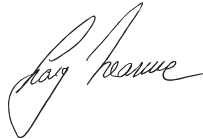
In the Directors' opinion:

- (a) the financial statements and notes set out on pages 56 to 97 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 2017 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  
15 August 2017

## INDEPENDENT AUDITOR'S REPORT

To the Members of Villa World Limited

### Report on the Audit of the Financial Report

#### Opinion

We have audited the financial report of Villa World Limited (the Company), and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- (i) giving a true and fair view of the consolidated financial position of the Group as of 30 June 2017 and of its consolidated financial performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

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

#### Key Audit Matters

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

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

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

Refer to Note B1 of the financial report

### Why significant

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

This is significant to our audit, given the estimation process, and the judgments made in the assumptions used in the process. The NRV is based on future cash flows, which depend on key assumptions relating to sales rates, land pricing, the expected date of completion, the level of debt used to finance the project and the estimation of future development costs.

### How our audit addressed the key audit matter

We obtained the assessment of NRV for the Group’s inventory portfolio. In obtaining sufficient audit evidence, we:

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

## 2. Revenue recognition

Refer to Note A1 of the financial report

### Why significant

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

### How our audit addressed the key audit matter

In obtaining sufficient audit evidence, we:

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



### **Information Other than the Financial Report and Auditor's Report**

The directors are responsible for the other information. The other information comprises the information in the Group's 2017 Annual Report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based upon the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of the Directors for the Financial Report**

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

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

### **Auditor's Responsibilities for the Audit of the Financial Report**

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: [http://www.auasb.gov.au/auditors\\_files/ar2.pdf](http://www.auasb.gov.au/auditors_files/ar2.pdf). This description forms part of our auditor's report.



## Report on the Remuneration Report

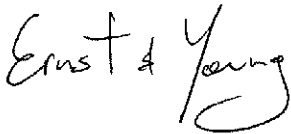
### Opinion on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Villa World Limited for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

### Responsibilities

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



Ernst & Young



Ric Roach  
Partner  
Brisbane  
15 August 2017

### 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 31 July 2017)

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

|                        | <b>No of shares held</b> |
|------------------------|--------------------------|
| UniSuper Limited       | 6,490,184                |
| Brazil Farming Pty Ltd | 7,097,286                |

Distribution of Shareholders (as at 31 July 2017):

| <b>Range</b>     | <b>Total holders</b> |
|------------------|----------------------|
| 1 – 1,000        | 1,075                |
| 1,001 – 5,000    | 1,965                |
| 5,001 – 10,000   | 946                  |
| 10,001 – 100,000 | 1,269                |
| 100,001 and over | 78                   |
| <b>Total</b>     | <b>5,333</b>         |

There were 236 shareholders with less than a marketable parcel of 223 shares.

#### Unquoted equity securities

As at 31 July 2017, there were 1,001,233 performance rights (with the potential to take up ordinary shares) issued to 4 participating employees under the Villa World Limited Executive Long Term Incentive Plan.

There are no voting rights attached to the performance rights.

#### Quoted equity securities

As at 31 July 2017 there were 5,333 shareholders (30 June 2016: 4,244).

The voting rights attaching to the ordinary shares are:

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

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

**Top 20 Shareholders (as at 31 July 2017)**

| <b>Name</b>   | <b>Units</b>      | <b>% of<br/>Units</b> |
|---|-------------------|-----------------------|
| HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED                           | 18,691,085        | 14.73                 |
| NATIONAL NOMINEES LIMITED   | 8,993,577         | 7.09                  |
| J P MORGAN NOMINEES AUSTRALIA LIMITED                               | 7,303,438         | 5.75                  |
| BRAZIL FARMING PTY LTD  | 7,287,286         | 5.74                  |
| CITICORP NOMINEES PTY LIMITED                                       | 7,013,471         | 5.53                  |
| BNP PARIBAS NOMS PTY LTD <AGENCY LENDING DRP A/C>                   | 6,887,028         | 5.43                  |
| BNP PARIBAS NOMS PTY LTD <DRP>                                      | 2,443,291         | 1.92                  |
| PERSHING AUSTRALIA NOMINEES PTY LTD <NOMINEE A/C>                   | 2,000,000         | 1.58                  |
| BRISPTOT NOMINEES PTY LTD <HOUSE HEAD NOMINEE NO 1 A/C>             | 1,333,957         | 1.05                  |
| MR MALCOLM JOHN ROSS + MRS JUNE ROSS                                | 1,260,133         | 0.99                  |
| RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <BKCUST> A/C>  | 920,949           | 0.73                  |
| CVC LIMITED   | 889,000           | 0.70                  |
| TOBAKA PTY LTD <TOBAKA EMPLOYEES S/F A/C>                           | 656,898           | 0.52                  |
| DEBUSCEY PTY LTD  | 644,235           | 0.51                  |
| HORRIE PTY LTD  | 616,169           | 0.49                  |
| GEOMAR SUPERANNUATION PTY LTD <CHAPMAN SUPER FUND A/C>              | 610,935           | 0.48                  |
| BRAZIL FARMING PTY LIMITED  | 600,000           | 0.47                  |
| CRAIG G TREASURE PTY LTD <TREASURE SUPER FUND A/C>                  | 582,432           | 0.46                  |
| NATIONAL NOMINEES LIMITED <DB A/C>                                  | 571,212           | 0.45                  |
| CVC LIMITED <CVC LIMITED A/C>                                       | 503,737           | 0.40                  |
| <b>Totals: Top 20 holders of FULLY PAID ORDINARY SHARES (TOTAL)</b> | <b>69,808,833</b> | <b>55.02</b>          |





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