2019

Annual Financial Report

FOR THE YEAR ENDED 30 JUNE 2019

VILLA WORLD

HELPING PEOPLE REACH HOME

Shareholders INFORMATION

VILLA WORLD LIMITED

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Shareholder information and enquiries

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

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Company Secretary: Brad Scale


Arundel Springs - Arundel

Contents




"Home is more than a place...
It's a feeling, a sense of belonging. It's where the heart is."

- Ensuring our people feel "at home" by helping them develop to their full potential while providing a safe, healthy and happy workplace
- Helping our customers find their dream home and making the process of buying that home easy
- Recognising the broader societal contribution we can make to better living for our community
- We're proud of the partnerships we have forged with stakeholders who share our beliefs and feel "at home" working with us

BELIEFS

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

Joint Chairman's and MANAGING DIRECTOR'S ADDRESS

VILLA WORLD'S SCALABLE BUSINESS MODEL, STRONG CUSTOMER AND PEOPLE FOCUS AND STRATEGY EXECUTION PROVIDED FIRM UNDERPINNINGS TO NAVIGATE CHALLENGING MARKET CONDITIONS DURING FY19.

Villa World began a significant business transformation seven years ago, committing to and delivering on an undertaking to recommence dividends by strategically focusing on its core product in the affordable to mid-price house and land market.

Since then, the Company has delivered strong growth in profits year-on-year for five consecutive years. This year was more challenging, although a Net Profit After Tax (NPAT) of $23.0 million is a solid result given the current state of the housing market.

Consumer confidence remained low throughout the year. Despite positive underlying fundamentals of low interest rates, low unemployment and first home buyer incentives, buyers were affected by the impacts of the Banking Royal Commission and difficult lending conditions.

A reduction in sales enquiries in late 2018 has had a flow-on effect, with Villa World's FY19 sales reduced to 870 lots from the record highs of the previous year.

Market uncertainty ahead of a State and Federal election dampened buyer interest. While these impacts were not unexpected, the slow recovery has been noted by many commentators.

Against this backdrop, the Villa World Board and management team continued to focus on operational fundamentals as a key driver in delivering long-term shareholder value.

Our purpose – **Helping People Reach Home** – has provided a beacon to guide the Company through a challenging environment. Villa World's strong brand and its customer and people-focused operations have made the Company an attractive proposition.

On 8 July 2019, Villa World announced that it had entered into a Scheme Implementation Agreement with AVID Property Group Australia Pty Limited (AVID), under which AVID would acquire all shares in Villa World for a cash price of $2.345 (Scheme Consideration) (Scheme).

The Scheme will be described in greater detail in the Scheme Booklet which Villa World expects to dispatch to shareholders in September 2019.

We acknowledge the work of fellow Directors in rigorously reviewing the AVID offer. As has been reported to the market, the Board has unanimously recommended that shareholders vote in favour of the Scheme in the absence of a Superior Proposal and subject to an independent expert concluding and continuing to conclude that the Scheme is in the best interests of Villa World shareholders.

In making its recommendation, the Board considered several factors including the premium to shareholders, certainty of value and the opportunity for the Board to declare a significant Special Dividend.

The Villa World Board intends to declare a fully franked Special Dividend of 31.0 cents per share, subject to the Scheme becoming effective. If declared, shareholders will receive the Special Dividend of 31.0 cents per share and a reduced Scheme Consideration of $2.035 per share, to form the Total Cash Consideration of $2.345 per share.

The Special Dividend is expected to enable many shareholders to benefit from franking credits, subject to a favourable ruling from the Australian Taxation Office.

Following the half-year dividend of 8.0 cents per share paid in April 2019, no final FY19 dividend has been declared.

It comes as no surprise that AVID was attracted by Villa World's innovative housing platform and exposure to greenfield east coast growth corridors. These attributes have been developed during the Company's successful transformation and have served it well.

Likewise, Villa World's operating efficiencies, astute acquisitions and disciplined capital management have helped us to actively manage the Company through current headwinds.

"A Net Profit After Tax (NPAT) of $23.0 million is a solid result given the current state of the housing market."

Mark Jewell & Craig Treasure

The Company's position within the affordable to mid-priced residential housing and land market remains strong. We continue to meet the everyday housing needs of Australians, particularly first home buyers, owner-occupiers, domestic investors and builders, through consistent delivery of high quality, affordably-priced, completed designer homes.

Villa World's award-winning design offering and projects that promote healthy, active lifestyles are set to continue to attract value-driven buyers and investors.

In setting the tone from the top, the Board has emphasised the importance of a strong people and culture strategy throughout the business, with continued support for safety, wellness and community initiatives described in this year's Annual Report.

The Board acknowledges the ongoing commitment and passion of the Villa World staff.

As we move forward, Villa World can draw on the innovative thinking of our team, our resilience and our ability to capitalise on opportunities for smart growth as we continue our contribution to **Helping People Reach Home.**

Mark Jewell
Chairman

Craig Treasure
Managing Director and
Chief Executive Officer

Safety, Wellbeing AND COMMUNITY

HELPING PEOPLE REACH HOME IS A STATEMENT OF PURPOSE THAT SIGNALS VILLA WORLD'S COMMITMENT TO ITS CUSTOMERS AND TO ITS PEOPLE.

A strong framework focused on people and culture, provides the cornerstone to achieving our purpose-led, customer-centric strategy. At the heart of this is our Health and Wellbeing Policy. Employee welfare is prioritised through workplace practices that encourage staff to identify health and wellbeing issues, and to participate in activities and programs which support positive outcomes.

Through those initiatives, the Company has created an environment in which staff can flourish and contribute to organisational success and sustainability.

During FY19, our staff participated in a range of events and activities including a Financial Wellness program, Wear Red Day (supporting Health Research Australia), International Women's Day and Australia's Biggest Morning Tea (supporting the Cancer Council).

BESTPRACTICE CERTIFICATION ISO14001 ENVIRONMENT MANAGEMENT SYSTEM

BESTPRACTICE CERTIFICATION AS4801 OH&S MANAGEMENT SYSTEM

Directors and Senior Managers lead our Health, Safety and Environment (HSE) culture and understand their own HSE obligations by following the Villa World HSE Due Diligence Framework. This framework sets out our approach to ensuring a healthy and safe work environment for our people. This commitment also extends to managing our compliance with regulations regarding the impacts that our business may have on the local community or environment.

As part of Villa Word's ongoing commitment to a strong HSE culture, mental health training was provided to all employees during FY19. This provided staff with an increased awareness and understanding of mental health and provided education on tools and support services available.

Notably during FY19, the Company's HSE Management System maintained its certification under Australian Standard 4801 (Occupational Health and Safety Systems) and International Standard 14001 (Environmental Management Systems).

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

Our commitment to happy and healthy communities is a goal that spans across our people, customers and our developments. During FY19, Villa World launched its new *active8* program which promotes active and healthy lifestyles in our communities through project infrastructure and design. This includes delivering extensive park and recreation areas and facilities within our projects as well as providing community activities such as fitness classes at dedicated fitness parks. Our **Covella** and **Killara** developments, in the Logan City area of Queensland, have been standout promoters of this program, with great support from residents and prospective buyers.

COMMUNITY

Villa World's purpose recognises the importance of a broader community contribution to better living.

The Company continues to work towards weaving Reconciliation through the fabric of our business. Development of our Reconciliation Action Plan is well advanced and supports our view to the future where every Australian proudly acknowledges and respects the deep connection of our First Peoples to this country, our one home.

MATES in Construction

We have continued supporting **MATES in Construction** (MiC), a charity established in 2008 to reduce the high level of suicide among Australian construction workers. The MiC program is based on the simple idea that "suicide is everyone's business". It provides on-site development programs and support within the building and construction industry in Australia to improve the mental health and wellbeing of workers, and to reduce suicide.

Industry recognition and accolades for Villa World's home building expertise are a reward for our customers and our team.

HIA Awards night

The annual Housing Industry Association (HIA) Housing Awards identify, highlight and reward excellence in the residential housing industry; representing the finest tradespeople and businesses throughout Australia.

Villa World is proud to have won the Queensland 2018 Affordable Housing and the Display Home up to $200,000 Housing Awards for its 'Marcoola 20' home, at **Chambers Ridge**, in Logan City.

The awards are judged on the quality of workmanship, design effectiveness, visual appeal and innovation. They recognise a home that demonstrates innovation in design and construction which assists in delivering an affordable product.

The Marcoola 20 design was refined based on customer feedback over many years. The Villa World design team, in collaboration with our sales and marketing, construction and development teams, successfully created a home that meets the needs of families seeking to live the ideal Queensland lifestyle.

HIA judges commented that the Marcoola 20's open living areas and multi-purpose room exceed expectation for the price range.

"This wonderful family home has it all..."

Delivery of affordable, quality housing for our customers is core to Villa World's purpose of **Helping People Reach Home.**

University student wins Villa World's Live for Free competition.

The life of university student Ricqui Vines was changed forever in May 2019 after winning a Villa World house and land package valued at $450,000.

The 22 year-old Griffith University student studying environmental science was handed the keys to the prize by Villa World CEO Craig Treasure as part of Hit 105FM's Live for Free promotion.

Craig Treasure & Robyn Valmadre with Riqui Vines

The competition promoted Villa World's prime addresses at **Covella**, Greenbank and **Killara**, Logan Reserve, where more than 2,200 land lots are being created through a long-term commitment to the Logan City region.

Ms Vines has become part of Villa World's ever-growing list of new community members after choosing her winning home at Covella.

Mr Treasure said... "the competition, attracted tens of thousands of entrants and is part of Villa World's ongoing commitment to helping people realise their dream of owning their own home."

Act for Kids is an Australian charity providing free therapy and support services to children and families who have experienced, or are at risk of, child abuse and neglect.

During FY19, Villa World proudly supported both MiC and Act for Kids through an annual golf day held in conjunction with our trade contractors and supplier partners. The event successfully raised $70,000 which Villa World matched to allow a total donation of $140,000 to be split between the two charities. As well as highlighting the importance of the charities,

Craig Treasure & Jorgen Gullestrup

the event provided Villa World with an opportunity to thank and acknowledge the importance of our strong partnerships with contractors and suppliers in **Helping People Reach Home**.

Villa World has continued its support of the **Gold Coast Hospital Foundation** through donations of $2,500 every time a Gold Coast Hospital and Health Staff member purchases land at our nearby **Arundel Springs** project.

Operating Financial REVIEW

FINANCIAL RESULT

Declines in consumer sentiment, continued credit tightening by financial institutions and market uncertainty in the lead-up to the May 2019 Federal election impacted Villa World's FY19 financial result.

The Company recorded Net Profit After Tax (NPAT) of $23.0 million[1], down 47% on the previous period (FY18: $43.6 million).

After previous years of double-digit growth, this was a pleasing result given the challenges faced during FY19. Strong carried forward sales and strong margins at flagship projects went some way to buffering the impact of otherwise difficult conditions across the residential housing sector.

REVENUE FROM LAND DEVELOPMENT, RESIDENTIAL BUILDING AND CONSTRUCTION CONTRACTS

Revenue of $391.6 million was recorded in the year ended 30 June 2019 down from $441.6 million in FY18. The settlement of strong carried forward sales from FY18 resulted in 1,049[2] wholly owned settlements in FY19 (FY18: 1,303[3]).

The revenue mix reflects the Company's continued focus on its core capabilities in house and land, as well as strong land only settlements. House and land product generated 54% of revenue consistent with the prior year (FY18: 53%). Queensland and New South Wales continue as the main source of revenue at 89% (FY18: 84%).

Average revenue per lot was $353,100, increased from $319,300 in the previous year. This growth is supported by a 7% increase to $450,900 in average revenue per house and land lot and an increase in average revenue per land-only lot of 13% to $274,400. This was largely attributable to significant increases in the number of settlements of our New South Wales projects where average sale prices are higher as well as the settlement of higher value product at Arundel Springs, Gold Coast and Lilium, Clyde.

GROSS MARGIN

The reported gross margin for FY19 was $93.0 million or 23.7% (FY18: $111.4 million or 25.2%), within the target range of 23% to 25%.

Strong margins were achieved at flagship Queensland projects Arundel Springs, Gold Coast, and The Meadows, at Strathpine on Brisbane's north-side.

REVENUE DERIVED FROM EQUITY ACCOUNTED INVESTMENTS

During FY19, the Company continued to deploy development management skills into joint venture arrangements, delivering $1.3 million in fee income (FY18: $11.1 million which included a one-off $7.3 million fee).

Further, the share of profit from equity accounted investments was $2.1 million (FY18: $6.4 million) which related to 109 land settlements from the Covella (Villa Green) joint venture and completion of the successful Rochedale joint venture.

OTHER INCOME

Other income of $1.1 million (FY18: $1.0 million) was largely comprised of bank interest received and forfeited deposits.

OPERATIONAL PERFORMANCE

The Company recorded 870 sales during FY19, down 51% on FY18 (1,788 lots). The average sales rate reduced to 73 per month (FY18: 149 per month).

This result is consistent with the decline in the Australian residential housing market conditions throughout FY19. Lower sales results and enquiries were observed in late 2018, and continued into 2H19. In the lead up to the Federal election home buyers experienced increased market uncertainty as lending conditions remained tight and consumer sentiment continued to soften.

Queensland projects contributed 55% of sales (FY18: 66%) driven by flagship projects The Meadows, at Strathpine, Killara, at Logan, and Arundel Springs on the Gold Coast. An anticipated uplift in the Queensland market did not eventuate.

Demand in Victoria moderated from the record highs previously achieved. Victorian sales contributed 39% of total sales (FY18: 31%). Sales in New South Wales made up the remaining 6% (FY18: 3%).

[1] FY19 revenue recognition is as per AASB 15 with house and land and land only contracts being recognised upon cash settlement. FY18 revenue recognition was under AASB 118.

[2] 1,049 settlements of wholly owned projects (FY18: 1,303), and 109 lots relating to joint ventures (FY18: 148), number of settlements recorded at 100% and proportional share of income reflected in Share of Joint Venture Profits..

[3] Statistics for split contracts and joint ventures recorded as one single transaction. Prior year comparatives restated to reflect this change, refer to ASX 1H19 investor presentation for reconciliation (slide 24).

Arundel Springs Residences - Arundel

The Company maintains a strong presence across its key customer segments, being retail buyers comprising of first home buyers and other owner occupiers, as well as builders and local investors.

The Company scaled down delivery of product during the year to balance with market demand. Housing operations delivered 465 homes across New South Wales, Queensland and Victoria (FY18: 546). While 871 lots of land were produced, down from 1,485 lots in FY18.

SALES CONTRACTS CARRIED FORWARD

At 30 June 2019, the Company carried forward 992 sales contracts valued at $291.4 million[4], inclusive of 185 joint venture sales contracts valued at $49.3 million (recorded at 100%). The Company anticipates the timing of settlements to be: 48% valued at $151.5 million in 1H20; 22% ($63.7 million) in 2H20; 16% ($37.0 million) in FY21 and 14% ($39.2 million) settling in FY22 to FY25.

As expected, sales in stages 1 to 4 at Lilium, Clyde commenced settling in May 2019 and are continuing into FY20. Settlements are well progressed and although some defaults have been recorded, the impact has been mitigated through retention of deposits and the ability to resell those lots. The Company continues to carry forward significant unconditional sales in future stages of Lilium along with Sienna Rise and Sienna North, Plumpton.

PROPERTY SALES AND MARKETING COSTS

The Company's sales and marketing strategy is focused on improving our customers' journey. Key initiatives during the year have included the development and rollout of a customer self-service portal and design and implementation of a robust Net Promotor Score system.

Sales and marketing costs represented 5.8% of revenue in FY19 consistent with the prior year (FY18: 5.8%).

EMPLOYEE BENEFITS

The business cost structure was managed in light of the trading conditions, with 129.8 full time equivalent employees at 30 June 2019 reduced from 155.4 at 30 June 2018.

Employee costs represented 5.9% of revenue in FY19, increased from 5.7% of revenue in FY18.

The reduction in number of employees is expected to reduce the FY20 employee costs by 6.4%.

[4] Represents gross sales price including GST.

ADOPTION OF AASB 15

The new accounting standard AASB 15 – revenue from contracts with customers, came into effect on 1 July 2018. This has changed the point in time at which the Company recognises revenue for certain contractual arrangements. Land-only and house and land contracts in Queensland and Victoria are now recognised at cash settlement. New South Wales contracts continue to be recognised at cash settlement. The Company adopted the standard under the modified retrospective approach where comparatives are not restated, rather, a one-off retained earnings reduction of $20.6 million was made for unconditional contracts on hand but not yet cash settled. Further information can be found in note E5 (h)(iii) in the 2019 financial statements.

ASSETS AND NTA

Gross assets at 30 June 2019 were $484.6 million (FY18: $587.9 million). The NTA per share decreased to $2.28 (FY18: $2.44, prior to the declaration of 10.5 cent dividend).

CAPITAL MANAGEMENT

During the year, the Company operated a $190 million club facility with ANZ and Westpac. The $140 million ANZ facility had staged maturities from October 2020 to March 2022. The $50 million Westpac facility was due to mature in March 2021.

On 13 August 2019, Villa World secured an increase in the ANZ facility to $190 million and extended the staged maturities to $50 million on 31 October 2021; $90 million on 31 October 2022 and $50 million on 31 October 2023. Westpac Banking Corporation is no longer a lender under the Club Financing Arrangement.

Settlement of carried forward sales and disciplined management of costs during FY19 have led to cash on hand as at 30 June 2019 of $6.6 million (30 June 2018: $12.6 million) and unused capacity in the facility of $102.8 million (30 June 2018: $32.3 million). Gearing as at 30 June 2019 was 24.1% reduced from 29.7% as at 30 June 2018, within the Company's target range of 15% to 30%. Net debt was $115.3 million (FY18: $171.1 million).

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

As at 30 June 2019, the Company had generated $126.3 million in net cash flow from trading activities (FY18: $123.6 million). During the year $29.9 million (FY18: $155.5 million) was expended on the acquisition of new land, which includes $15.4 million funded through capital lite transactions. The land acquisition amount payable at 30 June 2019 was $42.1 million (FY18: $33.7 million). Since year end, $12.8 million of that has been paid, and the balance will be settled from operating cash flows, existing debt facilities and proceeds from third party settlements.

The Company commenced an on-market share buy-back in October 2018 for up to 5% of shares on issue, funded from working capital. The Company ceased to buy back shares under the on-market share buy-back in March 2019 at which time the Company had purchased 1,766,341 shares at an average price of $1.91. The buy-back represented a prudent deployment of capital when the share price was trading below NTA and was NTA and earnings per share accretive.

The average cost of debt during the year was 6.3% (FY18: 7.3%). To manage exposure to future interest rate risk, the Company has executed two interest rate caps totaling $50 million. These contracts will cap the Company's interest rate at a maximum of 3.0% on $50 million until 2 July 2020, and $25 million thereafter until 4 July 2022.

DIVIDENDS

Shareholders have benefited from the strong financial performance in recent years, including a 1H19 fully franked dividend of 8.0 cents per share paid in April 2019.

Villa World will not be declaring a final dividend for FY19. The payout ratio for FY19 is 44% which is below the dividend policy range of 50% to 75% payout ratio.

PORTFOLIO

The Company has focused on the development of the current portfolio and delivery of carried forward sales whilst maintaining a commitment to astute acquisitions. As at 30 June 2019, Villa World's portfolio was 6,596 lots (FY18: 7,064 lots), representing approximately 5 – 6 years of sales.

The Donnybrook Joint Venture is contracted to sell two significant englobo land parcels at 960 Donnybrook Road and 1030 Donnybrook Road. Villa World's share of revenue from the sales will be recognised progressively in line with the staged settlements, and is dependent on the outcome of the Precinct Structure Plan approval process. It is expected that revenue from the sale contracts will begin to be recognised from 1H21, underpinning earnings through to FY24.

Current market conditions may present opportunities in FY20 for astute acquisitions and strategic partnering relationships. With disciplined capital management and cash inflows expected from carried forward sales, the Company is positioned to capitalise on opportunities.

THE VILLA WORLD STRATEGY

The Company continued the adoption and execution of its purpose and beliefs, developed and released in May 2018. As a key element of a broader strategy to deliver long-term shareholder value, **Helping People Reach Home** remains a key driver for the Company.

Another key attribute of the Villa World strategy includes a renewed focus on operational fundamentals, aligned to better serving our people and, in turn, our customers.

Customer centricity, smart innovative growth with a strong community focus, governance and culture have positioned the Company well. The proposed transaction with AVID is an endorsement of the quality of the Villa World brand and the relationships built over many years with customers, staff, suppliers and contractors, shareholders and the broader community.

KEY RISKS

Villa World's purpose and beliefs have served as guiding principles during FY19 as the Company demonstrated agility in navigating a challenging Australian residential property market.

The Board and leadership team recognise the importance of striking the right balance between the focus and development of medium-to-long term strategies with day-to-day operational needs. The Board utilises a risk management framework to identify, assess and manage key strategic, financial and operational risks.

As residential housing market conditions and customer sentiment declined in late 2018, and have remained subdued, the Company prudently managed sales risk along with development, finance and risks associated with general warranty claims. The Company continues to monitor government policies, including macro prudential regulation.

Villa World offers well located land, and affordable to mid-priced housing in the growth corridors of east coast Australia, providing greater resilience to market cycles. Consumer confidence and credit availability will continue to influence sales. Economic conditions including interest rates, unemployment and wages directly impact consumer confidence, currently at its lowest month-on-month result since August 2017 (Source: Melbourne Institute and Westpac Bank Consumer Sentiment Index for Australia).

Killara - Logan Reserve

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

The Company increased its focus on broader risks including environmental, social and reputational risks, in recognition of the growing importance of these matters to customers, investors and the community.

Warranty claims and potential litigation are inherent risks in the development and construction industry, and the Company makes general provision for such warranty claims (refer to Note B6 in the 2019 financial statements).

SCHEME IMPLEMENTATION AGREEMENT WITH AVID

On 14 March 2019, Villa World announced it had received an unsolicited proposal from AVID Property Group Australia Pty Limited (AVID) to acquire all shares in the Company by way of scheme of arrangement for cash consideration of $2.23 per share. On 2 May 2019, the Company announced that the offer had been increased by 5.2% to $2.345 per share and that the Board had granted AVID exclusive due diligence.

Following the completion of due diligence by AVID, Villa World announced on 8 July 2019 that it had entered into a binding Scheme Implementation Agreement for $2.345 per share in cash (Scheme).

The Villa World Board intends to declare a 31.0 cents per share fully franked Special Dividend if the Scheme is effective. If declared, shareholders will receive the Special Dividend of 31.0 cents per share and a reduced Scheme Consideration of $2.035 per share, to form the Total Cash Consideration of $2.345 per share.

Chambers Ridge - Park Ridge

The Villa World Board unanimously recommends that Villa World shareholders vote in favour of the Scheme, in the absence of a Superior Proposal and subject to an independent expert concluding and continuing to conclude that the Scheme is in the best interests of Villa World shareholders.

In making its recommendation, the Board considered several factors including the premium to shareholders, certainty of value and the opportunity for Villa World shareholders to receive benefits from franking credits that may be attached to the payment of a Special Dividend, if declared (subject to a favourable class ruling from the Australian Taxation Office).

Villa World expects to dispatch a Scheme Booklet to Villa World shareholders in September 2019 and to give share holders the opportunity to vote on the Scheme in mid-October 2019. Subject to shareholder approval and the other conditions of the Scheme being satisfied, the Scheme is expected to be implemented in late October/ early November 2019. These dates are indicative and subject to change.

Under the terms of the Scheme Implementation Agreement, Villa World must put in place arrangements so that all Villa World Performance Rights vest or lapse before the Scheme Record Date if the Scheme becomes effective. Consistent with the terms of the Villa World LTIP, the Villa World Board (excluding Mr Treasure) has exercised its discretion and determined that the vesting of all the Villa World Performance Rights will be accelerated, subject to the Scheme becoming Effective.

If the Scheme is effective the Villa World Performance Rights will vest and automatically covert to Villa World Shares which will be acquired by AVID under the Scheme and the holders of those Villa World Shares will be entitled to receive the Scheme Consideration and the Special Dividend (if declared).

During FY19, retention incentives were introduced to KMPs and other key relevant personal. The retention bonus applicable is a targeted incentive and has been implemented due to the increased uncertainty following the AVID proposal. Refer to Section H: (f) Executive Employment Agreements in the Remuneration Report.

OUTLOOK

Villa World will continue to focus on operational delivery and cash settlement of carried forward sales, particularly in Victoria.

The business cost structure continues to be managed in light of current trading conditions, with a reduction in overheads during FY19 set to benefit the FY20 financial position.

The Company expects its FY20 gross margin to be within the 23% to 25% target range.

Development management fees and share of joint venture profits will continue to provide an ongoing revenue stream, as the Company pursues capital-efficient growth opportunities that provide a strong return on assets.

Since the Federal election in May 2019, improved market fundamentals have included tax offsets, reduction in the cash rate, some improvement in credit availability and the Government's continued commitment to assisting first home buyers.

The Company expects that an upturn in sales enquiries may convert to an increase in sales rates during FY20, although buyers remain cautious.

Covella - Greenbank

Current PORTFOLIO

Arundel Springs - Arundel

CURRENT PORTFOLIO
Victoria

MELBOURNE NORTH WEST

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

In the nearby Plumpton area, the Company has a strong record of success and continues to hold a significant footprint with several projects underway or in planning.

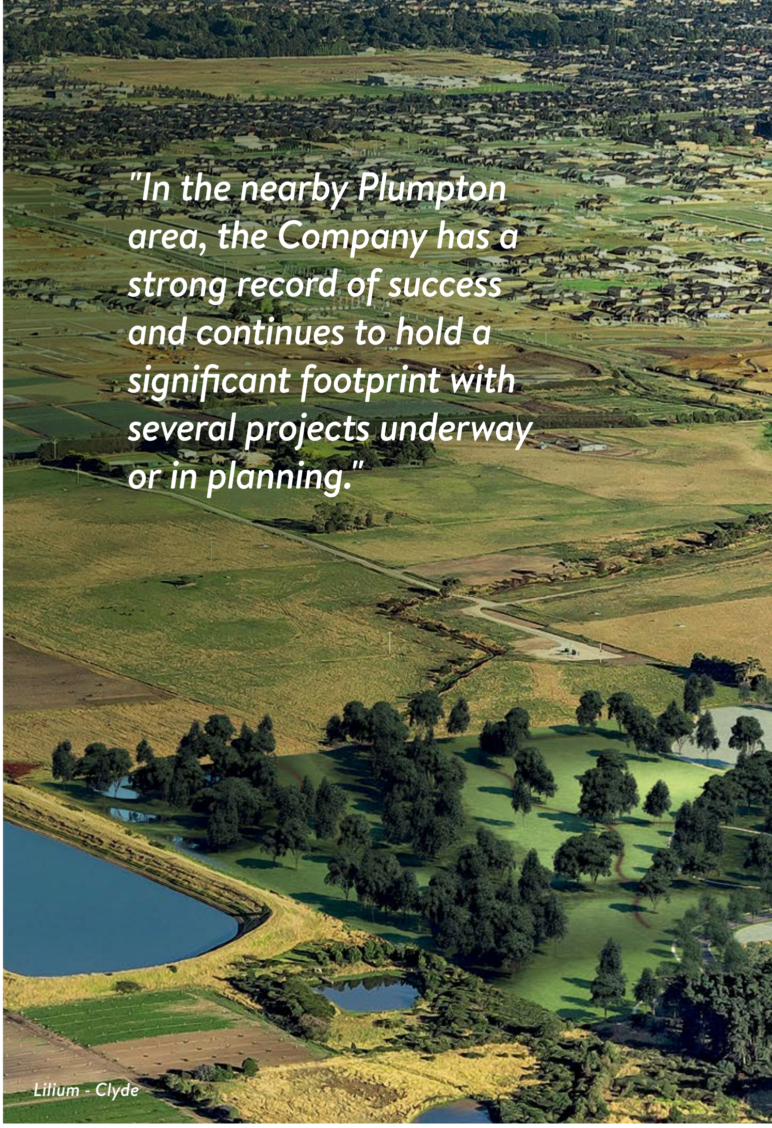
The adjacent 610-lot **Sienna Rise** and **Sienna North** developments are carrying forward strong sales into FY20. Sienna Rise is virtually sold out and sales continue at Sienna North where customers have been attracted by the terrace house product which provides quality at a lower price point. Intensive civil construction work will continue during FY20 to deliver over 350 lots.

Carolina, located in Deanside, was launched in FY19 with the opening of the sales office. This 322-lot land-only subdivision is being delivered under a development agreement supporting efficient deployment of capital. Carolina offers customers lots suitable for a range of housing types including terrace and traditional product. Delivery of the first stage is expected in FY21.

In FY20 Villa World will launch its core house and land product at the 471-lot **Marlee** project. This marks a return to the affordable turnkey house and land market in Victoria and will predominately feature three and four-bedroom, designer homes. A mix of some terrace product will provide quality homes to customers at an affordable price point.

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. **Elyssia** a 303-lot land-only project at Wollert has been master planned as a modern family address. The joint venture project offers customers lots in a diverse range of sizes including terrace house product. Villa World has partnered with leading Melbourne builders to offer a contemporary lifestyle range of two and three-bedroom terrace homes which are attracting first home buyers. The timing of delivery has been deferred due to delays in obtaining planning approval and negotiations of site infrastructure arrangements. The Company now expects the first completed lots to be delivered in 2022.



Lilium - Clyde

At **Donnybrook**, the Company and its joint venture partner continue to work with the planning authorities to progress the Precinct Structure Plan (PSP). The Company's share of revenue from the sale of both parcels at Donnybrook will be recognised progressively in line with the staged settlements, and is dependent on the outcome of the PSP approval process. Revenue is expected to be recognised from 1H21, underpinning earnings through to FY24.

MELBOURNE SOUTH EAST

Lilium, around 60 kilometres south-east of the Melbourne CBD, offers an address right on the doorstep of the South Eastern Corridor's growth area. Villa World's new *active8* program has been launched at Lilium with active and passive recreation zones encouraging interaction, play and exploration within the natural environment. Stages one through seven of the eleven stage, 412-lot development are nearly sold out and intensive civil construction will see a further 150 lots produced in FY20. Strong unconditional sales have been carried forward and will settle through FY20 and FY21.

Sienna North - Plumpton

Lilium - Clyde

Carolina - Deanside

CURRENT PORTFOLIO
New South Wales

SOUTH WEST SYDNEY

The Western Sydney Airport, currently under construction, is contributing to growth and demand in this region. The major development of nearby Oran Park Town has extensive new facilities including council chambers, shopping centre, medical precinct, library, schools, recreation facilities, medium rise office buildings and apartment towers, as well as ultimately more than 10,000 residential dwellings.

The Company has strategically positioned itself in Oran Park Town with a variety of housing products and precincts. **Concourse**, comprising 61 homes close to the town centre, is under construction and selling. Concourse and its partner project, **The Chase**, are being delivered under a capital lite model. Construction at The Chase is complete on the initial stages which provide customers with the opportunity to select from affordable terraces and medium density homes with prices starting under $600,000. **Aston**, located within 200 meters of the Oran Park Podium shopping centre, a future park and train station, features 33 designer terrace homes ranging in size and style. Construction on stages 1 and 2 are complete and sales are underway.

NORTH WEST SYDNEY

Western Sydney remains one of Australia's fastest growing residential corridors. The Hills Shire is centrally located in Sydney's North West and is home to the Box Hill Growth Centre Precinct. The recently opened Sydney Metro Northwest provides rapid rail transit to the Chatswood major business district on Sydney's North Shore.

During FY19, the 42 designer homes at **Allure** were sold out and completed. Villa World continues its presence in this growth area with the **Hillsbrook** project, offering a further 25 designer homes plus land lots. Sales are expected to launch in FY20.

Aston - Oran Park Town

The Chase - Oran Park Town

The Chase - Oran Park Town

Oran Park Town

CURRENT PORTFOLIO **Queensland**

LOGAN CITY

More than 320,000 people call the city of Logan home, and the region's population is growing in popularity each year. It's central location and proximity to Brisbane City, Ipswich, and the Gold Coast plus extensive recreation areas gives residents multiple work and lifestyle options.

The flagship 1502-lot joint venture **Covella** community, just 30km from Brisbane CBD and strategically positioned between the commercial centres of Springfield and Logan, is unfolding. The two feature community parks have been completed and the 19-lot display village is under construction and due to open in November 2019. The 153-hectare site is part of what is tipped to be South East Queensland's new population and employment powerhouse region with Covella ensuring continuance of land supply over the medium to long term. Construction is complete on the first four stages with sales progressing.

In neighbouring Park Ridge the 300-lot **Chambers Ridge** project is designed around a centerpiece community parkland and offers three and four-bedroom contemporary turnkey homes. The inclusion of attractive lifestyle features and award-winning design is a demonstration of Villa World's purpose of **Helping People Reach Home**. Our Marcoola 20 home design was recognised by HIA (Qld) in 2018 as a high quality affordable home and is attracting solid sales.

The 714-lot **Killara** residential community at Logan Reserve is well advanced with the opening of a builders' display village and delivery of the adventure park attracting plenty of interest, particularly among first home buyers seeking value and lifestyle options. The 29-home display village showcases 19 of Queensland's most prominent builders and is attracting interest in parkland homesites. Continued sales see the project over half complete.

Logan Reserve, located near the Chambers Ridge project, will deliver an estimated 250 lots over the medium term.

These projects throughout the Logan City area are key promoters of Villa World's *active8* program. Designed as lifestyle communities, residents can enjoy an active and healthy lifestyle with easy access to the natural environment and facilities providing value in years to come. This includes the provision of significant green space, parkland and recreational facilities such as cycle ways and walking paths, playgrounds, exercise stations and barbecue areas. These amenities and the proximity to major retail and transport infrastructure are attracting support from building partners as well as home buyers.

Killara Adventure Park - Logan Reserve

"The 153-hectare Covella site is part of what is tipped to be South East Queensland's new population and employment powerhouse region..."

Covella - Greenbank

Covella - Greenbank

CURRENT PORTFOLIO **Queensland**

GOLD COAST

Arundel Springs, a premier development, offers extensive parks, walking and cycling tracks, play zones and lush landscapes. The final two premium stages were delivered during FY19 and the project is expected to sellout in FY20.

The **Arundel Springs Residence** offers 87 designer three-bedroom townhouses with an inspiring aspect overlooking the central parklands, with easy access to light rail, health and education precincts. Construction of the initial stage is complete and proving popular with both owner-occupiers and investors.

At **Coomera**, a 35 lot house and land project will commence sales in FY20. The homes will be delivered under a capital lite structure.

BRISBANE NORTH

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

The latest signature address, **The Meadows** in Strathpine, is now taking shape. The 392 family-sized designer homes feature as part of a riverside parkland development. The family-focused project includes extensive recreation facilities with cycle tracks, exercise stations and parkland dotted with community gardens sprouting fruits and vegetables. Three display homes are now open and sales and delivery are well progressed across the first four stages. In addition to designer homes, 34 townhomes will be released in FY20.

Acacia, at Burpengary, will deliver 88 affordable homes with sales to commence in FY20. Additionally, a neighbouring site will provide 70 homes under a capital lite structure.

Also in the North is a 291-lot land project under planning in **Upper Caboolture**, close to the Caboolture River and a short drive west of the Morayfield retail centre. An additional 450 lots in the neighbouring suburb of **Bellmere** are expected to contribute to sales in FY22 and ensure the Company's continued supply in this market for the medium term.

Arundel Springs - Arundel

The Meadows - Strathpine

BRISBANE SOUTH

The Orchard, located at Doolandella on the northern fringe of the Logan Motorway, is nearing sellout with only townhomes remaining. This project will be completed during FY20.

The Meadows - Strathpine

REGIONAL QUEENSLAND

Villa World continued to record steady sales at its contemporary lifestyle project, **Augustus**, on the Central Queensland Coast. The project offers affordable homes primarily to first home buyers and downsizers predominantly relocating from interstate.

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

Augustus - Hervey Bay

"Brisbane North has proven a highly successful market for the Company, with strong brand recognition driving continued demand."

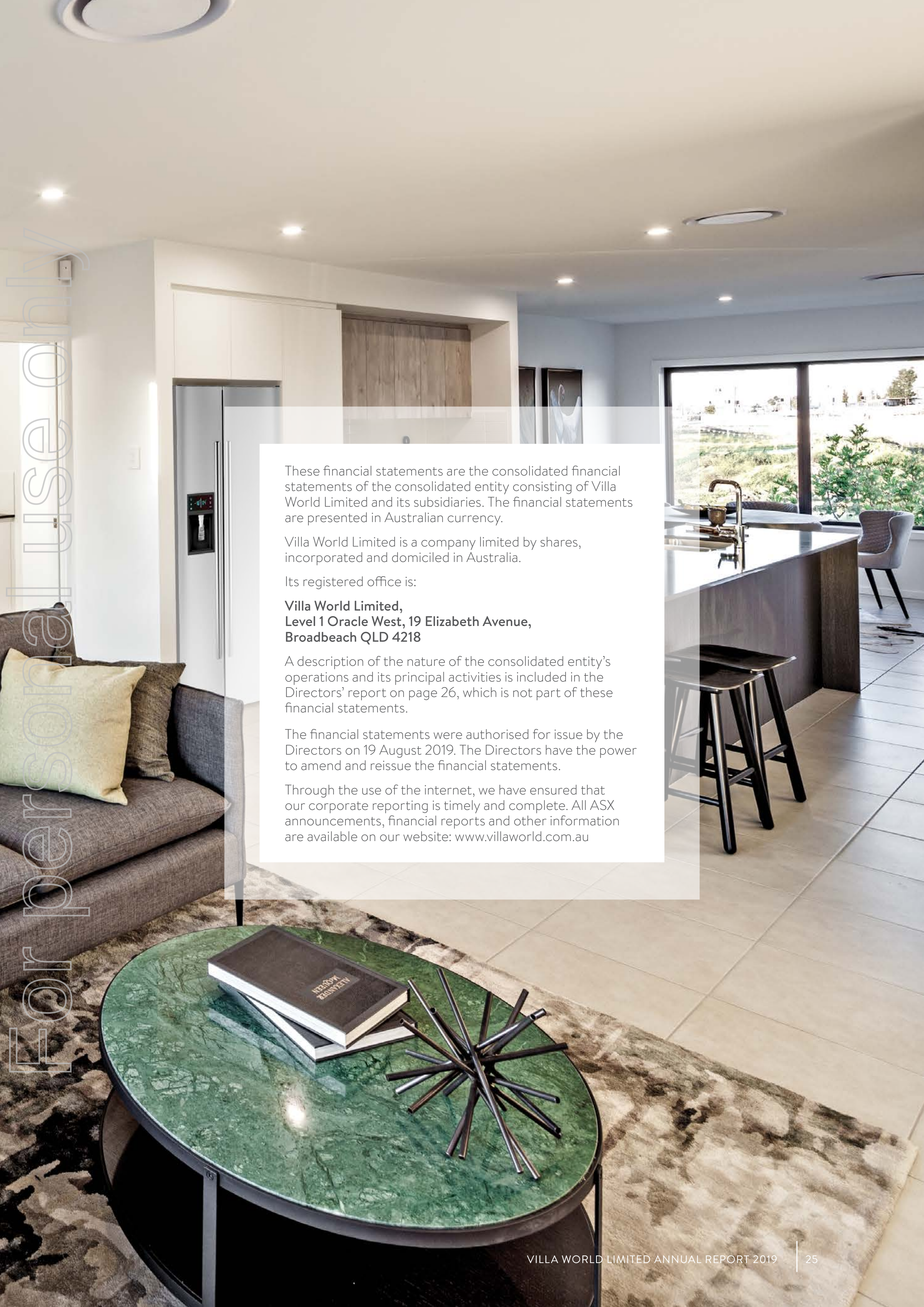
VILLA WORLD LIMITED
ABN 38 117 546 326

ANNUAL REPORT

30 JUNE 2019

Contents

VILLA WORLD



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

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

Its registered office is:

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

A description of the nature of the consolidated entity's operations and its principal activities is included in the Directors' report on page 26, which is not part of these financial statements.

The financial statements were authorised for issue by the Directors on 19 August 2019. The Directors have the power to amend and reissue the financial statements.

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

DIRECTORS' REPORT

Your Directors present their report on the consolidated entity (referred to hereafter as the Company) comprising of Villa World Limited and its subsidiaries and the Company's interest in associates for the year ended 30 June 2019.

PRINCIPAL ACTIVITIES

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

DIRECTORS

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

MARK JEWELL

BCom CA (SA), GAICD

Non-Executive Director
since 28 November 2013

Chairman
since 28 May 2014

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

Board Committee memberships

- Chair of the Remuneration and Nomination Committee (since 30 April 2019)
- 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.

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 Board member of international law firm Pinsent Masons, having previously established and lead its Australian business. Prior to these roles, 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 membership

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

Other directorships (current and recent)

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

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

DONNA HARDMAN

MBA, BCom, GAICD, FAMI

Non-Executive Director
since 17 February 2016

Resigned 30 April 2019

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

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

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

Board Committee membership

- Chair of the Remuneration and Nomination Committee (17 February 2016 – 30 April 2019)
- Member of the Audit and Risk Committee (since 17 February 2016 – 30 April 2019)

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 (01 September 2016 - 23 September 2016)
- Australian Military Bank (1 July 2017 - 12 February 2018)
- Powerwrap Limited (since 16 January 2019)

LISA MACCALLUM

BA, BCom, CA

Non-Executive Director
since 15 August 2018

As an independent director for Villa World, Lisa brings a unique blend of skills and experience across brand strategy, consumer insights, purposeful business and leadership alignment. Her experience with global brands, the complexities of international trade and business and multi-sector, multi-stakeholder global alliance leadership provides valuable insight and new possibilities to the management team.

Lisa is co-author of Inspired INC. and founder of Inspired Companies, a brand strategy and purposeful business focused enterprise. She began her professional life in Accounting, Finance and Consulting with KPMG in Australia and the USA and subsequently enjoyed a long career at NIKE Inc (2001-2014). Based in the USA at Nike's Oregon headquarters, Lisa held executive leadership positions in commercial and brand strategy across Nike's product and sales divisions, was Managing Director of the Nike Foundation and Vice President of NIKE's Corporate Philanthropy and Global Community Investments.

Prior to joining NIKE, Lisa co-founded a Tokyo-based multi-media and executive education company, Business Breakthrough, Inc. She is a World Economic Forum Young Global Leader Alumni; Special advisor to KAO Corporation Japan's ESG Board Committee; Founding Chair of the World Sporting Goods Industry's Physical Activity Committee; Non-executive director of Bond University Limited and Director of British Telecom PLC.'s Sustainable Business Board 2016 to 2019.

VW Board Committee membership

- Member of Remuneration and Nomination Committee (since 30 April 2019)
- Member of the Audit and Risk Committee (since 30 April 2019)

Other directorships (current and recent)

In the past three years Lisa has served on the following Boards:

- KAO Corporation - Japan - Board Advisory member (May 2019 - present)
- Bond University Limited - Qld - Non Executive Director (Jan 2017 - present)
- British Telecom PLC - London - Board Advisory member (July 2016 - May 2019)

COMPANY SECRETARY

BRAD SCALE

LLB

General Counsel
since 29 October 2012

Company Secretary
since 3 July 2017

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

DIRECTORS' INTERESTS

Directors' interests in shares and performance rights of Villa World Ltd as at the date of this report		
	Number of ordinary shares	Number of performance rights
Mark Jewell	107,127	-
Craig Treasure	1,137,053	1,160,393
David Rennick	54,155	-
Lisa MacCallum	-	-

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 2019, including the number of meetings attended by each Director are:

	Board meetings [1]		Audit and Risk Committee [2]		Remuneration and Nomination Committee	
	A	B	A	B	A	B
Mark Jewell	21	22	2	3	4	4
Craig Treasure	22	22	3	3	4	4
David Rennick	21	22	3	3	4	4
Donna Hardman	18	20	3	3	3	3
Lisa MacCallum	20	20	0	0	2	2

A = Number of meetings attended.
B = Number of meetings held during the time the Director held office or was a member of the committee during the period.
[1] The number of Board meetings increased during FY19 due to the AVID Scheme.
[2] Due to the increased number of Board meetings during FY19, the number of Audit and Risk Committee meetings reduced from four to three.

DIVIDENDS

The Board declared an interim dividend of 8.0 cents per share fully franked on 12 February 2019. Payment was made to shareholders on 2 April 2019. The Directors have not recommended the payment of a final dividend in the current year.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Binding Scheme Implementation Agreement with AVID

On 8 July 2019, Villa World announced that it had entered into a Binding Scheme Implementation Agreement with AVID, under which AVID would acquire all shares in Villa World for a cash price of $2.345 (Scheme). The Board unanimously recommend that shareholders vote in favour of the Scheme, in the absence of a Superior Proposal and subject to an independent expert concluding and continuing to conclude that the Scheme is in the best interests of Villa World shareholders.

Villa World expects to dispatch a Scheme Booklet to Villa World shareholders in September 2019 and to give share holders the opportunity to vote on the Scheme in mid-October 2019. Subject to shareholder approval and the other conditions of the Scheme being satisfied, the Scheme is expected to be implemented in late October/ early November 2019. These dates are indicative and subject to change.

Changes to Banking Facility

The Company has been operating a $190 million Club Financing Arrangement with ANZ ($140 million) and Westpac ($50 million), with a staggered maturity.

As at 13 August 2019, ANZ is now the sole lender under the arrangement, having increased its facility limit to $190 million and extended the maturity dates to: $50 million on 31 October 2021; $90 million on 31 October 2022; $50 million on 31 October 2023.

This, together with the $50 million simple corporate bonds maturing in April 2022, will provide funding for the Company's ongoing requirements for its core business.

Review of operations and consolidated results

Group Financial Summary	Consolidated 2019 $'000	Consolidated 2018 $'000
Revenue from continuing operations		
Revenue from land development, residential building and construction contracts	**391,609**	441,573
Cost of land development, residential building and construction contracts	**(291,111)**	(323,975)
Gross margin before interest and net impairments	**100,498**	117,598
Capitalised interest and net impairments	**(7,492)**	(6,157)
Gross margin	**93,006**	111,441
Development management fees	**1,266**	11,134
Other income	**1,114**	1,049
Share of profit / (loss) from associates and joint ventures	**2,089**	6,374
Expenses from ordinary activities	**(61,290)**	(65,102)
Other finance costs	**(3,837)**	(2,914)
Profit before income tax	**32,348**	61,982
Income tax expense	**(9,396)**	(18,348)
Profit for the period	**22,952**	43,634

A review of operations for the financial year and the results of those operations are detailed in the Operating and Financial Review on page 8.

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 2019

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 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 2019, which is available in the Corporate Governance section of its website at www.villaworld.com.au/corporate-governancestatement-2019

ANNUAL STATEMENT BY THE REMUNERATION AND NOMINATION COMMITTEE CHAIR

This year's report reflects the clear linkages between the Company's remuneration settings and overall business strategy, which includes a commitment to clarity and consistency in reporting. This approach has served the Company well. It was pleasing to note that shareholders voted in favour of the Remuneration Report at the Company's FY18 Annual General Meeting, with 97.32% of votes cast in favour.

Key Management Personnel

There were no changes to Villa World's Key Management Personnel (KMP) during FY19, which includes Chief Executive Officer (CEO) Craig Treasure, Chief Operating Officer (COO) Michael Vinodolac, Chief Financial Officer (CFO) Lorelei Nieves and General Manager, Sales & Marketing Robyn Valmadre.

Short term incentives

Two performance gateways must be achieved in order for executives to attain payments under Villa World's Short Term Incentive (STI) scheme. These relate to the Company's Net Profit After Tax (NPAT) target, and the achievement of key Health and Safety indicators.

No STI payments were awarded for the year ending 30 June 2019, as the NPAT performance gateway was not achieved.

The Company recorded an NPAT of $23.0 million, down 47% on the FY18 result. The Board noted that this result was reflective of declines in the Australian residential housing market.

The Board also noted that the result does not reflect the hard work of the Company's executives and their respective teams, and their commitment to delivering on the Company's overall strategy and navigating the Australian residential property market cycle.

In relation to the second performance gateway, the Company maintained its Certifications due to the strong embedded cultural focus on Health and Safety and the Environment.

Long term incentives

The Villa World Long Term Incentive Plan (LTIP) has been effective in ensuring alignment between the performances of eligible executives to long-term company performance. This is an important mechanism to drive the Company's employee ownership culture as executives acquire shares through the vesting of successive performance rights granted under the LTIP. Performance measures are based on relative Total Shareholder Return (TSR) and Return on Assets (ROA).

Explanations of the TSR and ROA calculations are provided in the Remuneration Report, along with performance rights granted under the LTIP during FY19. The number and value of performance rights held by executives is also disclosed in the report.

Executive employment agreements

Remuneration and other terms of employment for executives are formalised in employment agreements. During FY19, retention incentives were introduced for KMPs and other key relevant personnel, with an expiry date of 12 months from the date of the relevant employment contract variations. A retention bonus was introduced to address potential uncertainty relating to the offer from AVID Property Group Australia Pty Limited (AVID) to acquire all shares in Villa World (Scheme). The CEO and Managing Director is not a participant of the retention incentive scheme. However, as a separate consideration, the termination notice period for this role was increased from six months to 12 months. This will ensure continuity of the current CEO and Managing Director regardless of the existing potential takeover offer outcome.

Fixed annual remuneration

The CEO's base salary increased by 2% during FY19, in proportion to general CPI.

Executives received increases ~6% - 8.1% in Fixed Annual Remuneration (FAR) in recognition of consistent high performance, natural progression in relation to increased responsibilities, knowledge and experience, and delivery of business strategy. These increases ensured competitive compensation in relation to industry peers.

Non-Executive Directors remuneration

A review of Non-Executive Director fees was undertaken during FY19, based on externally provided comparative market data. Within the shareholder approved maximum aggregate fee amount, the Board approved increases of ~6% - 11% to the base fees for Non-Executive Directors ensuring Villa World remains competitive with comparable companies, while reducing the level of fee increase from previous years as the fees become closer in line with the median market comparatives. Board and Committee fees are detailed in the report.

Looking ahead

The Committee will continue its efforts to encourage an open and constructive dialogue with shareholders and their representatives.

The Committee acknowledges the correlation between highly engaged employees and a positive culture delivering strong financial returns. We look forward to continuing to implement Villa World's leadership development framework in order to inform and deliver on its broader people and culture development strategies.

These strategies focus on growing a purpose-led, customer centric and inclusive company culture, continuing to create career pathways for our people, value for our customers and supporting the overall journey to **Helping People Reach Home**.

The Board acknowledges the valuable contribution and commitment to the Company of former Director Donna Hardman over her tenure, and wishes her every success in the future. Ms Hardman's resignation from the Board and as Chair of the Remuneration and Nomination Committee took effect from 30 April 2019.

Mark Jewell
Chair, Remuneration and Nomination Committee

Craig Treasure, Mark Jewell, Lisa MacCallum and David Rennick

REMUNERATION REPORT 2019 (AUDITED)

CONTENTS

REMUNERATION REPORT GLOSSARY

AGM	Annual General Meeting	**LTIP**	Villa World Limited executive long-term incentive plan
CEO/MD	Chief Executive Officer / Managing Director	**NED**	Non-Executive Director
CFO	Chief Financial Officer	**NPBT**	Net profit before tax
EY	Ernst & Young	**RNC**	Remuneration and Nomination Committee
FY19	The 2019 fiscal year	**ROA**	Return on assets
KMP	Key Management Personnel	**SBP**	Share based payments
KPI	Key Performance Indicator, the basis for STI	**STI**	Short-term incentive
LTI	Long-term incentive	**TSR**	Total shareholder return

REMUNERATION REPORT 2019 (AUDITED)

SECTION A: INTRODUCTION

The Villa World Limited Board is pleased to present the Remuneration Report for FY19.

The Board is committed to clear and transparent communication of remuneration arrangements. The approach to remuneration remains firmly aligned to delivery against Company purpose and beliefs, strategy and continuing to create sustained growth in shareholder value.

Villa World's purpose and beliefs have served as guiding principles of director and employee behaviour during FY19 as the Company has demonstrated agility in navigating the Australian residential property market cycle. The Company's remuneration strategy, policies and practices are designed to attract and retain the best people and reward employees for exhibiting these behaviours. Remuneration levels are competitive with executives in comparable companies and roles, and regularly reviewed against performance measures and targets.

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

SECTION B: WHO IS COVERED BY THIS REPORT?

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

Table A below lists the Company's KMP during the 2019 financial year. The term 'executives' refers to those individuals listed as Executive Directors or as Other KMP in the table below.

Table A: Key Management Personnel

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

[1] Donna Hardman resigned on 30 April 2019.
[2] Lisa MacCallum was appointed on 15 August 2018.

SECTION C: REMUNERATION FRAMEWORK AND LINK TO PERFORMANCE

Villa World's remuneration framework aligns long-term shareholder value to the success of our people.

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

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

REMUNERATION REPORT 2019 (AUDITED)

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

Table B summarises the executive remuneration structure in place during FY19.

Table B: Executive remuneration structure

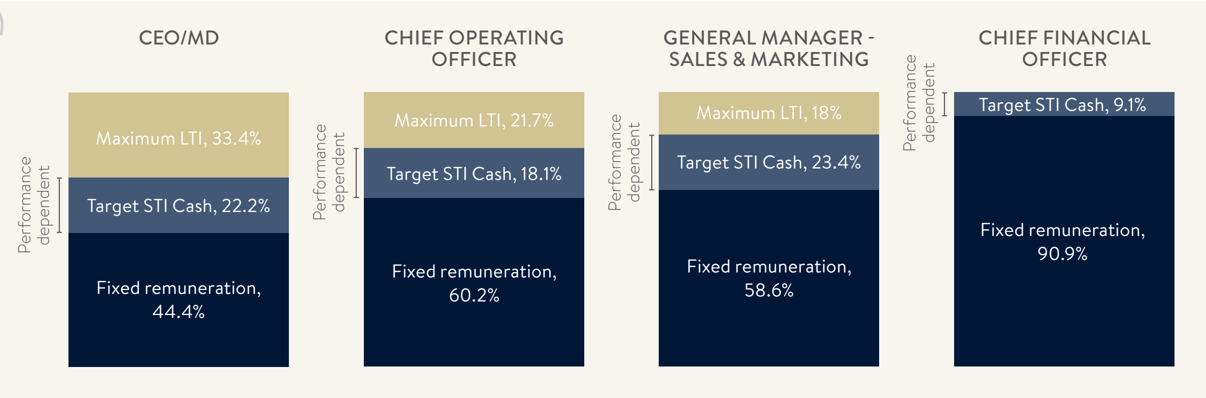
	Component	Performance conditions	Purpose and link to strategy
Fixed Remuneration	**Fixed Annual Remuneration (FAR)** Salary and other benefits (including statutory superannuation)	Consideration is given to the scope of each individual's role and their level of knowledge, skills and expertise.	Set to attract, retain and motivate the right talent to deliver on strategy and contribute to the Company's financial and operational performance. For executives who are new to their roles, the aim is to set fixed remuneration at relatively modest levels compared to their peers and to progressively increase levels as they gain experience and develop in their roles. In this way fixed remuneration is linked to individual performance and effectiveness.
At risk remuneration	**Short-Term Incentive (STI)** Annual incentive opportunity delivered in cash	STI performance criteria are set by reference to financial and strategic measures and individual performance targets relevant to the specific position. An overarching eligibility criteria, in the form of a '**Gateway**' must be met before consideration of individual KPI achievements are recognised in the form of an STI payment for executives. The '**Gateway**' criteria is made up of two key overarching companywide KPI's: - group NPAT must be at least 80% of financial year target - the Company must promote and maintain certification of the Health Safety Environment (HSE) Management System under the Australian Standards for safety and international standards for environment **Financial measures** - include EPS, gross margin and gearing level and reflect the alignment of business strategy to create sustainable value for security holders. **Strategic measures** - develop a framework that is brand, customer and people focussed while supporting technology, innovation and sustainability. **People and culture measures** - focus on leadership development and succession planning. Driving a customer centric culture from the inside out and promoting greater diversity and overall inclusion across the business. **Individual performance objectives** - aligned to strategic objectives.	Performance conditions are designed to support the financial and strategic direction of the Company (the achievement of which is intended to translate through to shareholder return), and are clearly defined and measureable. A large proportion of outcomes are subject to earnings targets of the Company. Other financial targets ensure strong operational discipline is maintained. Non-financial targets are aligned to the purpose and beliefs within key strategic growth objectives. The Board has discretion to adjust STI outcomes up or down to ensure that individual outcomes are appropriate and are aligned to the Company's purpose and strategic priorities.
	Long-Term Incentive (LTI) A deferred equity award of conditional rights subject to performance conditions measured over a three year performance period	Performance conditions which must be satisfied before the conditional right vests include: **Relative Total Shareholder Return (TSR)** - represents 75% of LTI allocation **Return On Asset (ROA)** - represents 25% of LTI allocation The performance conditions are independent and tested separately. Performance measures are disclosed in Section G: a) (i).	Allocation of performance rights encourages executives to 'behave like shareholders' from the grant date. The performance rights are restricted and subject to risk of forfeiture during the vesting/performance periods. The performance conditions are designed to encourage executives to focus on the key performance drivers which underpin sustainable growth in shareholder value.

REMUNERATION REPORT 2019 (AUDITED)

SECTION D: OUR FOCUS ON PERFORMANCE

The weighting of at-risk remuneration components reflects the Board's commitment to performance-based reward. Figure (i) below illustrates the mix of remuneration components for the FY19 financial year.

Figure (i): Remuneration mix



SECTION E: FIXED ANNUAL REMUNERATION (FAR) PERFORMANCE MEASURES AND OUTCOMES FOR FY19

a) Performance measures

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

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

b) Performance outcomes

The CEO's base salary was increased by 2% during FY19, consistent with general CPI movement. Other executives received increases (~6% - 8.1%) in FAR in recognition of consistent high performance, natural progression in relation to increased responsibilities, knowledge and experience, and delivery of business strategy. These increases ensured competitive compensation compared to industry peers.


Craig Treasure & Mark Jewell

SECTION F: SHORT-TERM INCENTIVE (STI) PERFORMANCE MEASURES AND OUTCOMES FOR FY19

a) Performance measures

The STI framework places a meaningful proportion of executives' remuneration at risk, to be received based on the achievement of performance measures. Those measures are linked to the Company's annual business objectives, as well as an overall STI gateway. The STI gateway is an overarching eligibility criteria in the form of two key company-wide performance measures, before consideration of the individual performance measures for each executive.

The STI gateway criteria relate directly to Net Profit After Tax (NPAT) and Workplace Health and Safety performance.

The maximum STI amounts were increased in FY19, ranging between 0-50%, an increase from the previous cap of 40% of FAR. The Board has discretion to pay over and above the maximum amount. The increase in maximum STI amounts is a reflection on the focus towards driving a number of key short-term strategic priorities that will deliver greater long-term shareholder value. A sliding scale element is incorporated into the relevant performance measures to motivate executives to outperform base targets. Table C summarises the relevant executive performance measures.

Table C: 2019 STI performance measures

	CEO/MD	COO	GM SALES & MARKETING	CFO
Financial performance	50%	50%	40%	40%
Strategic initiatives	35%	20%	20%	25%
People and culture measures	15%	15%	20%	15%
Operational excellence priorities	-	15%	20%	20%
Total	**100%**	**100%**	**100%**	**100%**

STI gateway

Two overarching performance gateways must be achieved in order for executives to attain their target STI. Firstly, Company NPAT must be at least 80% of target. This was not achieved for FY19, resulting in no STI payments for executives.

Not rewarding executives in relation to the non-achievement of the NPAT STI gateway supports the Company's consistent approach to its remuneration strategy, in aligning executive remuneration opportunities to shareholder outcomes.

To achieve the second hurdle, the Company must promote and maintain certification of the Health Safety and Environment (HSE) Management System under the Australian Standards for safety and International Standard for environment. The nature of the Company's business demands a strong focus on safety and sustainable performance improvement every year. The role that safety plays in supporting the Company's culture and purpose of **Helping People Reach Home** is core to our business success and to the way that we collaborate with and value our business partners and customers. During FY19 the Company maintained the following two levels of certification due to the strong embedded cultural focus on HSE; Australian Standard 4801 Occupational Health and Safety Management System and ISO 1401 Environmental Management Systems.

b) Performance outcomes

Although the STI gateway was not met and executives will not receive STI payments for FY19, the performance outcomes driving STI are reported below for transparency and acknowledgement of factors leading to the reported results.

SECTION F: SHORT-TERM INCENTIVE (STI) PERFORMANCE MEASURES AND OUTCOMES FOR FY19 (CONT.)

(i) Financial performance

A significant portion of the STI outcome for each executive is based on the achievement of financial results which include earnings per share (EPS), gearing, gross margin and sales volumes. The assessment of the overall financial health of the business ensures that executives are rewarded for decisions and outcomes that deliver results in the short-term, while also delivering sustainable long-term value in the interests of shareholders.

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

Table D: Five year company performance

Performance KPI	FY15	FY16	FY17	FY18	FY19 [1]
Revenue ($m)	$321.6	$387.0	$386.8	$441.6	**$391.6**
Net profit after tax ($m)	$25.6	$33.7	$37.8	$43.6	**$23.0**
Debt ($m)	$92.0	$128.6	$81.5	$183.8	**$121.9**
Gearing (%)	16.9%	25.6%	12.9%	29.7%	**24.1%**
NTA per security ($)	$2.00	$2.15	$2.27	$2.44	**$2.28**
Dividends (relating to the year)					
Interim dividend (cents)	6.0	8.0	8.0	8.0	**8.0**
Final dividend (cents)	10.0	10.0	10.5	10.5	**0.0**
Earnings per share (cents)	25.6	30.6	32.5	34.4	**18.2**
Share price at 30 June	$2.00	$2.08	$2.25	$2.22	**$2.21**

[1] FY19 results are accounted for under AASB 15

(ii) Strategic initiatives

Strategic initiatives remain focussed on developing a purpose-led framework that is brand, customer and people centric, while supporting technology, innovation and sustainability. Measures include:

- design of a robust customer Net Promoter Score (NPS) system
- development and rollout of a customer self-service portal
- implementation of a program to improve customer NPS ratings
- continued re-branding of purpose and beliefs
- debt and capital restructuring considerations to support investing in a forward growth strategy across all areas of operation.

During FY19 the Company continued the rollout of its technology strategy to enable better informed business decisions through access to more timely, accurate and consolidated data. This strategic initiative ensures greater consistency of business processes and also supports delivery of the Company's broader customer centricity strategy.

(iii) People and culture measures

There is direct correlation between high levels of employee engagement and a positive culture resulting in greater customer engagement and satisfaction, and as a result, delivering strong shareholder returns. The STI framework includes a range of metrics focused on developing leadership and team capability, fostering a service-centric culture and team structure, identifying and retaining key talent while promoting greater diversity and inclusion across the business.

During FY19, the Company continued the implementation of its leadership development framework in order to inform and deliver on broader people and culture development strategies. These strategies focus on growing a purpose-led, customer centric and inclusive company culture, continuing to create career pathways for our people, value for our customers and supporting the overall journey of **Helping People Reach Home**.

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SECTION F: SHORT-TERM INCENTIVE (STI) PERFORMANCE MEASURES AND OUTCOMES FOR FY19 (CONT.)

(iv) Individual performance targets

Performance measures vary by role and from year-to-year for individuals and are primarily linked to the successful achievement of short-term strategic objectives leading to overall long term company sustainability. Targets for individual performance measures are not disclosed as some are commercially sensitive. While no STI payment is applicable to executives for FY19, some individual non-financial performance targets were achieved.

While external factors negatively impacted the Company's financial results for FY19, resulting in no STI payments to executives, this does not detract from the ongoing commitment and focus of the executives and their respective teams to implement the Company's strategic objectives.

The Board and Leadership Team recognise the importance of striking the right balance between financial and non-financial targets and hold a strong belief that non-financial targets are critical in creating long-term financial value to shareholders.

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

a) Performance measures

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

The Villa World LTIP is the long-term at-risk incentive component of remuneration for executives and other participants who are considered to have influence over the long-term performance of the Company. Performance rights are granted, subject to forfeiture until the end of the relevant three year performance period. Maximum LTIP opportunities are equivalent to 120% of fixed remuneration for the CEO/MD and up to 60% of fixed remuneration for other executives.

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

Table E: Long-term incentive plan performance measures

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

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

Performance measures (cont.)	Relative TSR (75% of the LTI allocation) (cont.)	Absolute ROA (25% of the LTI allocation) (cont.)
	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 similar size and reflect the Company's competitors for capital. The TSR for the Company is measured over three financial years.	Average funds employed will be calculated by taking the opening and closing funds employed for each relevant year. Funds employed is defined as net assets excluding net tax balances, net debt, other financial liabilities and assets, and liabilities as a result of hedging (in accordance with accounting standards).

Relative TSR performance			ROA performance		
Performance level	Relative TSR (percentile)	Percentage vesting	Performance level	Relative ROA (percent)	Percentage vesting
<Threshold	<50th	Nil	<Threshold	<12%	Nil
Threshold	50th	50%	Threshold	12%	50%
Threshold to maximum	>50th to 75th	Straight line vesting between 50-100%	Threshold to maximum	>12% to 13.5%	Straight line vesting between 50-100%
Maximum	75th and above	100%	Maximum	13.5% and above	100%

b) Equity instruments granted to executives under the Villa World Executive Long-Term Incentive Plan (LTIP)

For executives, the LTIP is an important mechanism to drive the Company's employee ownership culture as executives acquire shares through the vesting of successive LTIP awards. The number and value of performance rights held by KMP under the LTIP during the financial year ended 30 June 2019 is set out in Table F.

Table F: Performance rights held as at 30 June 2019

KMP		Performance rights awarded	Value [1]	Value of performance rights at grant date	Expiry date	Performance period end date	Expected price volatility of shares	Expected dividend yield	Risk free interest rate	Vested
Craig Treasure	FY19	389,166	$1.19	$461,162	31/08/2021	30/06/2021	21.4%	8.9%	2.0%	-
	FY18	383,699	$1.70	$652,288	31/08/2020	30/06/2020	21.8%	7.7%	1.9%	-
	FY17	387,528	$1.44	$558,040	23/08/2019	30/06/2019	25.0%	8.2%	1.9%	-
Michael Vinodolac	FY19	105,180	$1.19	$124,638	31/08/2021	30/06/2021	21.4%	8.9%	2.0%	-
	FY18	97,909	$1.70	$165,956	31/08/2020	30/06/2020	21.8%	7.7%	1.9%	-
	FY17	97,582	$1.44	$140,518	23/08/2019	30/06/2019	25.0%	8.2%	1.9%	-
Robyn Valmadre	FY19	78,885	$1.19	$93,479	31/08/2021	30/06/2021	21.4%	8.9%	2.0%	-
	FY18	74,976	$1.70	$127,084	31/08/2020	30/06/2020	21.8%	7.7%	1.9%	-
	FY17	76,669	$1.44	$110,403	23/08/2019	30/06/2019	25.0%	8.2%	1.9%	-

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

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

c) Performance outcomes

On 8 July 2019, Villa World announced that it had entered into a Scheme Implementation Agreement with AVID Property Group Australia Pty Limited (AVID), under which AVID would acquire all shares in Villa World for a cash price of $2.345 (Scheme Consideration) (Scheme). The Scheme will be described in greater detail in the Scheme Booklet which Villa World expects to despatch to shareholders in September 2019.

Under the terms of the Scheme Implementation Agreement, Villa World must put in place arrangements so that all Villa World Performance Rights vest or lapse before the Scheme Record Date if the Scheme becomes effective.

Under the terms of the LTIP, in the event of a proposed change of control of the Company, the Board has discretion to determine the treatment of any unvested performance rights and the timing of such treatment. Consistent with the terms of the LTIP, the Board (excluding Mr Treasure) has exercised its discretion and determined that subject to the Scheme becoming effective, all outstanding performance rights will vest early. The Board (excluding Mr Treasure) made this determination having regard to a range of factors, including the contribution by executives to the overall performance of the Company, which the Board believes has been a key factor in making the Company attractive to an acquirer such as AVID at the Scheme Consideration offered.

If the Scheme becomes effective, performance rights will vest and shares will be issued to the holders which will then be acquired by AVID in exchange for payment of the Scheme Consideration to the holders.

If the Scheme does not become effective, all outstanding performance rights will remain on foot and their vesting will be determined in accordance with the applicable performance criteria for the relevant performance period. Section G: c) (i) below sets out the measurement for the FY17 allocation of performance rights, if the Scheme does not become effective.

(i) FY17 LTIP Grant

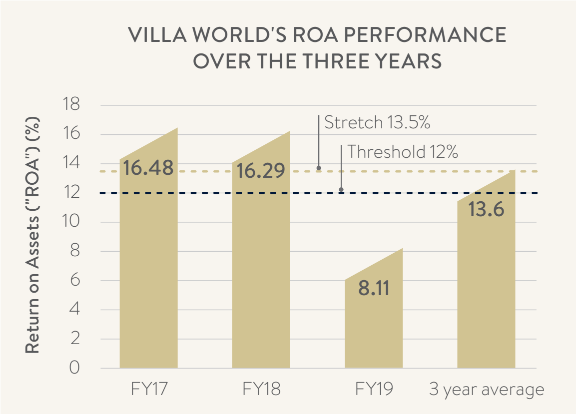
This section sets out the measurement of performance criteria, and the vesting of performance rights, for the FY17 allocation (granted in November 2016) for the three year performance period ended 30 June 2019. This will apply only if the Scheme does not become effective.

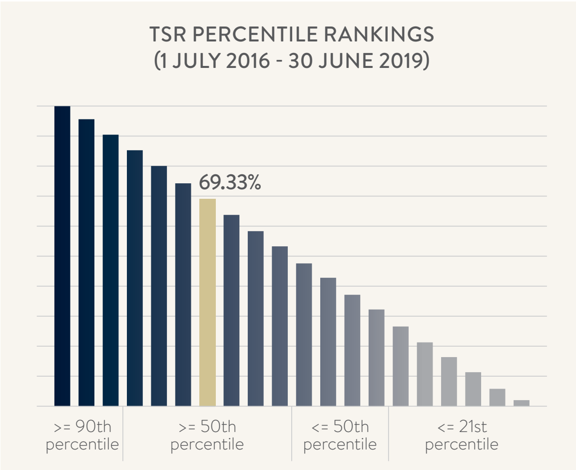
Vesting of LTIP grants is dependent on achieving relative TSR performance (for 75% of the allocation) and absolute ROA targets (for 25% of the allocation) over a three year period, with the Board having over-arching discretion to ensure vesting outcomes are appropriately aligned to performance.

The Company's average ROA over the relevant performance period was 13.6% resulting in 100% vesting for this component.

The Company achieved a relative TSR of 69.33% over the relevant performance period, resulting in approximately 88.7% vesting for the TSR component.

If the Scheme is not effective, the total number of performance rights vesting for executives for the FY17 allocation will be approximately 91% of those granted. Vesting, and the allocation of shares in satisfaction of such vesting, will occur following the termination of the Scheme.





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

(ii) FY19 LTIP Grant

The fourth allocation of performance rights under the LTIP to the CEO & Managing Director was approved at the 2018 Annual General Meeting (AGM). Table G shows LTI grants awarded during the year, subject to performance conditions over the three year performance period ending 30 June 2022. Accounting standards require the estimated valuation of the grants to be recognised over the performance period. The maximum value is based on the estimated fair value calculated at the time of the grant and amortised in accordance with the accounting standard requirements.

Table G: Performance rights granted during FY19

KMP	Performance measure	Performance rights awarded	Fair value per performance right	Value of performance rights at grant date[1]	Expiry date	Performance period end date	Expected price volatility of shares	Expected dividend yield	Risk free interest rate
Craig Treasure	Relative TSR	291,875	$1.07	$312,306	30/06/2021	30/06/2021	21.42%	8.86%	2.04%
	Absolute ROA	97,292	$1.53	$148,856	30/06/2021	30/06/2021	21.42%	8.86%	2.04%
Total		**389,166**		**$461,162**					
Michael Vinodolac	Relative TSR	78,885	$1.07	$84,407	30/06/2021	30/06/2021	21.42%	8.86%	2.04%
	Absolute ROA	26,295	$1.53	$40,231	30/06/2021	30/06/2021	21.42%	8.86%	2.04%
Total		**105,180**		**$124,638**					
Robyn Valmadre	Relative TSR	59,164	$1.07	$63,305	30/06/2021	30/06/2021	21.42%	8.86%	2.04%
	Absolute ROA	19,721	$1.53	$30,174	30/06/2021	30/06/2021	21.42%	8.86%	2.04%
Total		**78,885**		**$93,479**					

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

Arundel Residences - Arundel

REMUNERATION REPORT 2019 (AUDITED)

SECTION H: REMUNERATION GOVERNANCE

The Company's remuneration strategy requires approval by the Board, following recommendations from the Remuneration and Nomination Committee (RNC). The role of the RNC is set out in its charter, which was reviewed during FY19 and can be viewed in the Investor Relations, Corporate Governance section of the Villa World website, www.villaworld.com.au/investor-centre/corporate-governance

Villa World's Remuneration Objectives

- Remuneration is fair and delivers a competitive advantage in attracting, motivating and retaining executive talent
- Creation of reward differentiation to drive performance values and behaviours
- Provide equal opportunity and enhance diversity
- An appropriate balance of fixed and at risk components
- Support strategic direction of Villa World and create sustained growth in shareholder value

Covella active8 Fun Day

SECTION H: REMUNERATION GOVERNANCE (CONT.)

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

Figure (iii): Remuneration governance structure

THE BOARD
Reviews, applies judgement and, as appropriate, approves the RNC's recommendations

REMUNERATION & NOMINATION COMMITTEE
The RNC is empowered to source any internal resources and obtain external independent professional advice it considers necessary to enable it to make recommendations to the Board on the following:

Remuneration policy, composition and quantum of remuneration components for exexutive KMP and performance targets	Remuneration policy in respect of NEDs	Talent management policies and practices	Design features of employee and executive STI and LTI plan awards, including setting of performance and other vesting conditions

Independent External Remuneration Advisors	Internal Resources
• External benchmarking • Remuneration Structure and mix • At risk approaches (STI & LTI) • Alignment of remuneration strategy • Proxy advisor considerations	**CEO** • Recommendations on remuneration outcomes for executive team • External and independent remuneration advice and information **Management** • Implementing remuneration policies

a) Remuneration report approval at the FY18 AGM

Of the eligible votes cast at the Company's AGM held on 16 November 2018, 97.32% were in favour of the remuneration report for FY18. The Company did not receive any specific feedback at the AGM on its remuneration practices. The RNC will continue to encourage an open and constructive dialogue with shareholders and their representative bodies, and will consult with major shareholders on any material changes to the remuneration policy or how it is implemented. The Company acknowledges that the executive remuneration landscape is evolving and of the potential for change.

b) Use of Remuneration Advisers

To assist in performing its duties and making recommendations to the Board, the RNC seeks independent advice from external consultants on various remuneration related matters including insights on remuneration trends, regulatory updates and market data in relation to the remuneration of Non-Executive Directors and executives. No remuneration recommendations as defined in Section 9B of the *Corporation Act 2001* were obtained during the financial year ended 30 June 2019.

c) Clawback of STI and LTIP awards

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

SECTION H: REMUNERATION GOVERNANCE (CONT.)

d) Securities dealing policy

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

e) Cessation of employment

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

f) Executive Employment Agreements

Remuneration and other terms of employment for executives are formalised in employment agreements. Specific information relating to the terms of the agreements for the current executives is set out in table H below.

During FY19, retention incentives were introduced for executives and certain other key personnel in addition to other remuneration components, for the following key reasons associated with having received the AVID proposal:

(i) the difficulty in retaining executives due to increased uncertainty in the workplace.

(ii) to the difficulty in recruiting replacement executives due to future uncertainty if executives aren't retained or replaced, there is potential impact on operations, productivity and profitability (and share price), in an already challenging market.

The maximum retention payment for any executive is $120,000 comprised of the following components:

- ~40% payable regardless of whether a change of control occurs, to be paid the earlier of two weeks prior to the change of control date, or 15 November 2019.
- ~60% payable only if there is a change of control, to be paid 12 months after the change of control date or upon the earlier redundancy of the executive.

The CEO and Managing Director is not a participant of the retention incentive strategy.

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

Table H: Executive employment agreements

	Base fee inclusive of superannuation	Term of agreement	Notice period	Review period	Maximum annual cash bonus (%) [1]
CEO/MD					
Craig Treasure	$740,000	Rolling	12 months [2]	Annual	50%
Other KMP					
Michael Vinodolac	$400,000	Rolling	3 months	Annual	30%
Lorelei Nieves	$250,000	Rolling	3 months	Annual	10%
Robyn Valmadre	$360,000	Rolling	3 months	Annual	40%

[1] Anticipated cash bonus as a proportion of base salary depending on corporate and individual performance.
[2] During FY19, Craig Treasure's notice period was extended from 6 months to 12 months.

SECTION I: ACTUAL REMUNERATION RECEIVED IN FY19

Table I sets out the value of remuneration received by executive KMP for FY19 and FY18.

Table I: Executive remuneration value FY18 and FY19

		Short-term benefits		Post-employment	Long-term benefits	Share-based payments [8]				
		Salary and fees	Cash Bonus [9]	Superannuation contributions	Long service leave [7]	Share options	Performance Rights	Termination benefits	Retention incentive	TOTAL
		$	$	$	$	$	$	$	$	$
Non-Executive Directors										
Mark Jewell (Chairman)	**2019**	**168,950**	-	**16,050**	-	-	-	-	-	**185,000**
	2018	159,817	-	15,183	-	-	-	-	-	175,000
David Rennick	**2019**	**109,589**	-	**10,411**	-	-	-	-	-	**120,000**
	2018	100,457	-	9,543	-	-	-	-	-	110,000
Donna Hardman [1]	**2019**	**91,324**	-	**8,676**	-	-	-	-	-	**100,000**
	2018	100,457	-	9,543	-	-	-	-	-	110,000
Lisa MacCallum [2]	**2019**	**80,670**	-	**7,664**	-	-	-	-	-	**88,334**
	2018	-	-	-	-	-	-	-	-	-
Total Non-Executive Directors	**2019**	**450,533**	-	**42,801**	-	-	-	-	-	**493,334**
	2018	360,730	-	34,269	-	-	-	-	-	395,000
Other KMP										
Craig Treasure (CEO and MD) [3]	**2019**	**736,969**	**261,000**	**20,531**	**21,315**	-	**557,812**	-	-	**1,597,627**
	2018	711,794	278,000	20,049	10,741	-	515,415	-	-	1,535,999
Michael Vinodolac	**2019**	**379,469**	**104,895**	**20,531**	**13,517**	-	**144,043**	-	**16,511**	**678,966**
	2018	349,951	87,500	20,049	16,842	-	122,227	-	-	596,569
Lorelei Nieves [4]	**2019**	**229,470**	**24,725**	**20,531**	**7,963**	-		-	**16,511**	**299,200**
	2018	41,069	-	3,819	1,876	-		-	-	46,764
Robyn Valmadre	**2019**	**339,469**	**96,390**	**20,531**	**8,880**	-	**110,579**	-	**16,511**	**592,360**
	2018	319,951	66,000	20,049	9,351	-	79,288	-	-	494,639
Brett Delaney [5]	**2019**	-	-	-	-	-	-	-	-	-
	2018	236,250	-	-	-	-	-	-	-	236,250
Paulene Henderson [6]	**2019**	-	-	-	-	-	-	-	-	-
	2018	68,879	-	5,012	-	-	-	269,446	-	343,337
Total other KMP	**2019**	**1,685,377**	**487,010**	**82,124**	**51,675**	-	**812,433**	-	**49,533**	**3,168,152**
	2018	1,727,894	431,500	68,978	38,810	-	716,930	269,446	-	3,253,559
TOTAL	**2019**	**2,135,910**	**487,010**	**124,925**	**51,675**	-	**812,433**	-	**49,533**	**3,661,486**
	2018	2,088,625	431,500	103,247	38,810	-	716,930	269,446	-	3,648,558

[1] Donna Hardman resigned as Non-Executive Director on 30 April 2019.
[2] Lisa MacCullum appointed as Non-Executive Director on 15 August 2018.
[3] Base salary for Craig Treasure includes a motor vehicle allowance of $17,500 for the year ended 30 June 2019 (30 June 2018: $6,843).
[4] Lorelei Nieves was appointed Chief Financial Officer on 18 April 2018.
[5] Brett Delaney was temporarily appointed Acting CFO from 3 July 2017 up to 18 April 2018.
[6] Paulene Henderson resigned as CFO and Company Secretary on 5 June 2017 but remained a KMP until 3 July 2017.
[7] Long service leave represents the amount expensed by the Company for the period.
[8] The amount shown in share-based payments represents the amount expensed by the Company.
[9] Cash bonus relates to FY18 STI achievement.

REMUNERATION REPORT 2019 (AUDITED)

SECTION J: EQUITY INSTRUMENT DISCLOSURES

a) Interests in shares and bonds

A summary of the current KMPs interests in shares and bonds in Villa World as at 30 June 2019 is shown in the Table J below.

Table J: KMP interest in shares and bonds

	Shares						Bonds					
	Balance at the start of the year		Other changes during the year		Balance at the end of the year		Balance at the start of the year		Other changes during the year		Balance at the end of the year	
	Direct holding	Indirect holding	Direct holding	Indirect holding	Direct holding	Indirect holding	Direct holding	Indirect holding	Direct holding	Indirect holding	Direct holding	Indirect holding
Directors												
Mark Jewell	-	107,127	-	-	-	**107,127**	-	-	-	-	-	-
Craig Treasure	752,432	582,432	(217,811)	20,000	**534,621**	**602,432**	-	-	-	-	-	-
David Rennick	4,359	48,737	1,059	-	**5,418**	**48,737**	-	-	-	-	-	-
Donna Hardman [1]	28,737	-	(28,737)	-	-	-	-	-	-	-	-	-
Lisa MacCallum	-	-	-	-	-	-	-	-	-	-	-	-
Other KMP												
Michael Vinodolac	51,979	-	(42,941)	90,611	**9,038**	**90,611**	-	-	-	-	-	-
Lorelei Nieves	2,171	-	2,347	-	**4,518**	-	-	-	-	-	-	-
Robyn Valmadre	428	7,000	-	-	**428**	**7,000**	-	-	-	-	-	-
Total	**840,106**	**745,296**	**286,083**	**110,611**	**554,023**	**855,907**	-	-	-	-	-	-

[1] Donna Hardman resigned as a Non-Executive Director on 30 April 2019

b) Interests in performance rights

A summary of the current KMPs holdings in LTIP performance rights as at 30 June 2019 is shown in Table K below.

Table K: KMP performance rights holding

	Balance at the start of the year	Granted during the year	Vested during the year	Forfeited/ lapsed during the year	Balance at the end of the year	Vested and exercisable
Directors						
Craig Treasure	1,088,129	389,166	(262,189)	(54,713)	**1,160,393**	-
Other KMP						
Michael Vinodolac	251,829	105,180	(46,611)	(9,727)	**300,671**	-
Robyn Valmadre	151,645	78,885			**230,530**	-
Total	**1,491,603**	**573,231**	**(308,800)**	**(64,440)**	**1,691,594**	-

SECTION K: NON-EXECUTIVE DIRECTORS' REMUNERATION

a) Policy and approach to setting fees

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

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

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

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

The Non-Executive Directors' fees (comprising base and committee fees inclusive of superannuation) have been set by the Board within the maximum aggregate amount of $600,000 per annum as approved by shareholders at the 2018 AGM.

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

A review of Non-Executive Director fees was undertaken during FY19, based on externally provided comparative market data. Within the shareholder approved maximum aggregate fee amount, the board approved increases of ~6%-11% to the base fees for Non-Executive Directors ensuring the Company remains competitive with comparable companies, while reducing the level of fee increase from previous years as the fees become closer in line with the median market comparatives.

This increase also reflects the increased calibre, time commitment and responsibilities of the Non-Executive Directors as the Company continues to mature within the ASX300.

c) Board and committee fees

Following the Directors fee review as referred to above, the Board approved increases to base and committee fees (inclusive of statutory superannuation) as per the below table:

Table L: Board and committee fees

Base fees	**FY19**	**FY18**
Non-Executive Chair	**$185,000**	$175,000
Non-Executive Directors	**$100,000**	$90,000
Additional fees		
Committee Chair	**$20,000**	$20,000

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

Indemnification

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

Insurance premiums

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

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

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

Indemnity of auditors

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

Non-audit services

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

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

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

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 49.

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
19 August 2019

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Building a better working world

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

As lead auditor for the audit of the financial report of Villa World Limited for the financial year ended 30 June 2019, 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

Ernst & Young

Alison de Groot
Partner
19 August 2019

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FINANCIAL STATEMENTS

Consolidated statement of comprehensive income
For the year ended 30 June 2019

	Notes	Consolidated 30-Jun-19 $'000	Consolidated 30-Jun-18 $'000
Revenue from continuing operations			
Revenue from land development, residential building and construction contracts	A1(a)	**391,609**	441,573
Cost of land development, residential building and construction contracts	A1(a)	**(291,111)**	(323,975)
Gross margin before interest and net impairments		**100,498**	117,598
Capitalised interest and net impairments	A1(a)	**(7,492)**	(6,157)
Gross margin		**93,006**	111,441
Development management fees	A1(b)	**1,266**	11,134
Other income		**1,114**	1,049
Share of profit from associates and joint ventures	D3	**2,089**	6,374
Other expenses from ordinary activities			
Property sales and marketing expenses		**(22,745)**	(25,509)
Land holding costs		**(6,340)**	(4,559)
Legal and professional costs		**(2,051)**	(2,515)
Employee benefits		**(23,111)**	(25,037)
Depreciation and amortisation expense		**(777)**	(710)
Administration costs and other expenses		**(6,266)**	(6,772)
Other finance costs	C5	**(3,837)**	(2,914)
Profit before income tax		**32,348**	61,982
Income tax expense	A5(b)	**(9,396)**	(18,348)
Profit for the year		**22,952**	43,634
Profit is attributable to:			
Owners of Villa World Limited		**22,952**	43,634

	Notes	Cents	Cents
Earnings per share for profit attributable to the ordinary equity holders of the Company:			
Basic earnings per share	A2	**18.2**	34.4
Diluted earnings per share	A2	**18.0**	34.2

	Notes	Consolidated 30-Jun-19 $'000	Consolidated 30-Jun-18 $'000
Profit for the year		**22,952**	43,634
Other comprehensive income			
Items that may be reclassified to profit or loss			
Changes in the fair value of cash flow hedges	C3(a)	**(143)**	1,803
Income tax relating to these items	A5(c)	**43**	(541)
Other comprehensive income for the year, net of tax		**(100)**	1,262
Total comprehensive income for the year, net of tax		**22,852**	44,896
Total comprehensive income for the year is attributable to:			
Owners of Villa World Limited		**22,852**	44,896

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

Consolidated balance sheet
As at 30 June 2019

	Notes	Consolidated 30-Jun-19 $'000	Consolidated 30-Jun-18 $'000
ASSETS			
Current assets			
Cash and cash equivalents		**6,569**	12,645
Trade and other receivables	B2	**2,436**	130,206
Inventories	B1	**182,981**	167,590
Contract assets	B3	**122**	-
Other current assets	B4	**4,184**	4,187
Total current assets		**196,292**	314,628
Non-current assets			
Inventories	B1	**242,054**	233,967
Property, plant and equipment		**1,965**	2,063
Investments accounted for using the equity method	D3	**31,709**	27,260
Deferred tax assets	A5(d)	**561**	-
Contract assets	B3	**1,978**	-
Other non-current assets	B4	**10,004**	10,000
Total non-current assets		**288,271**	273,290
Total assets		**484,563**	587,918
LIABILITIES			
Current liabilities			
Trade and other payables	B5	**46,827**	64,474
Deferred income		**-**	42
Current tax liabilities	A5(b)	**1,022**	2,353
Employee benefits	B6(c)	**1,172**	1,298
Service warranties	B6(a)	**3,644**	4,266
Total current liabilities		**52,665**	72,433
Non-current liabilities			
Trade and other payables	B5	**24,053**	13,547
Borrowings	C4	**121,892**	183,786
Deferred tax liabilities	A5(d)	**-**	7,979
Employee benefits	B6(c)	**479**	453
Total non-current liabilities		**146,424**	205,765
Total liabilities		**199,089**	278,198
Net assets		**285,474**	309,720
EQUITY			
Contributed equity	C2	**474,259**	477,611
Other reserves	C3(a)	**243,334**	241,021
Accumulated losses		**(432,119)**	(408,912)
Capital and reserves attributable to owners of Villa World Limited		**285,474**	309,720
Total equity		**285,474**	309,720

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 2019

		Attributable to owners of Villa World Limited					
Consolidated	Notes	**Contributed equity $'000**	**Cash flow hedges $'000**	**Other reserves $'000**	**Profit Reserve $'000**	**Accumulated losses $'000**	**Total $'000**
Balance at 1 July 2017		477,597	(1,262)	1,489	208,284	(398,370)	287,738
Profit for year as reported in the 2018 financial statements		-	-	-	-	43,634	43,634
Movement in hedge reserve (net of tax)		-	1,262	-	-	-	1,262
Total comprehensive income for the year		**-**	**1,262**	**-**	**-**	**43,634**	**44,896**
Transfer current year profit to profit reserve	C3(a)	-	-	-	54,172	(54,172)	-
Dividends provided for or paid	A4(a)	-	-	-	(23,481)	-	(23,481)
Expenses related to share based payments	C3(a)	-	-	793	-	-	793
Employee Share Scheme tax impact	C3(a)	-	-	(236)	-	(4)	(240)
Shares allocated by the Employee Share Scheme Trust	C2	91	-	-	-	-	91
Shares acquired by Employee Share Scheme Trust	C2	(77)	-	-	-	-	(77)
		14	-	557	30,691	(54,176)	(22,914)
Balance at 30 June 2018		**477,611**	**-**	**2,046**	**238,975**	**(408,912)**	**309,720**
Balance at 1 July 2018		477,611	-	2,046	238,975	(408,912)	309,720
Adoption of new accounting standard		-	-	-	-	(20,573)	(20,573)
Restated total equity at the beginning of the financial year	E5(h)(iii)	477,611	-	2,046	238,975	(429,485)	289,147
Profit for the year as reported in the 30 June 2019 financial statements		-	-	-	-	22,952	22,952
Movement in hedge reserve (net of tax)		-	(100)	-	-	-	(100)
Total comprehensive income for the year		**-**	**(100)**	**-**	**-**	**22,952**	**22,852**
Transfer current year profit to profit reserve	C3(a)	-	-	-	25,586	(25,586)	-
Dividends provided for or paid	A4(a)	-	-	-	(23,338)	-	(23,338)
Expenses related to share based payments	C3(a)	-	-	941	-	-	941
Employee Share Scheme tax impact	C3(a)	-	-	(71)	-	-	(71)
Shares acquired for entitlements under LTIP	C3(a)	-	-	(705)	-	-	(705)
Shares allocated by Employee Share Scheme Trust	C2	743	-	-	-	-	743
Shares acquired by Employee share scheme Trust	C2	(725)	-	-	-	-	(725)
Shares acquired as part of share buy-back		(3,370)	-	-	-	-	(3,370)
		(3,352)	-	165	2,248	(25,586)	(26,525)
Balance at 30 June 2019		**474,259**	**(100)**	**2,211**	**241,223**	**(432,119)**	**285,474**

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 2019

	Notes	Consolidated 30-Jun-19 $'000	30-Jun-18 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**415,871**	396,887
Receipts from the transfer of development rights		**-**	18,951
Payments to suppliers and employees (inclusive of goods and services tax)		**(289,527)**	(292,267)
Cash generated from trading activities		**126,344**	123,571
Payments for land acquired		**(29,875)**	(155,516)
Interest received		**432**	358
Interest paid		**(9,972)**	(7,996)
Income tax paid	A5(b)	**(11,001)**	(21,542)
Borrowing costs		**(281)**	(120)
GST received / (paid)		**12,439**	(6,395)
Net cash (outflow) / inflow from operating activities	A6	**88,086**	(67,640)
Cash flows from investing activities			
Payments for property, plant and equipment		**(662)**	(1,518)
Payments for equity accounted investments	D3	**(8,851)**	(23,167)
Distributions received from equity accounted investments	D3	**5,193**	19,636
Net cash outflow from investing activities		**(4,320)**	(5,049)
Cash flows from financing activities			
Proceeds from borrowings		**56,942**	225,353
Repayment of borrowings		**(119,389)**	(124,215)
Payments for shares acquired by Employee Share Scheme Trust	C2	**(725)**	(77)
Payments for shares acquired as part of the share buyback	C2	**(3,370)**	-
Proceeds from shares allocated under Employee Share Scheme Trust		**38**	91
Dividends paid to Company's shareholders	A4(a)	**(23,338)**	(23,481)
Net cash inflow / (outflow) from financing activities		**(89,842)**	77,671
Net (decrease) / increase in cash and cash equivalents		**(6,076)**	4,982
Cash and cash equivalents at the end of the previous financial year		**12,645**	7,663
Cash and cash equivalents at end of year		**6,569**	12,645
Reconciliation to cash at the end of the year:			
Cash and cash equivalents		**6,569**	12,645
Cash and cash equivalents at the end of the year:		**6,569**	12,645

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

Contents of the notes to the consolidated financial statements

Notes to the consolidated financial statements
30 June 2019 (continued)

RESULTS FOR THE YEAR

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

In this section:

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

A1 Revenue

(a) Gross margin

	Notes	Consolidated 30-Jun-19 $'000	Consolidated 30-Jun-18 $'000
Revenue from land only development		**210,237**	207,617
Revenue from land development, residential building and construction contracts		**181,372**	233,956
Revenue from land development, residential building and construction contracts		**391,609**	441,573
Cost of land only development		**(130,550)**	(142,554)
Cost of land development, residential building and construction contracts		**(160,180)**	(180,919)
Other direct costs		**(381)**	(502)
Cost of land development, residential building and construction contracts		**(291,111)**	(323,975)
Gross margin before interest and net impairments		**100,498**	117,598
Gross margin before interest and net impairments		**25.7%**	26.6%
Cost of inventory sold			
Cost of land development, residential building and construction contracts		**(291,111)**	(323,975)
		(291,111)	(323,975)
Capitalised interest expense	C5	**(6,593)**	(5,758)
Net impairment of development land[1]		**(899)**	(399)
		(7,492)	(6,157)
Total cost of inventory sold		**(298,603)**	(330,132)
Gross margin		**93,006**	111,441
Gross margin		**23.7%**	25.2%

1. For the year ended 30 June 2019, total impairment reversals attributable to lots sold is $1 million (30 June 2018: $1.3 million).

(b) Development management fees

	Consolidated 30-Jun-19 $'000	Consolidated 30-Jun-18 $'000
Opportunity fee - Wollert joint venture[1]	**-**	7,301
Project management fees - Rochedale joint venture	**227**	1,921
Project management fees - Villa Green joint venture	**665**	759
Project management fee - Wollert joint venture	**250**	-
Commission and other fees - Rochedale joint venture	**124**	1,153
	1,266	11,134

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

A1 Revenue (continued)

(c) Accounting for revenue

(i) Revenue recognition from 1 July 2018

Land development and residential housing

Villa World's contracts with customers typically include a single performance obligation which is fulfilled when the completed land or house and land package is transferred to the customer. This is satisfied at settlement, which is when control and legal title pass to the customer who can then benefit from the use of the asset.

Construction contracts

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments. The Company recognises revenue over time on the basis of direct measurements of the value to the customer for the goods transferred to date, relative to the remaining goods promised under the contract using the output method. 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.

Development management fees

Significant accounting judgement

The Company is responsible for performing different services under each respective Joint Venture including project management, sales and marketing and administrative management. The Company recognises revenue on the basis of its efforts to the satisfaction of the performance obligation relative to the expected efforts using the input method. Revenue is typically recognised over time, in accordance with the timing of the performance obligations specified under each contract.

The transaction prices include a fixed percentage as per the terms of each contract. The total transaction price may include variable consideration such as sale proceeds of the underlying development or a percentage variable based on the number of lots sold in a financial year.

(ii) Accounting policies applied until 30 June 2018

As the Company chose not to restate comparatives upon adopting *AASB 15* under the modified retrospective approach, the comparative information provided continues to be accounted for in accordance with the Company's previous accounting policy.

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

Land development and residential housing

Significant accounting judgement

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

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

Development management fees

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

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

A2 Earnings per share

(a) Basic and diluted earnings per share

	Consolidated	
	30-Jun-19	30-Jun-18
	$'000	$'000
Profit attributable to the ordinary equity holders of the Company	**22,952**	43,634

	Shares	Shares
	'000	'000
Weighted average number of ordinary shares used in calculating basic earnings per share	**125,948**	126,926
Weighted average number of diluted shares used in calculating diluted earnings per share	**127,620**	127,383

	Cents	Cents
Basic earnings per share	**18.2**	34.4
Diluted earnings per share	**18.0**	34.2

(b) Accounting for earnings per share

(i) Basic earnings per share

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

(ii) Diluted earnings per share

Diluted earnings per share adjusts the basic earnings per share for the dilutive effect of any instrument, such as performance rights and options that could be converted into ordinary securities. Refer note E2(b) for equity instruments outstanding as at 30 June 2019.

A3 Segment information

(a) Identification of reportable operating segments

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

The Company is organised into two reportable segments:

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

(ii) Property development and construction - Victoria.

The Company and its controlled entities develop and sell residential land and buildings predominately in Queensland, New South Wales and Victoria. During this financial year, the Company assessed that its reportable segments were also its operating segments.

A3 Segment information (continued)

(a) Identification of reportable operating segments (continued)

(i) Gross margin from reportable operating segments

The segment information provided to the executive team for the reportable segments for the year ended 30 June 2019 is as follows:

	Property development and construction - Qld and NSW		Property development and construction - Victoria		Total	
	30-Jun-19 $'000	30-Jun-18 $'000	**30-Jun-19 $'000**	30-Jun-18 $'000	**30-Jun-19 $'000**	30-Jun-18 $'000
From continuing operations						
Segment revenue	**348,288**	372,915	**43,321**	68,658	**391,609**	441,573
Segment expenses before interest and net impairments	**(256,646)**	(271,766)	**(34,465)**	(52,209)	**(291,111)**	(323,975)
Gross margin before interest and net impairments	**91,642**	101,149	**8,856**	16,449	**100,498**	117,598
Segment capitalised interest and net impairments	**(6,486)**	(5,291)	**(1,006)**	(866)	**(7,492)**	(6,157)
Gross Margin	**85,156**	95,858	**7,850**	15,583	**93,006**	111,441

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

(b) Segment information provided to the executive team

(i) Segment Revenue

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

(ii) Segment gross margin

The executive team assesses the performance of the operating segments based on a measure of gross margin. This measurement basis consists of revenue from land development, residential building and construction contracts less cost of land, development, construction, capitalised interest and impairments.

Notes to the consolidated financial statements
30 June 2019 (continued)

A4 Dividends

(a) Ordinary shares

	Consolidated	
	30-Jun-19 $'000	30-Jun-18 $'000
Final fully franked ordinary dividend for the year ended 30 June 2018 of 10.5 cents per fully paid share paid on 28 September 2018 (2017: 10.5 cents per share)		
Final franked dividend based on tax paid at 30.0%	**13,327**	13,327
Interim dividend for the year ended 30 June 2019 of 8.0 cents per fully paid share (2018: 8.0 cents per fully paid share) paid on 2 April 2019.		
Interim franked dividend based on tax paid at 30.0%	**10,011**	10,154
	23,338	23,481

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

The Directors have not recommended the payment of a final dividend in the current year (30 June 2018: 10.5 cents per fully paid ordinary shares, $13.3 million).

(c) Franking credits

	Consolidated	
	30-Jun-19 $'000	30-Jun-18 $'000
Franking credits available for subsequent reporting periods based on a tax rate of 30.0% (2018 - 30.0%)	**16,122**	15,119
Franking credits that will arise from the payment of income tax payable as at the end of the financial year	**1,022**	2,353
	17,144	17,472

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.

(d) Accounting for dividends

When determining dividend return to shareholders, the Company considers a number of factors, including the Company's anticipated cash requirements to fund its growth and operational plans and current and future economic conditions. According to these anticipated needs, the Company will not be declaring a final dividend for FY19. The payout ratio for FY19 is 44% which is below the dividend policy range of 50% - 75% of net profit after tax. Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

A5 Taxes

(a) Accounting for taxes

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

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

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

Tax consolidation legislation

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

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

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

	Consolidated	
	30-Jun-19	30-Jun-18
	$'000	$'000
Profit from continuing operations before income tax expense	**32,348**	61,982
Tax at the Australian tax rate of 30% (2018 - 30%)	**9,704**	18,595
Other	**(305)**	(84)
Adjustments for current and deferred tax of prior periods	**(3)**	(163)
	(308)	(247)
Income tax expense	**9,396**	18,348
Current tax amounts recognised in equity	**71**	238
Movement in temporary differences	**203**	(5,466)
Income tax payable for the financial year	**9,670**	13,120
Income taxes payable at the beginning of the financial year	**2,353**	10,775
Income taxes paid	**(11,001)**	(21,542)
Income tax payable at 30 June	**1,022**	2,353
Income tax expense		
Current tax	**9,599**	12,882
Deferred tax	**(203)**	5,466
	9,396	18,348
Movement in deferred income tax included in income tax expense		
(Increase) in deferred tax assets	**(370)**	(18,692)
Increase in deferred tax liabilities	**167**	24,158
	(203)	5,466

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

	Consolidated	
	30-Jun-19	30-Jun-18
	$'000	$'000
Cash flow hedges	**43**	(541)
Total tax expense relating to items of other comprehensive income	**43**	(541)

Notes to the consolidated financial statements
30 June 2019 (continued)

A5 Taxes (continued)

(d) Deferred tax assets and tax liabilities

The balance comprises temporary differences attributable to:

	Deferred tax assets		Deferred tax liabilities		Net	
	30-Jun-19	30-Jun-18	**30-Jun-19**	30-Jun-18	**30-Jun-19**	30-Jun-18
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
Inventories	**2,669**	29,306	**(5,112)**	(3,976)	**(2,443)**	25,330
Accruals	**59**	737	**-**	-	**59**	737
Employee benefit	**495**	539	**-**	-	**495**	539
Provisions	**1,123**	1,307	**-**	-	**1,123**	1,307
Property, plant and equipment	**223**	178	**-**	-	**223**	178
Investments accounted for using the equity method	**2,280**	2,292	**-**	-	**2,280**	2,292
Other	**204**	318	**(683)**	(45)	**(479)**	273
Capitalised expenditure	**234**	219	**-**	-	**234**	219
Trade debtors	**-**	-	**-**	(38,029)	**-**	(38,029)
Other current debtors	**-**	-	**(931)**	(825)	**(931)**	(825)
Tax assets / (liabilities)	**7,287**	34,896	**(6,726)**	(42,875)	**561**	(7,979)
Movements						
As at 1 July	**34,896**	16,745	**(42,875)**	(18,717)	**(7,979)**	(1,972)
- adoption of new accounting standard	**(28,022)**	-	**36,316**	-	**8,294**	-
- to profit or loss	**370**	18,692	**(167)**	(24,158)	**203**	(5,466)
- through equity	**43**	(541)	**-**	-	**43**	(541)
As at 30 June	**7,287**	34,896	**(6,726)**	(42,875)	**561**	(7,979)

Accounting for deferred tax assets and liabilities

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

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

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

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

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

(e) Critical accounting estimates and assumptions for income taxes

The Company is subject to income taxes in Australia.

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

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

	Consolidated	
	30-Jun-19	30-Jun-18
	$'000	$'000
Profit for the year	**22,952**	43,634
Depreciation and amortisation	**777**	710
Capitalised interest and fees	**26**	(510)
Amortisation of borrowing costs	**502**	456
Net gain on disposal of property, plant and equipment	**(28)**	(56)
Share of gain from associate	**(3,464)**	(6,374)
Net gain on disposal of associate	**-**	(85)
Accrued income	**260**	-
Net impairment / (reversal of impairment) of development land	**899**	399
Non-cash employee benefits expense	**941**	-
Transaction with equity accounted investment	**-**	7,599
Hedge ineffectiveness on interest rate swaps	**-**	19
Change in operating assets and liabilities:		
(Increase) / decrease in trade debtors	**3,791**	(77,578)
Decrease in inventories	**73,012**	76,406
(Decrease) in trade payables	**(7,141)**	(111,374)
(Decrease) / increase in deferred tax liabilities	**(246)**	6,007
Increase / (decrease) in other operating assets and liabilities	**(2,142)**	1,351
(Decrease) in other provisions	**(2,053)**	(8,244)
Net cash (outflow) / inflow from operating activities	**88,086**	(67,640)

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

	Consolidated	
	30-Jun-19	30-Jun-18
	$'000	$'000
Current assets		
Acquisition cost of land held for development and resale	**78,449**	88,077
Development costs	**100,235**	76,193
Capitalised interest	**5,545**	4,687
Impairment of development land	**(1,248)**	(1,367)
	182,981	167,590
Non-current assets		
Acquisition cost of land held for development and resale	**181,460**	188,821
Development costs	**55,118**	40,986
Capitalised interest	**12,316**	10,245
Impairment of development land	**(6,840)**	(6,085)
	242,054	233,967
Total inventory	**425,035**	401,557

Accounting for inventories

Land held for resale and development costs

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

Borrowing costs

Borrowing costs included in the cost of land held for resale are those costs that the Company incurs in connection with the borrowing of funds. Borrowing costs which are directly attributable to the acquisition, construction or production of a qualifying asset such as inventories are capitalised using the interest incurred method. In these circumstances, borrowing costs are capitalised to the cost of the assets whilst in active development until the assets are ready for their intended use or sale. In the event that a development is suspended for an extended period of time the borrowing costs are recognised as expenses. Borrowing costs attributable to the sale of land are capitalised and accounted for within cost of goods sold (refer note A1(a)) in the income statement.

B1 Inventories (continued)

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

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

B2 Trade and other receivables

Accounting for trade and other receivables

Trade receivables are non-interest bearing and generally due for settlement within 30 days.

Trade receivables property are primarily amounts due from customers from construction contracts in accordance with the Company's revenue recognition policy (refer Note A1(c)). Prior year trade receivables property were amounts due from customers from the development or sale of land; or the development, construction and sale of house and land packages in accordance with the Company's revenue recognition policy (refer note A1(c)).

Other receivables arise from uncleared settlement funds.

Accrued income includes interest received.

	Consolidated	
	30-Jun-19	30-Jun-18
	$'000	$'000
Trade receivables	**399**	587
Trade receivable properties	**144**	126,835
	543	127,422
Other receivables	**1,876**	2,766
Accrued income	**17**	18
Total trade and other receivables	**2,436**	130,206

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

The ageing of current trade receivables is as follows:

	Consolidated	
	30-Jun-19	30-Jun-18
	$'000	$'000
0 to 3 months	**540**	111,708
3 to 6 months	**3**	7,200
Over 6 months	**-**	8,514
	543	127,422

Past due but not impaired

As of 30 June 2019, the trade receivables of the Company of Nil (30 June 2018: Nil) were past due but not impaired.

Notes to the consolidated financial statements
30 June 2019 (continued)

B3 Contract assets

	Consolidated	
	30-Jun-19	30-Jun-18
	$'000	$'000
Current		
Development management fee accrued income	**122**	-
Non-current		
Development management fee accrued income	**1,978**	-
Total	**2,100**	-

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 one year of the reporting date. The remaining other assets are classified as non-current.

Advanced commissions are incremental costs of obtaining sale contracts which are recognised at settlement.

	Consolidated	
	30-Jun-19	30-Jun-18
	$'000	$'000
Current assets		
Prepayments	**1,036**	1,339
Advance commissions	**3,129**	2,751
Other	**19**	97
	4,184	4,187
Non-current assets		
Other non-current assets[1]	**10,004**	10,000
	10,004	10,000

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 aren't 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 from approval.

B5 Trade and other payables

Accounting for trade and other payables

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

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

Land acquisitions represent amounts payable when the Company enters into unconditional contacts with land vendors to secure properties for future development. Land acquisitions not due to be settled within 12 months are recorded as non-current and recorded at their net present value.

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

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

	Consolidated	
	30-Jun-19 $'000	30-Jun-18 $'000
Current liabilities		
Land acquisitions	**18,943**	21,347
Sub-contractors and materials	**2,682**	3,872
Total trade payables	**21,625**	25,219
Other current payables		
Accrued expenses	**22,538**	36,753
Other payables	**2,664**	2,502
Total current other payables	**25,202**	39,255
Total current trade and other payables	**46,827**	64,474
Non-current liabilities		
Land acquisitions	**23,147**	12,401
Other payables	**906**	1,146
Total non-current trade and other payables	**24,053**	13,547
Total payables	**70,880**	78,021

B6 Provisions and contingencies

Accounting for provisions

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

Critical accounting estimate

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

(a) Service warranties

	Consolidated	
	30-Jun-19 $'000	30-Jun-18 $'000
Current liabilities		
Service warranties	**3,644**	4,266
Total current provisions	**3,644**	4,266

A provision for warranties is recognised when the underlying products or services are sold. This service warranty is accounted for as an assurance type warranty under *AASB 15*. Provision is made for the estimated warranty claims in respect of Villa World Developments Pty Ltd built properties which are still under warranty at balance date. These claims are expected to be settled within the statutory warranty period. Where the Company expects some or all of a provision to be reimbursed, such as under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain.

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

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

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

(b) Movement in warranty provisions

Consolidated	**30-Jun-19 $'000**	**30-Jun-18 $'000**
Current liabilities		
Carrying amount at the start of the year	**4,266**	4,219
- additional provisions recognised	**1,452**	1,749
- reductions in provisions recorded[1]	**(705)**	(110)
- amounts incurred and paid	**(1,369)**	(1,592)
Carrying amount at end of year	**3,644**	4,266

1. Includes unused provisions reversed in relation to estates where warranty term has expired and/or no activity has occurred in the financial year.

(c) Provision for employee benefits

	30-Jun-19 $'000	30-Jun-18 $'000
Current		
Employee benefits	**1,172**	1,298
Non-current		
Employee benefits - long service leave	**479**	453
Total provision for employee benefits	**1,651**	1,751

B6 Provisions and contingencies (continued)

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

The current provision for employee benefits includes accrued annual leave and long service leave. Included within employee benefits is an amount of $416,380 (30 June 2018: $487,885) classified as current, since the Company does not have an unconditional right to defer settlement for this obligation. The non-current long service leave provision covers conditional entitlements where employees have not completed their required period of service, adjusted for the probability of likely realisation.

Critical accounting estimate

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

(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. The Company is not aware of any claims against employees or former employees at 30 June 2019 (30 June 2018: 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. The Company is not aware of any claims against employees and former employees at 30 June 2019 (30 June 2018: Nil).

The Company has provided bank guarantees to the total of $14.4 million (30 June 2018: $22.7 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)).

(ii) Liabilities in respect of other entities

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

As at 30 June 2019, no liability has been recognised by the Company as there is no present obligation for the Company to repay the Joint Venture borrowings and outflow is not probable.

The following table shows the financing facilities and utilisation of the Joint Ventures:

	Donnybrook Joint Venture $'000	Rochedale Joint Venture $'000	Villa Green Joint Venture $'000	Wollert Joint Venture $'000
30 June 2019				
Total financing facilities	**23,985**	**-**	**32,000**	**30,000**
Facilities utilised	**23,846**	**-**	**18,546**	**9,600**
Bank guarantees and surety bonds utilised	**-**	**-**	**1,638**	**-**
Proportion of the Company's ownership	**51%**	**-**	**50%**	**51%**

	Donnybrook Joint Venture $'000	Rochedale Joint Venture $'000	Villa Green Joint Venture $'000	Wollert Joint Venture $'000
30 June 2018				
Total financing facilities	23,985	1,000	2,318	-
Facilities utilised	22,409	-	-	-
Bank guarantees and surety bonds utilised	-	589	1,795	-
Proportion of the Company's ownership	51%	50%	50%	51%

B7 Capital and other commitments

(a) Put and call commitments

Villa World Limited, through its wholly owned subsidiaries assumed certain contractual obligations in conjunction with the execution of Put and Call Option Agreements (the Agreements) in relation to property developments within New South Wales, Victoria and Queensland.

The call options give Villa World Developments Pty Ltd (or a nominated third party) the option to purchase the lot(s) at a nominated price by the call option expiry date. The put options give the vendor the right to sell to the Company at a nominated price on expiry of the call option. The potential total commitments remaining under the Agreements are $32.9 million (30 June 2018: $13.8 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-19	30-Jun-18
	$'000	$'000
Capital commitments in relation to put and call arrangements		
Opening balance	**13,774**	16,552
Crystallised and paid commitments	**(5,044)**	(7,822)
Arrangements entered into during the period	**24,197**	5,044
Total commitments	**32,927**	13,774

(b) Joint Venture commitments

The Company has interests in a number of Joint Ventures and has commitments in relation to equity contributions to the Joint Ventures.

The estimated commitments at 30 June 2019 for Donnybrook Joint Venture is $2.6 million (2018: nil), Villa Green Joint Venture is nil (2018: $5.0 million) and Wollert Joint Venture is $4.5 million (2018: $3.1 million).

(c) Lease commitments

Accounting for leases

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

Non-cancellable operating leases

The Company has entered into leases for office space on normal commercial terms with lease terms between three and five years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the lease are renegotiated. The Company has also entered into a lease for the use of photocopiers across all business segments for a 2 year period.

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

	Consolidated	
	30-Jun-19	30-Jun-18
	$'000	$'000
Within one year	**809**	410
Later than one year but not later than five years	**2,240**	577
	3,049	987

CAPITAL STRUCTURE, FINANCE COSTS AND FINANCIAL RISK MANAGEMENT

C

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

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

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

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

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

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

Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as total debt divided by total assets adjusted for cash on hand. Total debt is secured and unsecured borrowings.

The Company's policy is to continue to manage debt levels and maintain the gearing ratio between 15% and 30%. As at 30 June 2019, the gearing ratio was 24.1% (30 June 2018: 29.7%).

The Company has complied with the financial covenants of its borrowing facilities during the 2019 and 2018 reporting periods.

		Consolidated	
		30-Jun-19	30-Jun-18
	Notes	**$'000**	$'000
Total borrowings (excluding bank guarantees)	C4(a)	**121,892**	183,786
Less: Cash and cash equivalents		**(6,569)**	(12,645)
Net debt		**115,323**	171,141
Total assets		**484,563**	587,918
Less: Cash and cash equivalents		**(6,569)**	(12,645)
		477,994	575,273
Gearing ratio		**24.1%**	29.7%

Notes to the consolidated financial statements
30 June 2019 (continued)

C2 Contributed equity

	2019 Shares '000	2018 Shares '000	30-Jun-19 $'000	30-Jun-18 $'000
Ordinary shares				
Opening balance	**126,914**	126,907	**477,611**	477,597
Shares acquired by the Employee Share Scheme Trust	**324**	(32)	**(725)**	(77)
Shares allocated by the Employee Share Scheme Trust	**(318)**	39	**743**	91
Share buy-back	**(1,766)**	-	**(3,370)**	-
	125,154	126,914	**474,259**	477,611

(a) Ordinary shares

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

(b) Treasury shares

Treasury shares refer to those shares issued to Villa World Ltd Employee Share Scheme Pty Ltd as trustee for Villa World Ltd Employee Share Scheme Trust. The shares are fully paid ordinary shares in the capital of the Company and rank equally with all other existing shares from the date issued. Under the accounting standards, the Company is deemed to control the Villa World Employee Share Scheme and the shares (and associated transactions) are eliminated on consolidation, thereby deducting these issued shares from issued capital whilst held by the Trustee. As these shares are deemed not to have been issued by the consolidated entity, they are not included in the Company's earnings per share and statements regarding the gross value of dividends, unless transacted by the Employee Share Scheme outside of the group. No gain or loss on treasury share is recognised in profit and loss. Upon disposal, any gain will be recognised in profit and loss. As at 30 June 2019, the total number of Treasury Shares on hand is 6,174 (30 June 2018: 12,500).

(c) Share-based equity instruments

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

(d) On-market Share buy-back

On 5 October 2018, the Company commenced an on market share buy-back of up to 5% of shares on issue. Activity in the buy-back ceased in March 2019 at which time the Company had purchased 1,766,341 shares at an average price of $1.91. The buy-back was a prudent deployment of capital when the share price was trading below NTA and was NTA and earnings per share accretive.

C3 Other reserves

(a) Movements in other reserves

	Notes	Consolidated 30-Jun-19 $'000	Consolidated 30-Jun-18 $'000
(i) Profits reserve			
Opening balance		**238,975**	208,284
Transfer current year profit		**25,586**	54,172
Dividends provided for or paid	A4(a)	**(23,338)**	(23,481)
Closing balance		**241,223**	238,975
(ii) Hedging reserve - cash flow hedges			
Opening balance		**-**	(1,262)
Revaluation - gross		**(143)**	1,803
Deferred tax	A5(c)	**43**	(541)
Closing balance		**(100)**	-
(iii) Share-based payments			
Opening balance		**2,046**	1,489
Share-based payments expense	E2(c)	**941**	793
Performance rights issued to employees		**(705)**	-
Employee Share Scheme tax impact		**(71)**	(236)
Closing balance		**2,211**	2,046
Total other reserves		**243,334**	241,021

(b) Nature and purpose of other reserves

(i) Profits reserve

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

(ii) Cash flow hedges

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

(iii) Share-based payments

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

C4 Borrowings

Accounting for borrowings

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

Fees paid on the establishment of loan facilities are recognised on the balance sheet as transaction costs to the extent that it is probable that some or all of the facility will be drawn down. The fees are 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 2019 (continued)

C4 Borrowings (continued)

(a) Financing arrangements

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

30 June 2019	Facility amount $'000	Utilised amount $'000	Bank guarantees utilised $'000	Available amount $'000	Effective interest rate %
Financing arrangements					
Bank loans - secured (i)	190,000	72,797[1]	14,357	102,846	5.7%
Villa World Bonds - unsecured (ii)	50,000	49,095[2]	-	-	7.4%
	240,000	121,892	14,357	102,846	

1. Net of transaction costs and amortisation as at 30 June 2019.
2. Net of transaction costs and amortisation as at 30 June 2019. Refer Note C4(a)(ii).

30 June 2018	Facility amount $'000	Utilised amount $'000	Bank guarantees utilised $'000	Available amount $'000	Effective interest rate %
Financing arrangements					
Bank loans - secured (i)	190,000	135,013[1]	22,694	32,293	7.3%
Villa World Bonds - unsecured (ii)	50,000	48,773[2]	-	-	7.2%
	240,000	183,786	22,694	32,293	

1. Net of transaction costs and amortisation as at 30 June 2018.
2. Net of transaction costs and amortisation as at 30 June 2018. Refer Note C4(a)(ii).

(i) Bank Loan - secured

The Company's Club Financing Arrangement with Australia and New Zealand Banking Group Limited (ANZ) and Westpac Banking Corporation (Westpac) remains at $190 million (30 June 2018: $190 million). The Club Financing Arrangement provides funding for the Company's ongoing core business. It comprises a facility of $140 million with ANZ and a facility of $50 million with Westpac.

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

As at 30 June 2019 the facility was drawn exclusive of bank guarantees at $72.8 million (30 June 2018: $135 million). Bank guarantees issued total $14.4 million (30 June 2018: $22.7 million). The bank guarantees are also disclosed in note B6(e).

No restrictions have been imposed on this facility by the financiers during the year ending 30 June 2019 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.

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

The fair value of non-current borrowings and the bank guarantees approximate 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.

C4 Borrowings (continued)

(a) Financing arrangements (continued)

(ii) Villa World Bonds - unsecured (continued)

Under the terms of the Bonds, the Company is required to maintain two covenants. The negative pledge (secured gearing ratio) is calculated based on total secured debt divided by total assets. Under the negative pledge the Company must maintain a secured gearing ratio of no greater than 40%. As at 30 June 2019 the secured gearing ratio is 13.9% (30 June 2018: 21.3%).

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 secured and unsecured borrowings. For the purposes of the covenant, the Company must maintain a gearing ratio of no greater than 50%. As at 30 June 2019, the gearing ratio is 24.1% (30 June 2018: 29.7%), refer note C1.

The fair value of Villa World Bonds is the quoted market value (ASX: VLWHA) of a Bond which at 30 June 2019 was $102.70 per Bond (30 June 2018: $104.50) (Level 1).

The bonds are presented in the Balance Sheet as follows:

	Consolidated	
	30-Jun-19	30-Jun-18
	$'000	$'000
Villa World Bonds	**50,000**	50,000
Transaction and finance costs, net of amortisation	**(1,227)**	(1,549)
Amortisation of borrowing costs	**322**	322
Carrying value of Bonds	**49,095**	48,773

Interest is payable based on a 4.75% margin over the 3 month bank bill swap rate. The ninth interest instalment was paid on 22 July 2019 at an interest rate of 6.4%.

	Consolidated	
	30-Jun-19	30-Jun-18
	$'000	$'000
Accrued interest expense	**608**	635
	608	635

(b) Assets pledged as security

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

	Consolidated	
	30-Jun-19	30-Jun-18
	$'000	$'000
Total inventory:		
Current inventory	**182,981**	167,590
Non-current inventory	**242,054**	233,967
Aggregate carrying amount	**425,035**	401,557

(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.

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.

Historically, when revenue was recognised on land development and residential housing, borrowing costs previously capitalised into inventory have been presented within finance costs. In the current period, interest allocation which relates to non-qualifying assets is expensed when incurred. For each accounting settlement the actual capitalised interest is then expensed / (unwound) on a per lot basis through cost of inventory sold. Once an asset has been impaired or development activity has ceased the borrowing costs will be expensed in the month incurred.

	Consolidated	
	30-Jun-19	30-Jun-18
	$'000	$'000
Loan interest and charges		
Financial institutions	**6,865**	7,960
Unwind of discount deferred consideration	**64**	196
Interest payable on Villa World Bonds	**3,355**	3,254
Borrowing costs	**502**	576
Fair value loss on hedging instrument	**57**	19
	10,843	12,005
Amount capitalised[1]	**(7,006)**	(9,091)
Unwind of amount capitalised[2]	**(6,593)**	(5,758)
Capitalised interest expense attributable to inventory sold	**6,593**	5,758
	(7,006)	(9,091)
Total other finance costs included within the income statement	**3,837**	2,914

1. The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 5.7% for club facility borrowings (30 June 2018: 7.3%) and 7.4% for borrowing costs associated with Villa World Bonds (30 June 2018:7.2%).
2. Capitalised interest on sale of land unwound at settlement on a per lot basis (refer note A1).

Notes to the consolidated financial statements
30 June 2019 (continued)

C6 Financial risk management

The Company has exposure to the following financial risks:

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

		Consolidated	
	Valuation basis	**30-Jun-19 $'000**	30-Jun-18 $'000
Financial assets			
Cash and cash equivalents	Amortised cost	**6,569**	12,645
Trade and other receivables	Amortised cost	**2,436**	130,206
Derivative receivable	Fair Value	**4**	-
Financial liabilities			
Trade and other payables	Amortised cost	**70,880**	78,021
Borrowings	Amortised cost	**72,797**	135,013
Bond	Amortised cost	**49,095**	48,773

(a) Market risk

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

(i) Interest rate risk

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

The Company's interest rate risk primarily arises from borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk. Under the Company Policy, a maximum of 50% of debt with a maturity of less than five years can be hedged. The Company operated within this range during the financial year ended 30 June 2019.

To manage exposure to future interest rate risk, the Company has executed two interest rate caps contracts totalling $50 million on 2 July 2018. The contracts cap the Company's floating interest rate at a maximum of 3% on $50 million until 2 July 2020 and $25 million thereafter until 4 July 2022. The interest rate caps are derivatives designated as hedging instruments.

C6 Financial risk management (continued)

(a) Market risk (continued)

(i) Interest rate risk (continued)

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

Consolidated	30-Jun-19		30-Jun-18	
	Variable interest rate	Balance	Variable interest rate	Balance
	%	$'000	%	$'000
Club facility[1]	**1.3%**	**73,423**	2.1%	135,785
Villa World Bonds[2]	**1.2%**	**50,000**	2.1%	50,000
Net exposure to cash flow interest rate risk		**123,423**		185,785

1. Variable rate for Club facility is 30 day BBSY at 30 June and does not include any margin and line fees applicable under the loan agreement.
2. Variable rate for Villa World Bonds is 90 day BBSW at 30 June and does not include any margin.

An analysis by maturities is provided in Note C6(c)(i).

(ii) Sensitivity analysis

At 30 June 2019, if interest rates had changed by -/+ 40 basis points from the year end rates with all other variables held constant, post-tax profits for the year, would have been $0.1 million lower/higher (30 June 2018: $0.4 million lower/higher on -/+ 40 basis points), mainly as a result of higher/lower interest expense from interest bearing liabilities.

The assumed movement in basis points for the interest rate sensitivity analysis is based on the currently observable market environment.

(b) Credit risk

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

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

(i) Cash and deposits

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

Given the high credit ratings of the Company's counterparties at 30 June 2019, it is not expected that any counterparty will fail to meet its obligations.

C6 Financial risk management (continued)

(b) Credit risk (continued)

(ii) Trade and other receivables

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

Credit risk arising on trade and other receivables is monitored on an ongoing basis mitigating exposure to expected credit losses (refer Note B2). To assess expected credit losses the Company applies the simplified recognition of the receivables whereby the loss allowance is measured at an amount equal to the lifetime expected credit losses. The Company did not recognise any trade and other receivable expected credit losses in the current year.

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

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

(c) Liquidity risk

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

The Company operates a $190 million financing facility with ANZ and Westpac which provides funding for the Company's core business. The Company has unused borrowing facilities which further reduces liquidity risk. At 30 June 2019 the Company has unutilised borrowing facilities of $102.8 million (30 June 2018: $32.3 million) (refer Note C4). The proceeds from a $50 million bond issue in April 2017, provides the Company with additional financial capacity and diversifies the Company's debt, supporting the Company's growth objectives and extending the maturity of borrowings.

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

Reinforcing the Company's commitment to effective cash flow management, at 30 June 2019, 992 sales contracts were carried forward at a value of $291.4 million (including GST) with 48% of contracts (471 lots valued at $151.5 million) due to settle in 1H20 (refer Operating Financial Review page 9). These strong carried forward sales, when combined with the Company's capital management policy further assist in managing liquidity.

The Company's policy is to minimise its exposure to liquidity risk by managing its refinancing risk. Refinancing risk may be reduced by re-borrowing 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.

(i) Maturities of financial liabilities

The table below analyses the Company's financial liabilities including derivatives into relevant maturity groupings based on the period remaining to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows and therefore may not reconcile with the amounts disclosed on the Balance Sheet.

C6 Financial risk management (continued)

(c) Liquidity risk (continued)

(i) Maturities of financial liabilities (continued)

Contractual maturities of financial liabilities At 30 June 2019	Less than 6 months $'000	6 - 12 months $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Total contractual cash flows $'000	Carrying amount (assets)/ liabilities $'000
Non-derivatives							
Trade payables	**20,606**	**2,724**	**18,832**	**7,781**	**303**	**50,246**	**44,772**
Villa World Bond	**1,493**	**1,493**	**2,977**	**52,977**	**-**	**58,940**	**49,095**
Club facility	**2,180**	**2,167**	**8,692**	**66,977**	**-**	**80,016**	**72,797**
Total non-derivatives	**24,279**	**6,384**	**30,501**	**127,735**	**303**	**189,202**	**166,664**
At 30 June 2018							
Non-derivatives							
Trade payables	19,824	5,395	14,108	270	-	39,597	37,620
Villa World Bond	1,720	1,710	3,440	56,861	-	63,731	48,773
Club facility	3,636	3,591	7,248	140,262	-	154,737	135,013
Total non-derivatives	25,180	10,696	24,796	197,393	-	258,065	221,406

(ii) Derivatives

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 refinancing.

The Company had no derivative financial liabilities at 30 June 2019. (30 June 2018: Nil).

(iii) Changes in liabilities arising from financing activities

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

Consolidated	1 July 2018 $'000	Cash inflows $'000	Cash outflows $'000	Other[1] $'000	30 June 2019 $'000
Non-current borrowings	**183,786**	**56,942**	**(119,389)**	**553**	**121,892**

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

(d) Fair value measurement of financial instruments

(i) Critical accounting estimate - fair value measurement

Except for the Villa World Bonds, the carrying value of financial assets and liabilities is considered to approximate fair values.

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.

C6 Financial risk management (continued)

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

(ii) Fair values disclosed

(A) Carrying amount approximates fair value

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

(B) Measured at fair value

(I) Bonds

The Company issued 500,000 Bonds with a face value of $100 per bond on 21 April 2017 (ASX:VLWHA) (refer Note C4(a)). The fair value of a Villa World Bond is the quoted market value which at 30 June 2019 was $102.70 per bond (30 June 2018: $104.50 per bond). The Villa World simple corporate bonds are classified as level 1 under the fair value hierarchy.

(II) Derivative financial instruments

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

It is policy to protect part of the Company's borrowings from exposure to fluctuating interest rates. To manage exposure to future interest rate risk, the Company executed two interest rate caps totalling $50 million with a start date of 2 July 2018. The instrument will cap the Company's floating interest rate at a maximum of 3% on $50 million until 2 July 2020 and $25 million thereafter until 4 July 2022.

Total borrowings for the Company bears an average variable interest rate of 6.2% (including line and facility fees) (30 June 2018: 7.3%).

The fair value of the interest rate cap at 30 June 2019 was $4k.

The fair value of the interest rate cap is the estimated amount that the entity would receive to terminate the cap at the balance sheet date, taking into account current interest rates, forward interest yield curves and the current creditworthiness of the cap counterparties. The fair value is classified as level 2 under the fair value hierarchy.

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

(III) Accounting for cash flow hedges

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and accumulated in the hedging reserve. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss within finance costs. There was no material ineffectiveness for the year ended 30 June 2019.

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, the hedge accounting is retained in the cash flow reserve in equity. If the forecast transaction is no longer expected to occur, then the amount accumulated in equity is amortised via profit and loss.

D GROUP STRUCTURE

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

In this section:

D1 Subsidiaries

Accounting for subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of all subsidiaries at 30 June 2019. 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	
			2019 %	2018 %
Parent entity				
Villa World Limited[1]				
Controlled entities of Villa World Limited				
Villa World Developments Pty Ltd[1]	Australia	Ordinary	**100**	100
Villa World ESS Pty Ltd as trustee for Villa World Employee Share Scheme Trust	Australia	Ordinary	**100**	100
Villa World Rochedale Pty Ltd	Australia	Ordinary	**100**	100
Villa World Byron Pty Ltd	Australia	Ordinary	**100**	100
Villa World Yatala Pty Ltd	Australia	Ordinary	**100**	100
Villa World Properties Pty Ltd[1]	Australia	Ordinary	**100**	100
Villa World Seascape Pty Ltd[1]	Australia	Ordinary	**100**	100
Villa World Thornlands Pty Ltd[1]	Australia	Ordinary	**100**	100
Villa World (Vic) Pty Ltd	Australia	Ordinary	**-**	100
Villa World Realty (NSW) Pty Ltd	Australia	Ordinary	**100**	100
Villa World Realty (Qld) Pty Ltd	Australia	Ordinary	**100**	100
GPDQ Pty Ltd[1]	Australia	Ordinary	**100**	100
Villa World Strathpine Pty Ltd[1]	Australia	Ordinary	**100**	100
Villa World Redlands Pty Ltd[1]	Australia	Ordinary	**100**	100
Villa World Heritage Pty Ltd	Australia	Ordinary	**100**	100
Hervey Bay (JV) Pty Ltd[1]	Australia	Ordinary	**100**	100
Villa World Wollert Pty Ltd	Australia	Ordinary	**100**	100
Villa World Plumpton Pty Ltd	Australia	Ordinary	**100**	100
Ature Pty Ltd	Australia	Ordinary	**100**	100
Villa World Realty (Vic) Pty Ltd[2]	Australia	Ordinary	**100**	-
Villa World Lifestyle Pty Ltd[2]	Australia	Ordinary	**100**	-

1. These companies are parties to the Deed of Cross Guarantee and members of the Closed Group as at 30 June 2019. 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).
2. These companies are newly registered companies in 2019.

D2 Deed of cross guarantee

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

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

Pursuant to the requirements of this Class Order, a summarised consolidated Statement of Comprehensive Income for the year ended 30 June 2019, a summary of the movements in consolidated retained earnings and consolidated Balance Sheet as at 30 June 2019, comprising the members of the Closed Group after eliminating all transactions between members are set out below.

(a) Consolidated statement of comprehensive income

	Closed Group	
	30-Jun-19	30-Jun-18
	$'000	$'000
Revenue from continuing operations		
Revenue from land development, residential building and construction contracts	**391,609**	440,794
Cost of land development, residential building and construction contracts	**(291,111)**	(323,975)
Gross margin before interest and net impairments	**100,498**	116,819
Capitalised interest and net impairments	**(7,492)**	(6,157)
Gross margin	**93,006**	110,662
Development management fees	**1,142**	9,981
Other income	**1,021**	1,048
Share of profit from associates and joint ventures	**1,465**	1,132
Other expenses from ordinary activities		
Property sales and marketing expenses	**(22,024)**	(24,708)
Land holding costs	**(5,679)**	(4,256)
Legal and professional costs	**(2,045)**	(2,495)
Employee benefits	**(23,107)**	(25,139)
Depreciation and amortisation expense	**(777)**	(710)
Administration costs and other expenses	**(6,150)**	(6,830)
Finance costs	**(3,836)**	(2,914)
Profit before income tax	**33,016**	55,771
Income tax expense	**(9,590)**	(16,000)
Profit for the year	**23,426**	39,771
Other comprehensive income		
Items that may be reclassified to profit or loss		
Changes in the fair value of cash flow hedges	**(143)**	1,803
Income tax relating to these items	**43**	(541)
Other comprehensive income for the period, net of tax	**(100)**	1,262
Total comprehensive income for the year	**23,326**	41,033

(b) Summary of movements in consolidated retained earnings

	Closed Group	
	30-Jun-19	30-Jun-18
	$'000	$'000
Retained earnings/(accumulated losses) at the beginning of the financial year	**(31,659)**	(18,054)
Profit for the year	**23,426**	39,771
Transfer current year profit to profits reserve	**(15,711)**	(53,376)
AASB 15 revenue recognition adjustment	**(20,619)**	-
Retained earnings at the end of the financial year	**(44,563)**	(31,659)

Notes to the consolidated financial statements
30 June 2019 (continued)

D2 Deed of cross guarantee (continued)

(c) Consolidated balance sheet

	Closed Group	
	30-Jun-19	30-Jun-18
	$'000	$'000
Current assets		
Cash and cash equivalents	**2,127**	12,641
Trade and other receivables	**35,960**	130,171
Inventories	**159,732**	158,149
Contract assets	**218**	-
Other current assets	**3,480**	3,854
Total current assets	**201,517**	304,815
Non-current assets		
Inventories	**227,101**	211,787
Property, plant and equipment	**1,965**	2,069
Receivables	**28,828**	52,227
Investments accounted for using the equity method	**27,124**	5,740
Deferred tax assets	**1,188**	-
Contract assets	**1,280**	-
Total non-current assets	**287,486**	271,823
Total assets	**489,003**	576,638
Current liabilities		
Trade and other payables	**45,476**	64,113
Current tax liabilities	**1,022**	2,834
Employee benefits	**1,172**	1,298
Service warranties	**3,644**	4,266
Current tax liability	**921**	-
Total current liabilities	**52,235**	72,511
Non-current liabilities		
Trade and other payables	**24,051**	13,546
Borrowings	**121,892**	183,786
Deferred tax liabilities	**-**	7,281
Employee benefits	**479**	453
Total non-current liabilities	**146,422**	205,066
Total liabilities	**198,657**	277,577
Net assets	**290,346**	299,061
Equity		
Contributed equity	**92,976**	96,346
Other reserves	**241,933**	234,374
Accumulated losses	**(44,563)**	(31,659)
Total equity	**290,346**	299,061

(d) Guarantor

The parent entity has provided a financial guarantee for the financing facilities of the Closed Group. Details of the parent entity's contingent liabilities are disclosed in Note B6(e).

D3 Investments accounted for using the equity method

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

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

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

At balance date the Company has the following interests in jointly controlled entities:

Name of Entity	Notes	% Owned	Purpose
Donnybrook JV Pty Ltd	D3(a)	51	Residential development at Donnybrook, Victoria.
Villa Green Pty Ltd	D3(c)	50	Residential development at Greenbank, Queensland.
Wollert JV Pty Ltd	D3(d)	51	Residential development at Wollert, Victoria.

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

Joint Venture		Opening balance $'000	AASB 15 transition $'000	Cash Contribution $'000	Oppor - tunity fee[1] $'000	Gain on disposal $'000	Share of net profit/ (loss) $'000	Distributions received $'000	Closing balance $'000
Eynesbury[2]	**2019**	**-**	**-**	**-**	-	-	**-**	**-**	**-**
	2018	51	**-**	**-**	-	85	**-**	(136)	**-**
Donnybrook	**2019**	**3,308**	**-**	**321**	-	-	**(87)**	**-**	**3,542**
	2018	8,429	-	-	-	-	(21)	(5,100)	3,308
Rochedale	**2019**	**2,268**	**(180)**	-	-	**77**	**1,028**	**(3,193)**	**-**
	2018	11,426	-	-	-	-	5,242	(14,400)	2,268
Villa Green	**2019**	**18,226**	**(1,195)**	**7,000**	-	-	**1,551**	**(2,000)**	**23,582**
	2018	4,963	-	12,000	-	-	1,263	-	18,226
Wollert	**2019**	**3,458**	**-**	**1,530**	**-**	**-**	**(403)**	-	**4,585**
	2018	-	-	11,167	(7,599)	-	(110)	-	3,458
Total	**2019**	**27,260**	**(1,375)**	**8,851**	**-**	**77**	**2,089**	**(5,193)**	**31,709**
	2018	24,869	-	23,167	(7,599)	85	6,374	(19,636)	27,260

1. Represents 51% share of the opportunity fee received from the Wollert joint venture to be unwound over time as lots settle. The transaction is only recognised to the extent that the Company's share of profit is not recognised being 49%.
2. Eynesbury relates to 50% share in Eynesbury Holdings Pty Ltd, Eynesbury Pastoral Trust, Eynesbury Golf Pty Ltd and Eynesbury Development Joint Venture. Eynesbury was deregistered, and the Trust terminated in 2019.

D3 Investments accounted for using the equity method (continued)

(a) Donnybrook joint venture

The equity accounted investment in the Company's Donnybrook joint venture as at 30 June 2019 is $3.5 million (30 June 2018: $3.3 million). Summarised financial information of the Company's investment in the Donnybrook joint venture is set out below:

	Consolidated	
	30-Jun-19	30-Jun-18
	$'000	$'000
Current assets	**438**	260
Non-current assets	**30,470**	28,682
Total assets	**30,908**	28,942
Current liabilities	**23,962**	22,455
Equity	**6,946**	6,487
Proportion of the Company's ownership	**51%**	51%
Equity attributable to the investment	**3,542**	3,308
Revenue	**54**	118
Cost of sales	**-**	-
Administrative expenses	**(236)**	(183)
Finance costs	**(66)**	(79)
Loss before income tax	**(248)**	(144)
Income tax benefit	**78**	102
Loss for the period	**(170)**	(42)
Proportion of the Company's ownership	**51%**	51%
Loss attributable to the investment	**(87)**	(21)

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.

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

The Rochedale joint venture sold its final lots and ceased activity on 21 June 2019.The equity accounted investment in the Company's Rochedale joint venture as at 30 June 2019 is nil (30 June 2018: $2.3 million). Summarised financial information of the Company's investment in the Rochedale joint venture is set out below:

	Consolidated	
	30-Jun-19	30-Jun-18
	$'000	$'000
Current assets	**-**	6,734
Total assets	**-**	6,734
Current liabilities	**-**	2,198
Total liabilities	**-**	2,198
Equity	**-**	4,536
Proportion of the Company's ownership	**-**	50%
Equity attributable to the investment	**-**	2,268
Revenue	**4,246**	35,922
Cost of sales	**(1,693)**	(21,914)
Administrative expenses	**(474)**	(2,818)
Finance costs	**(22)**	(707)
Profit before income tax	**2,057**	10,483
Income tax expense	**-**	-
Profit for the period	**2,057**	10,483
Proportion of the Company's ownership	**50%**	50%
Profit attributable to the investment	**1,028**	5,242

D3 Investments accounted for using the equity method (continued)

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

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

(c) Villa Green joint venture

The equity accounted investment in the Company's Villa Green joint venture as at 30 June 2019 is $23.6 million (30 June 2018: $18.2 million).

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

	Consolidated	
	30-Jun-19	30-Jun-18
	$'000	$'000
Current assets	**13,581**	23,859
Non-current assets	**55,087**	55,343
Total assets	**68,668**	79,202
Liabilities	**2,683**	41,700
Non-current liabilities	**18,820**	1,051
Total liabilities	**21,503**	42,751
Equity	**47,165**	36,451
Proportion of the Company's ownership	**50%**	50%
Equity attributable to the investment	**23,582**	18,226
Revenue	**20,140**	12,966
Cost of sales	**(12,537)**	(7,740)
Administrative expenses	**(2,560)**	(1,411)
Finance costs	**(610)**	(237)
Profit before income tax	**4,433**	3,578
Income tax expense	**(1,330)**	(1,051)
Profit for the period	**3,103**	2,527
Proportion of the Company's ownership	**50%**	50%
Profit attributable to the investment	**1,551**	1,263

D3 Investments accounted for using the equity method (continued)

(d) Wollert joint venture

The equity accounted investment in the Company's Wollert joint venture as at 30 June 2019 is $4.6 million (30 June 2018: $3.5 million).

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

	Consolidated	
	30-Jun-19	30-Jun-18
	$'000	$'000
Current assets	**1,015**	922
Non-current assets	**32,600**	31,221
Total assets	**33,615**	32,143
Current liabilities	**217**	10,462
Non-current liabilities	**9,508**	-
Total liabilities	**9,725**	10,462
Equity	**23,890**	21,681
Proportion of the Company's ownership	**51%**	51%
Equity attributable to the investment[1]	**12,184**	11,057
Revenue	**3**	9
Cost of sales	-	-
Administrative expenses	**(1,059)**	(316)
Finance costs	**(74)**	-
Loss before income tax	**(1,130)**	(307)
Income tax benefit	340	92
Loss for the period	**(790)**	(215)
Proportion of the Company's ownership	51%	51%
Loss attributable to the investment	**(403)**	(110)

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

(e) Critical accounting judgements in accounting for equity accounted investments

(i) Joint control of equity accounted investments

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

(ii) Impairment of equity accounted investments

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

At 30 June 2019, none of the equity accounted investments were considered to be impaired.

D4 Parent entity financial information

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

(a) Summary financial information

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

	30-Jun-19 $'000	30-Jun-18 $'000
Balance sheet		
Current assets	**72,569**	61,928
Non-current assets	**193,024**	160,739
Total assets	**265,593**	222,667
Current liabilities	**1,651**	2,998
Non-current liabilities	**48,909**	48,471
Total liabilities	**50,560**	51,469
Net assets	**215,033**	171,198
Shareholders' equity		
Issued capital	**157,587**	160,957
Reserves	**64,354**	17,149
Retained earnings	**(6,908)**	(6,908)
	215,033	171,198
Profit or loss for the year	**70,379**	1,252
Total comprehensive income	**-**	-

(b) Guarantees entered into by the parent entity

The parent entity has provided a financial guarantee in respect of the Club Facility with Australia and New Zealand Banking Group and Westpac Banking Corporation as well as the guarantees disclosed in notes B6(e) and D2.

OTHER INFORMATION

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

In this section:

E1 Basis of preparation

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

Certain comparative items have been reclassified in the financial statements to align with the 30 June 2019 year end disclosures.

(a) 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).

(b) Historical cost convention

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

(c) Critical accounting estimates and judgements

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

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

	Note
Revenue	A1
Taxes	A5
Inventories	B1
Warranty claims	B6
Employee benefits	B6
Fair value measurement	C6
Investments accounted for using the equity method	D3
Share-based payments	E2

(d) Functional and presentation currency

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

E2 Key management personnel disclosures

(a) Key management personnel compensation

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

E2 Key management personnel disclosures (continued)

(a) Key management personnel compensation (continued)

	Consolidated	
	2019	2018
	$	$
Short-term employee benefits	**2,622,920**	2,520,125
Post-employment benefits	**124,925**	103,247
Long-term benefits	**51,675**	38,810
Termination benefits	**-**	269,446
Share-based payments	**812,433**	716,930
Retention incentive	**49,533**	-
	3,661,486	3,648,558

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

(b) Equity instrument disclosures relating to key management personnel

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

(i) Villa World Limited Executive Long Term Incentive Plan

The Villa World Executive LTIP was introduced in November 2015, and under the plan executives and other eligible senior employees are invited to receive performance rights in the Company. A third allocation of performance rights was approved at the Company AGM held in November 2018.

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

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

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

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

Judgement in calculating fair value of share-based payments

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

Grant date	30 Nov 2016	30 Nov 2017	30 Nov 18
Performance rights granted	778,962	634,647	704,706
Performance rights lapsed	(150,969)	-	-
Total performance rights granted as compensation at 30 June	**627,993**	**634,647**	**704,706**
Grant date share price ($)	2.23	2.54	1.93
Volatility[1] (%)	25.00	21.79	21.42
Dividend yield (%)	8.15	7.69	8.86
Risk-free rate (%)	1.87	1.85	2.04
Weighted average fair value ($)	1.44	1.70	1.19
Performance period end date	30 Jun 2019	30 Jun 2020	30 Jun 2021

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

E2 Key management personnel disclosures (continued)

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

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

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

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

	2019 Number of performance rights	2018 Number of performance rights
As at 1 July	**1,635,880**	1,001,233
Granted during the year	**704,706**	634,647
Vested/forfeited during the year	**(373,240)**	-
As at 30 June	**1,967,346**	1,635,880

The weighted average remaining contractual life at 30 June 2019 was 1.19 years (30 June 2018: 1.32 years).

(c) Expenses arising from share-based payment transactions

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

	Consolidated	
	30-Jun-19 $'000	30-Jun-18 $'000
Expense arising from share-based payment transactions	**941**	793
	941	793

(d) Loans to KMP

For the financial year ended 30 June 2019, there were no loans to key management personnel (30 June 2018: 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-19 $	30-Jun-18 $
Audit and other assurance services		
Audit and review of financial statements	**221,645**	197,252
Other assurance services	**20,950**	8,500
Total remuneration for audit and other assurance services	**242,595**	205,752
Other non-audit services:		
Other accounting advice	**17,253**	46,825
Taxation services	**13,000**	-
Total remuneration for other services	**30,253**	46,825
Total remuneration of Ernst & Young	**272,848**	252,577

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

The auditor has provided an independence declaration and the Committee is satisfied that the work performed on non-audit services was conducted by a team separate from the audit team and does not impact the independence of the auditor.

E4 Events occurring after the reporting period

Binding Scheme Implementation Agreement

On 8 July 2019, the Company announced that it had entered into a Binding Scheme Implementation Agreement with AVID, under which AVID would acquire all shares in the Company for a cash price of $2.345 (Scheme). The Board unanimously recommend that shareholders vote in favour of the Scheme, in the absence of a Superior Proposal and subject to an independent expert concluding and continuing to conclude that the Scheme is in the best interests of the Company's shareholders. The Company expects to dispatch a Scheme Booklet to shareholders in September 2019 and to give shareholders the opportunity to vote on the Scheme in mid-October 2019. Subject to shareholder approval and the other conditions of the Scheme being satisfied, the Scheme is expected to be implemented in late October/early November 2019. These dates are indicative and subject to change.

Extension and Amendment of Banking Facility

The Company has been operating a $190 million club debt facility with ANZ ($140 million) and Westpac ($50 million), with a staggered maturity.

As at 13 August 2019 ANZ is now the sole lender under the arrangement, having increased its facility limit to $190 million and extended the maturity dates to: $50 million on 31 October 2021; $90 million on 31 October 2022; $50 million on 31 October 2023.

This, together with the $50 million simple corporate bonds maturing in April 2022, will provide funding for the Company's ongoing requirements for its core business.

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 years 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 consolidated statement of comprehensive income on an accrual basis.

(b) Property, plant and equipment

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

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

-	Vehicles	3 - 5 years
-	Plant and equipment	3 - 10 years
-	Leasehold improvements	2 - 8 years
-	Information technology	1 - 5 years

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

(c) Cash and cash equivalents

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

E5 Other accounting policies (continued)

(d) Impairment of assets

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

(e) Employee benefits

(i) Short-term obligations

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

(ii) Other long-term employee benefit obligations

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

(iii) Bonus plans

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

(iv) Termination benefits

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

(f) Goods and Services Tax (GST)

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

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

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

(g) Rounding of amounts

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

E5 Other accounting policies (continued)

(h) New accounting standards and interpretations

New standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2018 have been adopted by the Company. The Company has assessed the impact of the following new 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 2019. 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.

(i) AASB 9 Financial Instruments

AASB 9 Financial Instruments replaces the provisions of *AASB 139* that relate to requirements for the classification, measurement and de-recognition of financial assets, including a new expected credit loss model for calculation of impairment on financial assets and hedge accounting. To assess for any expected credit losses under *AASB 9*, there is a consideration around the probability of default upon initial recognition of the asset. For trade receivables, contract debtors and other debtors, the Group applies the simplified recognition of the receivables whereby the loss allowance is measured at an amount equal to the lifetime expected credit losses. The adoption has not had a material impact. In adopting this standard the Company has elected to apply the modified retrospective approach.

Derivative Financial instruments

The interest rate caps entered into on 2 July 2018 qualified as cash flow hedges under *AASB 9*. The Group's risk management strategies and hedge documentation are aligned with the requirements of the standard with hedge accounting applied.

(ii) AASB 16 Leases

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

This new standard is applicable to annual reporting periods beginning on or after 1 January 2019, with early application permitted. The Company plans to adopt *AASB 16* using the modified retrospective method (ii) whereby comparative information is not restated and the lease asset is recognised at an amount based on the lease liability as at 1 July 2019. The Company will elect to apply the standard to contracts that were previously identified as leases applying *AASB 117* and *AASB Interpretation 4* and use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

The Company has performed a detailed impact assessment of *AASB 16*. In summary the impact of *AASB 16* is expected to be recognition of a right of use asset and liability of $2.8 million on 1 July 2019. This represents the right of use assets for office space in Qld, NSW, VIC and photocopiers across all locations. The impact on the net profit after tax of the Company on implementation of *AASB 16* is not expected to be significant.

Notes to the consolidated financial statements
30 June 2019 (continued)

E5 Other accounting policies (continued)

(h) New accounting standards and interpretations (continued)

(iii) AASB15 Revenue from Contracts with Customers

The Company adopted *AASB 15 Revenue from contracts with customers* (*AASB 15*) on 1 July 2018 using the modified retrospective approach on transition. The cumulative effect of the changes made to the Company's consolidated 1 July 2018 balance sheet for the adoption of *AASB 15* is as follows

	Balance 30-Jun-18 $'000	AASB 15 Adjustment[1] $'000	Restated balance 1-Jul-18 $'000
ASSETS			
Current assets			
Cash and cash equivalents	12,645	-	12,645
Trade and other receivables	130,206	(127,103)	3,103
Inventories	167,590	91,663	259,253
Contract assets	-	228	228
Other current assets	4,187	762	4,949
Total current assets	314,628	(34,450)	280,178
Non-current assets			
Inventories	233,967	-	233,967
Property, plant and equipment	2,063	-	2,063
Investments accounted for using the equity method	27,260	(1,375)	25,885
Deferred tax assets	-	316	316
Contract assets	-	2,131	2,131
Other non-current assets	10,000	-	10,000
Total non-current assets	**273,290**	**1,072**	**274,362**
Total assets	**587,918**	**(33,378)**	**554,540**
LIABILITIES			
Current liabilities			
Trade and other payables	64,426	(4,667)	59,759
Deferred income	42	18	60
Current tax liabilities	2,353	-	2,353
Other current liabilities	3	-	3
Employee benefits	1,298	-	1,298
Service warranties	4,266	(177)	4,089
Other provisions	45	-	45
Total current liabilities	**72,433**	**(4,826)**	**67,607**
Non-current liabilities			
Trade and other payables	13,396	-	13,396
Borrowings	183,786	-	183,786
Deferred tax liabilities	7,979	(7,979)	-
Other financial liabilities	59	-	59
Employee benefits	453	-	453
Other provisions	92	-	92
Total non-current liabilities	**205,765**	**(7,979)**	**197,786**
Total liabilities	**278,198**	**(12,805)**	**265,393**
Net assets	**309,720**	**(20,573)**	**289,147**
EQUITY			
Contributed equity	477,611	-	477,611
Other reserves	241,021	-	241,021
Accumulated losses	(408,912)	(20,573)	(429,485)
Total equity	**309,720**	**(20,573)**	**289,147**

1. Balances have been adjusted to reflect the change in development management fees recognised.

E5 Other accounting policies (continued)

(h) New accounting standards and interpretations (continued)

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

The table below provides the movement between the Company's revenue as reported by *AASB 15* and previous revenue standard *AASB 118: Revenue* (*AASB 118*) for the period ended 30 June 2019.

	Consolidated Movement (Decrease)/Increase 2019 $
Revenue from land development, residential building and construction contracts	(97,436)
Cost of land development, residential building and construction contracts	69,655
Gross margin before other costs attributable to inventory sold	**(27,781)**
Other costs attributable to inventory sold	1,933
Gross Margin	**(25,848)**
Development management fees	135
Share of net profits of associates and joint ventures accounted for using the equity method	(581)
Property sales and marketing expenses	3,074
Finance costs	(96)
Profit before income tax from continuing operations	**(23,316)**
Income tax expense	6,904
Profit from continuing operations after income tax	**(16,412)**

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 2019

In the Directors' opinion:

(a) the financial statements and notes set out on pages 50 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 2019 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
19 August 2019

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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 2019, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2019 and of its consolidated financial performance for the year ended on that date; and

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

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

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

Key Audit Matters

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

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

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1. Net Realisable Value ("NRV") of inventories

Refer to Note B1 of the financial report

Why significant	How our audit addressed the key audit matter

The NRV of inventories is heavily influenced by movements in the property market in Australia and other uncertain elements such as availability of finance for home-owners and investors. As described in Note B1 to the financial report, the Group undertakes a review of its inventories to ensure each individual project is valued at the lower of cost or NRV in accordance with Australian Accounting Standards.
 	
This is significant to our audit as it is material to the Group and the extent of judgements and estimates applied in determining the NRV of projects. The NRV is based on future cash flows, which depend on key assumptions relating to sales rates, land pricing, the expected date of completion, the level of debt used to finance the project, and estimated future development costs.
	We obtained the assessment of NRV for the Group's inventory portfolio as well as the assessment of NRV for Villa World's Joint venture projects and performed the following:
	
	► Compared the Group's current cash flow forecast assumptions to recent actual project performance, including sales prices, sales rates and margins achieved during the period;
	
	► Enquired of the development managers to understand changes in:
	  ► key feasibility assumptions since the NRV assessment in the prior year and the original feasibility; strategy adopted for revised feasibilities
	  ► and then examined supporting documentation for these changes;
	
	► For a sample of projects (including all projects where an impairment has been recorded in the financial report), we assessed the key assumptions in the feasibilities by agreeing to supporting documentation such as development approvals and sales data to support sales prices. We also involved our real estate specialists to assist with the assessment of a sample of feasibilities and key assumptions;
	
	► For projects where an impairment has been recorded we agreed the calculated impairment recorded in the financial report to the NRV calculation performed by management;
	
	► For projects which had a reversal of previous impairment during the period, we considered the underlying changes in the feasibilities by evaluating recent actual performance of the project and agreeing to supporting documentation and calculations provided by the Group;
	
	► For a sample of inventory costs capitalised during the year we agreed these to supporting documentation; and
	
	► Assessed the adequacy of the Group's disclosures in the financial report regarding inventories.

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2. AASB 15 Revenue from Contracts with Customers Transition Adjustments

Refer to Note E5 of the financial statements

Why significant	How our audit addressed the key audit matter
The transition adjustments recorded in respect of the initial application of AASB 15 during the period was a key audit matter because of the significance of the impact on the Group's retained earnings in applying the requirements of AASB 15.	As part of our audit, we performed the following procedures: ► Assessed the Group's processes related to determining the impact of the transition to AASB 15; ► For all significant revenue streams, we considered the Group's assessment of the application of the requirements of AASB 15 and conclusions reached with respect to the impact on revenue recognition; ► Assessed transition adjustments recorded for compliance with the requirements of AASB 15; ► Assessed the adequacy of the Group's disclosure in the financial report regarding the transition application of AASB 15.

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

The directors are responsible for the other information. The other information comprises the information included in the Company's 2019 Annual Report, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the Directors for the Financial Report

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

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

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Auditor's Responsibilities for the Audit of the Financial Report

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

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

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

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

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

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

Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Villa World Limited for the year ended 30 June 2019, 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

Ernst & Young

Alison de Groot
Partner
Brisbane
19 August 2019

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 9 August 2019)

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

	No of shares held
Accordion Investments Pty Ltd (ACN 628 676 111), Ho Bee Land Limited (Registration No. 198702381M), Ho Bee Holdings (Pte) Ltd (Registration No. 198305918C) and Chua Thian Poh	14,542,060
Dimensional	7,622,612

Distribution of Shareholders (as at 9 August 2019):

Range	**Total holders**
1 – 1,000	1,011
1,001 – 5,000	1,688
5,001 – 10,000	756
10,001 – 100,000	1,035
100,001 and over	66
Total	**4,555**

There were 255 shareholders with less than a marketable parcel of 214 shares.

Unquoted equity securities

As at 30 June 2019, there were 1,967,346 performance rights (with the potential to take up ordinary shares) issued to 5 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 9 August 2019 there were 4,555 shareholders (1 August 2018: 5,421).

The voting rights attaching to the shares are:

(a) on a show of hands every person present who is a shareholder 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.

ASX Additional Information (continued)

Top 20 Shareholders (as at 9 August 2019)

Name	Units	% of Units
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	25,128,172	20.08
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	16,133,732	12.89
CITICORP NOMINEES PTY LIMITED	15,468,589	12.36
NATIONAL NOMINEES LIMITED	5,833,606	4.66
COMSEC NOMINEES PTY LIMITED	2,965,457	2.37
BRAZIL FARMING PTY LTD	2,121,958	1.70
MR MALCOLM JOHN ROSS + MRS JUNE ROSS	1,319,413	1.05
COOLTRAC PTY LTD	1,228,788	0.98
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	1,120,340	0.90
TOBAKA PTY LTD <TOBAKA EMPLOYEES S/F A/C>	1,022,675	0.82
BNP PARIBAS NOMS PTY LTD <DRP>	793,500	0.63
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	700,000	0.56
HORRIE PTY LTD <HORRIE SUPERANNUATION A/C>	645,000	0.52
TRAFALGAR CUSTODIANS PTY LTD	644,235	0.51
DEBUSCEY PTY LTD	625,000	0.50
UBS NOMINEES PTY LTD	610,935	0.49
GEOMAR SUPERANNUATION PTY LTD <CHAPMAN SUPER FUND A/C>	602,432	0.48
CRAIG G TREASURE PTY LTD <TREASURE SUPER FUND A/C>	600,000	0.48
BRAZIL FARMING PTY LIMITED	500,000	0.40
BRAZIL FARMING PTY LTD	460,000	0.37
Totals: Top 20 holders of FULLY PAID ORDINARY SHARES (TOTAL)	**78,523,832**	**62.74**

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VILLA WORLD

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