



## **VILLA WORLD LIMITED**

**ABN 38 117 546 326**

**Interim financial report  
for the half-year ended 31 December 2011**

# Villa World Limited

## Interim financial report – 31 December 2011

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This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2011 and any public announcements made by Villa World Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

## Directors' report

The Directors of Villa World Limited present their report together with the interim financial report for the half-year ended 31 December 2011.

Villa World Group ("the Group") comprises of Villa World Limited and its controlled entities.

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

Director	Role	Independent	Appointed
Alexander (Sandy) Beard*	Chairman and Non-executive Director	No	11 April 2011
Richard Anderson	Non-executive Director	Yes	23 November 2006
John Potter	Executive Director and Managing Director	No	23 November 2006
Troy Harry	Non-executive Director	Yes	23 February 2009

\*On 22 November 2011 Alexander (Sandy) Beard was appointed as chairman.

## Review of operations

### Key highlights for the half-year

- Increase in operating net profit before tax<sup>1</sup> to \$6.2 million (31 December 2010: \$4.5 million).
- Development and construction revenue of \$87.1 million (31 December 2010: \$62.6 million).
- Accounting settlements of 343 lots (including our share of joint ventures) (31 December 2010: 223 lots).
- Statutory net profit after tax from continuing operations of \$5.9 million (31 December 2010: \$7.0 million), total statutory net profit after tax of \$6.4 million (31 December 2010: \$10.3 million)
- Earnings per share from continuing operations decreased to 7.4 cps (31 December: 8.2 cps).
- Group sales of 207 lots for a gross value<sup>2</sup> (inclusive of GST) of \$66.2 million, inclusive of proportional share of joint ventures.
- A total of 215 contracts on hand at 31 December 2011 to carry forward for a gross value<sup>3</sup> of \$47.5 million, inclusive of proportional share of joint ventures.
- Gearing<sup>4</sup> at 25.0% (31 December 2010: 20.9%).
- New \$110 million Bi-lateral facility – expiry date 1 September 2014, drawn to \$68.4 million plus bank guarantees of \$10.7 million.
- The corporatisation was completed on 1 December 2011. Villa World Limited is now the sole listed parent of the Villa World Group.

### Financial commentary for the half-year

The financial results for the half year to 31 December 2011 was a statutory net profit after tax of \$6.4 million (8.0 cps)<sup>5</sup>, compared to \$10.3 million (12.0 cps) at 31 December 2010. The results for the current half year do represent a stronger performance in the core underlying business as the prior year result included two one-off transactions, being the profit on sale of an investment property and the reversal of an impairment as shown on page 3 in Table 1.0.

Revenue was 37.7% higher in 1HFY12 than 1HFY11 this is primarily due to five stages in our Victorian Development, Cascades registering this period (sales contracts exchanged in prior periods), current good sales activity within our Queensland projects and various stages registering in our Queensland projects at Gladstone, Brisbane and Hervey Bay.

The operating profit as shown in Table 1.0 is \$6.2 million, representing 7.7 cps (31 December 2010: operating profit of \$4.5 million, 5.2 cps).

Net tangible assets of \$1.94 per share (30 June 2011: \$1.78).

<sup>1</sup> Operating profit before tax, fair value adjustment, impairments/release of impairments and non-recurring items from discontinued operations.

<sup>2</sup> Group sales gross value = total sales value adjusted for joint venture share, less any fallovers for the period.

<sup>3</sup> Contracts on hand gross value = total sales value adjusted for joint venture share.

<sup>4</sup> (Interest bearing liabilities less cash)/(Total assets less cash).

<sup>5</sup> Cps based on weighted average outstanding shares – 80,561 million shares.

## Directors' report (continued)

Table 1.0: The reconciliation of operating profit to statutory profit is shown below:

	Consolidated Entity	
	Half-year 31 Dec 2011	Half-year 31 Dec 2010
	\$'000	\$'000
Profit from continuing operations	5,945	7,014
Profit from discontinued operations	479	3,239
<b>Total net profit after tax from continuing and discontinued operations</b>	<b>6,424</b>	<b>10,253</b>

**Profit for the half-year includes the following items that are unusual because of their nature, size or incidence:**

Net (gain) / loss on sale of investment properties	-	(3,044)
Net (gain) / loss in fair value of investment properties	-	1,648
Impairment of development land	700	-
Hedge ineffectiveness on interest rate swaps	216	(233)
Reversal of impairment of receivables	-	(5,285)
<b>Sub total</b>	<b>916</b>	<b>(6,914)</b>
Income tax benefit / (expense)	1,134	(1,127)
<b>Sub total</b>	<b>(218)</b>	<b>(5,787)</b>
<b>Net operating profit before tax, fair value write-downs and impairments and non recurring one off discontinued operation expenses</b>	<b>6,206</b>	<b>4,466</b>

### Operational review

The Group has achieved a sound performance for the half year, as new projects in Queensland are now contributing to revenue. Total sales of 207 lots were recorded during the period compared to 288 in the previous corresponding period. While projects in Queensland, including the resource strong market of Gladstone, have contributed positively to this statistic (period on period a 29% increase in sales activity in Queensland). The Victorian market continues to prove to be very challenging. Villa World's geographic diversity remains a core business strength, providing the flexibility to respond to the varying market conditions. Eleven projects have contributed to profit during the current period, one fewer than the corresponding period.

Residential lots under control of 4,897, accounting for joint ventures in proportion to ownership (31 December 2010: 4,279).

### Capital management

#### Debt facility

On 13 December 2011, the Group successfully finalised a new 3 year \$110 million Multi Option Facility (MOF) bi-lateral arrangement with the Australia and New Zealand Banking Group (ANZ). At this time the Gladstone project finance facility with BOS International (Australia) Limited was also settled and rolled into this new facility.

Villa World continues to maintain gearing at sustainable levels. As at 31 December 2011 the Group had interest bearing debt, net of cash of \$63.5 million (plus \$10.7 million of bank

guarantees) (31 December 2010: \$53 million plus bank guarantees of \$7.0 million). Gearing increased during the period to 25.0%<sup>6</sup>.

The average cost of debt for the period ended 31 December 2011 was 8.86%.

Villa World continues to comply with all debt covenants during the half-year.

#### On Market Share Buy Back

In the current environment and with the share market valuing the Villa World shares at significantly less than the underlying net asset value, the Board continue to believe that the share buy back represents an efficient use of our capital and is earnings accretive.

On the 22 November 2011, at the AGM, a resolution was passed to refresh the Group's flexibility to buy back up to 7.94 million shares on market, representing 10% of the shares on issue and quoted on the ASX as at 14th October 2011. As at 31 December 2011, 6.7 million shares have been bought back since 25 July 2011. Of this, as at 16 February 2012, 1 million shares have been acquired under the re-refresh resolution on 22 November 2011.

#### Investment property

The group continues to hold the one remaining investment asset being Caltex at Goondiwindi Queensland.

<sup>6</sup> (Interest bearing liabilities less cash)/(Total assets less cash)

## Outlook

In general, house and land sales in Villa World's Queensland markets continue positive sales momentum, due to our focus on affordability, with a higher level of sales activity being experienced in the Gladstone market. The Victorian market continues to be very challenging.

The Board is of the opinion that further interest rate reductions, stability in the global economy and improving sentiment will be the keys to a sustained recovery in the property market.

## Events subsequent to balance date

There has not arisen in the interval between the end of the half-year and the date of this report any other item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

## Auditor's independence declaration

The auditor's independence declaration is set out on page 5 and forms part of the Directors' report for the six months ended 31 December 2011.

## Rounding of amounts

The consolidated entity is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

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



**John Potter**

Managing Director

Broadbeach

14 February 2012



## Auditor's independence declaration

As lead auditor for the review of Villa World Limited for the half-year ended 31 December 2011, I declare that, 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 review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Villa World Limited, which includes Villa World Limited and the entities it controlled during the period.

A handwritten signature in blue ink that reads 'Brett De' followed by a large, stylized flourish.

Brett Delaney  
Partner  
PricewaterhouseCoopers

Brisbane  
14 February 2012

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## Consolidated income statement

For the half-year ended 31 December 2011

	Notes	Consolidated	
		Half-year 2011 \$'000	Half-year 2010 \$'000
Development and construction revenue		87,099	62,554
Interest revenue		214	834
<b>Revenue from continuing operations</b>		<b>87,313</b>	<b>63,388</b>
Hedge ineffectiveness on interest rate swaps		(216)	233
Net gain/(loss) on sale of other assets		(79)	5
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method		(883)	2,755
Other income		2,750	3,361
Cost of development property sold		65,799	50,772
Land holding costs		976	1,149
Property sales and marketing expenses		3,791	3,496
Employee benefits expense		3,410	3,479
Depreciation and amortisation expense		160	148
Finance costs		7,114	5,402
Impairment of development land		700	-
Reversal of impairment of receivables		-	(5,285)
Other operating expenses		2,124	2,440
<b>Profit before income tax</b>		<b>4,811</b>	<b>8,141</b>
Income tax benefit / (expense)		1,134	(1,127)
<b>Profit from continuing operations</b>		<b>5,945</b>	<b>7,014</b>
Profit from discontinued operations after income tax	7a	479	3,239
<b>Net profit for the period</b>		<b>6,424</b>	<b>10,253</b>
<b>Profit is attributable to:</b>			
Equity holders of the company		6,424	10,253
		6,424	10,253
<b>Earnings per share:</b>			
Basic earnings per share from continuing operations attributable to equity holders of the company		7.4	8.2
Basic earnings per share attributable to equity holders of the company		8.0	12.0
Diluted earnings per share from continuing operations attributable to equity holders of the company		7.4	8.2
Diluted earnings per share attributable to equity holders of the company		8.0	12.0

The above consolidated income statement is to be read in conjunction with the accompanying notes.

## Consolidated statement of comprehensive income

For the half-year ended 31 December 2011

	Consolidated	
	Half-year 31 Dec 2011	Half-year 31 Dec 2010
	\$'000	\$'000
<b>Profit for the period</b>	6,424	10,253
<b>Other comprehensive income</b>		
Share based payment expense	31	-
Change in the fair value of cash flow hedges	27	84
<b>Other comprehensive income for the period, net of tax</b>	58	84
<b>Total comprehensive income for the period</b>	<b>6,482</b>	<b>10,337</b>
<b>Total comprehensive income for the period is attributable to:</b>		
Equity holders of the company	6,482	10,337
	6,482	10,337

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

## Consolidated balance sheet

As at 31 December 2011

	Notes	Consolidated	
		31 December 2011 \$'000	30 June 2011 \$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		4,868	5,864
Trade and other receivables		24,732	15,071
Inventories		65,209	72,969
Assets of disposal group classified as held for sale	7b	7,428	7,861
Other current assets		1,419	2,110
<b>Total current assets</b>		<b>103,656</b>	<b>103,875</b>
<b>Non current assets</b>			
Receivables		23,121	20,408
Inventories		109,813	101,204
Property, plant and equipment		1,060	796
Investments accounted for using the equity method		8,132	9,015
Deferred tax assets		12,063	10,937
Other non current assets		602	251
<b>Total non current assets</b>		<b>154,791</b>	<b>142,611</b>
<b>Total assets</b>		<b>258,447</b>	<b>246,486</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables		26,701	21,563
Borrowings	5	-	6,000
Related party loans		-	571
Provisions		6,270	4,700
<b>Total current liabilities</b>		<b>32,971</b>	<b>32,834</b>
<b>Non current liabilities</b>			
Payables		4,321	5,356
Borrowings	5	68,366	56,404
Provisions		135	152
<b>Total non current liabilities</b>		<b>72,822</b>	<b>61,912</b>
<b>Total liabilities</b>		<b>105,793</b>	<b>94,746</b>
<b>Net assets</b>		<b>152,654</b>	<b>151,740</b>
<b>EQUITY</b>			
Contributed equity		386,468	392,036
Retained earnings/(losses)		(233,927)	(240,351)
Reserves		113	55
<b>Capital and reserves attributable to the owners of Villa World Group (NCI)</b>		<b>152,654</b>	<b>151,740</b>

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

## Consolidated statement of changes in equity

For the half-year ended 31 December 2011

	Consolidated	
	31 December	30 June
	2011	2011
	\$'000	\$'000
<b>Total equity at the beginning of the financial period</b>	<b>151,740</b>	<b>148,838</b>
Net income recognised directly in equity		
Share based payment expense	31	-
Change in the fair value of cash flow hedges prior to transfer to income statement	27	82
Disposal of treasury shares	76	-
	134	82
<b>Net profit for the period</b>	<b>6,424</b>	<b>13,485</b>
<b>Total comprehensive income for the period</b>	<b>6,558</b>	<b>13,567</b>
<b>Transactions with equity holders in their capacity as equity holders:</b>		
Distributions paid or payable	-	(10,665)
Buy-back of shares	(5,644)	-
Transactions with equity holders in their capacity as equity holders:	(5,644)	(10,665)
<b>Total equity at the end of the financial period</b>	<b>152,654</b>	<b>151,740</b>

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

## Consolidated statement of cash flows

For the half-year ended 31 December 2011

	Consolidated	
	Half-year 2011 \$'000	Half-year 2010 \$'000
<b>Cash flows from operating activities</b>		
Receipts from customers (inclusive of goods and services tax)	80,987	96,592
Payments to suppliers and employees (inclusive of goods and services tax)	(72,434)	(75,633)
Payments for land acquired	(2,000)	(8,000)
Interest received	214	874
Interest paid	(3,246)	(2,270)
<b>Net cash inflow / (outflow) from operating activities</b>	<b>3,521</b>	<b>11,563</b>
<b>Cash flows from investing activities</b>		
Proceeds from sale of investment properties	-	21,837
Capital expenditure on investment properties classified as a disposal group held for sale	-	(26)
Purchase of property plant & equipment	(478)	(67)
Loans to related parties	(2,713)	-
Repayment of loans by related parties	-	174
<b>Net cash inflow / (outflow) from investing activities</b>	<b>(3,191)</b>	<b>21,918</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	106,000	83,000
Repayment of borrowings	(100,038)	(118,157)
Repayment of borrowing costs	(474)	(1,878)
Repayment of borrowings from related party	(571)	(3,427)
Payments in respect of ineffective hedge	(599)	(535)
Distributions paid	-	(6,398)
Payments for securities bought back	(5,644)	-
<b>Net cash inflow / (outflow) from financing activities</b>	<b>(1,326)</b>	<b>(47,395)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>(996)</b>	<b>(13,914)</b>
Cash and cash equivalents at the beginning of the financial period	5,864	28,847
<b>Cash and cash equivalents at the end of the period</b>	<b>4,868</b>	<b>14,933</b>
<b>Reconciliation to cash at the end of the period:</b>		
Cash and cash equivalents	4,868	14,933
<b>Cash and cash equivalents at the end of the period</b>	<b>4,868</b>	<b>14,933</b>

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

## Contents of the notes to the financial statements

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# Notes to the financial statements

For the half-year ended 31 December 2011

## 1 Reporting entity

On 22 November 2011, the Group's security holders voted overwhelmingly in favour of the corporatisation to simplify its corporate structure from a stapled structure to a single holding company.

The corporatisation does not change the underlying Villa World Group businesses.

Villa World Group was formed in April 2006 by the stapling of the securities of Villa World Trust ("the Trust"), and Villa World Limited ("the Company"). Prior to the corporatisation, Villa World Group was defined as "the Stapled Entity" or "the Group" or "VLW".

On 1 December 2011, the Group completed three key steps in the corporatisation, being:

- De-stapling of securities
- The Trust acquired by the Company
- Share consolidation

As a result of Corporatisation, current Villa World Group shareholders hold shares in a single holding company, being the Company. The Company now holds all the Trust Units on issue.

Villa World Limited is a company incorporated and domiciled in Australia. The consolidated financial report of the Group for the half-year ended 31 December 2011 comprises the Villa World Limited and its subsidiaries and the Group's interest in associates and jointly controlled entities.

The interim financial report was authorised for issue by the Directors on 16 February 2012.

## 2 Basis of preparation of half-year report

This condensed consolidated interim financial report for the half-year reporting period ended 31 December 2011 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

Compliance with AASB 134 *Interim Financial Reporting* ensures that the interim financial report complies with IAS 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board (IASB). Consequently, this interim financial report has also been prepared in accordance with and complies with IAS 34 *Interim Financial Reporting*.

Prior to the corporatisation transaction on 1 December 2011, the consolidated interim financial statements of Villa World Group consisted of Villa World Trust and the entities it controlled, including Villa World Limited and the entities it controlled.

Following the corporatisation, the consolidated interim financial statements of Villa World Group consist of Villa World Limited and its controlled entities. Other than changes to the internal structure of Villa World Group, there is no impact on Villa World Group as a result of the corporatisation transaction, and as such it is appropriate to present the interim financial statement of Villa World Group (Company as the parent entity) as a continuation of the consolidated group, prior to the corporatisation. As a result, comprehensive income and equity previously presented as attributable to equity holders of the Trust and the Company has been aggregated and presented as attributable to equity holders of Villa World Limited and its controlled entities.

Where this condensed consolidated interim financial report makes reference to the term shares and shareholders, this should be taken to be inclusive of the terms securities and securityholders up until the date of Corporatisation, being 1 December 2011.

This condensed consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2011 and any public announcements made by Villa World Group during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies and basis of preparation applied by the consolidated entity in this interim financial report are the same as those applied by the consolidated entity for the year ended 30 June 2011 and corresponding interim period.

The Group has not applied AASB 3 Business Combinations for the corporatisation transaction and predecessor accounting has been applied.

The Group satisfied the conditions of all its bank covenants during the period ended 31 December 2011 and at the balance sheet date.

The interest-bearing liabilities pursuant to the Multi-Option Facility Agreement (MOFA) have been disclosed as non-current liabilities as at 31 December 2011, which is consistent with AASB 101 *Presentation of Financial Statements*.

## Notes to the financial statements (continued)

For the half-year ended 31 December 2011

### 2 Basis of preparation of half year report (continued)

#### (a) Re-statement of comparative amounts

During the half year ended 31 December 2011, the Group has undertaken a review of the classification of its expenses in the income statement. As such land holding costs have been disclosed separately from cost of sales, property sales and marketing expenses has been re-stated to reflect the costs incurred on a project level basis. In order to ensure comparability, the prior year comparative amounts have been re-stated as if this classification has always applied.

The impact of the change on basic and diluted EPS of the entity was nil. The impact on the balance sheet was nil.

#### Consolidated Income statement

	Half-year 2010 \$'000
<b>Consolidated Income statement</b>	
Decrease in cost of sales	(1,083)
Increase in land holding costs	1149
Decrease in property sales and marketing expenses	(524)
Increase in other operating expenses	458
<b>Total comprehensive income</b>	<b>-</b>

#### (b) New accounting standards and interpretations

- (i) AASB 10 *Consolidated Financial Statement* replaces all of the guidance on control and consolidation in AASB 127 Consolidated and Separate Financial Statements, and Interpretation 12 Consolidation – Special Purpose Entities. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also new guidance on participating and protective rights and on agent/principal relationships. While the Group does not expect the new standard to have a significant impact on its composition, it has yet to perform a detailed analysis of the new guidance in the context of its various investees that may or may not be controlled under the new rules.

(ii) AASB 11 *Joint Arrangements* introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. AASB 11 also provides guidance for parties that participate in joint arrangements but do not share joint control. The Group is party to only joint venture arrangements, this standard will not have any impact on its financial statements.

- (iii) AASB 12 *Disclosure of Interests in Other Entities* sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 128. Application of this standard by the Group will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Group's investments. Amendments to AASB 128 *Investment in Associates* provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a "partial disposal" concept.

The Group is still assessing the impact of these amendments.

The Group does not expect to adopt the new standards before their operative date. They would therefore be first applied in the financial statements for the annual reporting period ending 30 June 2014.

- (iv) AASB 13 *Fair Value Measurement* was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The Group has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. The Group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 June 2014.

## Notes to the financial statements (continued)

For the half-year ended 31 December 2011

### (b) New accounting standards and interpretations (continued)

- (v) AASB 1054 Australian Additional Disclosures, AASB 2011-1 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project and AASB 2011-2 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project - Reduced Disclosure Requirements (effective 1 July 2011)

The AASB and NZ FRSB have issued accounting standards that eliminate most of the existing differences between their local standards and IFRS. Where additional disclosures were considered necessary, they were moved to the new standard AASB 1054. Adoption of the new rules will not affect any of the amounts recognised in the financial statements, but may simplify some of the Group's current disclosures.

The Group intends to adopt the standards from 1 July 2011.

- (vi) AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income (effective 1 July 2012)

In September 2011, the AASB made an amendment to AASB 101 *Presentation of Financial Statements* which requires entities to separate items presented in other comprehensive income into two Groups, based on whether they may be recycled to profit or loss in the future. This will not affect the measurement of any of the items recognised in the balance sheet or the profit or loss in the current period. The Group intends to adopt the new standard from 1 July 2012.

### 3 Segment information

The reconciliation of operating profit to statutory profit is shown below:

	Consolidated Entity	
	Half-year 31 Dec 2011 \$'000	Half-year 31 Dec 2010 \$'000
Profit from continuing operations	5,945	7,014
Profit from discontinued operations	479	3,239
<b>Total net profit after tax from continuing and discontinued operations</b>	<b>6,424</b>	<b>10,253</b>

Profit for the half-year includes the following items that are unusual because of their nature, size or incidence:

Net (gain) / loss on sale of investment properties	-	(3,044)
Net (gain) / loss in fair value of investment properties	-	1,648
Impairment of development land	700	-
Hedge ineffectiveness on interest rate swaps	216	(233)
Reversal of impairment of receivables	-	(5,285)
<b>Sub total</b>	<b>916</b>	<b>(6,914)</b>
Income tax benefit / (expense)	1,134	(1,127)
<b>Sub total</b>	<b>(218)</b>	<b>(5,787)</b>
<b>Net operating profit before tax, fair value write-downs and impairments and non recurring one off discontinued operation expenses</b>	<b>6,206</b>	<b>4,466</b>

## Notes to the financial statements (continued)

For the half-year ended 31 December 2011

### 3 Segment information (continued)

#### (a) Description of segments

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

Villa World Group and its controlled entities develop and sell residential land and houses predominately in Queensland and Victoria. The individual operating segments of each geographical area have been aggregated on the basis that they possess similar economic characteristics and are similar in nature of the product and production processes.

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

- Property development – Queensland
- Property development – Victoria

The New South Wales operation ceased in 2010.

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

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

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

##### (i) Segment revenue

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

##### (ii) Segment gross margin

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

The segment information provided to the executive committee for the reportable segments for the year ended 31 December 2011 is as follows:

	<b>Consolidated</b>	
	<b>Half-year 31 Dec 2011 \$'000</b>	<b>Half-year 31 Dec 2010 \$'000</b>
<b>From continuing operations</b>		
Segment revenue from land, residential and commercial development activities		
Property development – Queensland	59,611	52,978
Property development – Victoria	27,488	9,577
<b>Total segment revenue</b>	<b>87,099</b>	<b>62,554</b>
<b>Segment cost of development property sold</b>		
Property development – Queensland	47,801	40,034
Property development – Victoria	16,110	9,251
Property development – other	1,888	1,487
<b>Total segment cost of development property sold</b>	<b>65,799</b>	<b>50,772</b>
<b>Segment gross margin</b>		
Property development – Queensland	11,810	12,943
Property development – Victoria	11,378	326
Property development – other	(1,888)	(1,487)
<b>Total segment gross margin</b>	<b>21,300</b>	<b>11,782</b>

## Notes to the financial statements (continued)

For the half-year ended 31 December 2011

### 3 Segment information (continued)

#### (c) Other segment information

The entity is domiciled in Australia. The amount of its revenue from external customers in Australia is \$87.3 million (31 December 2010: \$63.4 million).

	Consolidated	
	Half-year 31 Dec 2011 \$'000	Half-year 31 Dec 2010 \$'000
Total segment revenue	87,099	62,554
Interest revenue	214	834
<b>Total revenue from continuing operations</b>	<b>87,313</b>	<b>63,388</b>

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

### 4 Amounts attributable to ordinary shareholders

Shares on Issue	Consolidated	
	Half-year 31 Dec 2011	Half-year 31 Dec 2010
Opening balance at start of period <sup>1</sup>	85,373,700	85,373,700
Issued during period	-	-
Shares bought-back <sup>2</sup>	(6,796,390)	-
<b>Closing balance at end of period</b>	<b>78,577,310</b>	<b>85,373,700</b>

<sup>1</sup> Securities re-stated based on 1:5 consolidation, approved on 30 June 2011 at the AGM.

<sup>2</sup> On market buy-back

On the 22 November 2011, at the Annual General Meeting, a resolution was passed to refresh the Group's flexibility to buy back up to 7.94 million shares on market, representing 10% of the shares on issue and quoted on the ASX as at 14 October 2011.

As at 31 December 2011, the Group has bought back 6,796,390 share on-market. Total consideration paid for the shares was \$5.6 million.

As at 16 February 2012, 1.0 million shares have been acquired under the re-refresh resolution.

## Notes to the financial statements (continued)

For the half-year ended 31 December 2011

### 5 Interest bearing liabilities

	Consolidated	
	31 December 2011	30 June 2011
	\$'000	\$'000
<b>Current liabilities</b>		
<b>Secured</b>		
Bank loan – project specific	-	6,000
<b>Total current borrowings</b>	<b>-</b>	<b>6,000</b>
<b>Non-current liabilities</b>		
<b>Secured</b>		
Loan	68,366	51,000
Bank loan – project specific	-	5,404
<b>Total non-current borrowings</b>	<b>68,366</b>	<b>56,404</b>
<b>Total borrowings</b>	<b>68,366</b>	<b>62,404</b>

#### Financing arrangements

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

	Consolidated	
	31 December 2011	30 June 2011
	\$'000	\$'000
<b>Total Financing facilities</b>		
Loan (secured) (i)	110,000	110,000
Project finance bank loan (secured) (ii)	-	11,919
	<b>110,000</b>	<b>121,919</b>
<b>Facilities utilised at reporting date</b>		
Loan (secured) (i)	68,366	51,000
Project finance bank loan (secured) (ii)	-	11,404
	<b>68,366</b>	<b>62,404</b>
<b>Bank guarantees utilised at reporting date</b>		
Loan (secured) (i)	10,667	5,577
Project finance bank loan (secured) (ii)	-	515
	<b>10,667</b>	<b>6,092</b>
<b>Facilities unutilised at reporting date</b>		
Loan (secured) (i)	30,967	53,423
Project finance bank loan (secured) (ii)	-	-
	<b>30,967</b>	<b>53,423</b>

#### (i) Loan facilities

On 13 December 2011, the Group successfully re-negotiated its Multi Option Facility (“MOF”), as a bi-lateral arrangement with the Australia and New Zealand Banking Group (ANZ).

The facility limit under the new MOF is a \$110 million (inclusive of bank guarantees and working capital). As at 31 December 2011, the MOF was drawn at \$68.4 million plus bank guarantees of \$10.7 million. The bank guarantees are also disclosed in note 8 – Contingencies.

All applicable covenants under the facility were met within the required timeframes and during the half-year. The ANZ bi-lateral facility matures on 1 September 2014.

## Notes to the financial statements (continued)

For the half-year ended 31 December 2011

### 5 Interest bearing liabilities (continued)

Villa World Management Limited is the borrower in its own capacity and in its capacity as responsible entity of Villa World Trust.

In line with the requirements of Australian Accounting Standards, the termination of the syndicated MOF has been accounted as an extinguishment of debt. Capitalised borrowing costs in relation to the old facility of \$1.8 million have been fully expensed in the income statement, as part of finance costs.

Interest is payable based on a margin over bank bill swap rate. The Group has entered into interest rate swap contract to fix the interest rate at approximately 6.97% on \$50 million of borrowings. The swap contract matures on 7 June 2012.

#### (ii) Project finance bank loan

As part of the new MOF, the specific project finance facility of \$11.5 million with BOS International (Australia) Limited was settled on 13 December 2011 and rolled into the new facility.

### 6 Dividends and distributions paid and payable

	Half-year 31 Dec 2011		Half-year 31 Dec 2010	
	\$'000	Cents per share	\$'000	Cents per share
<b>Ordinary Units</b>				
<b>Distributions Paid</b>				
December half year	-	-	6,398	7.50
	-	-	6,398	7.50

## Notes to the financial statements (continued)

For the half-year ended 31 December 2011

### 7 Discontinued operations

#### Description

In 2008 the Group announced its intention through several ASX announcements to sell the assets in the Trust to reduce the level of debt for the Group and to concentrate on the property development business of the Group.

As a result of the direction of the Group, operations of the Trust segment have been classified as a disposal group held for sale in the balance sheet and a discontinuing operation in the income statement.

Financial information relating to the discontinued operation for the period is set out further below:

	Consolidated	
	Half-year 31 Dec 2011	Half-year 31 Dec 2010
	\$'000	\$'000
<b>(a) Financial performance and cash flow information</b>		
Revenue	534	2,887
Expenses	(55)	(1,044)
<b>Net income from discontinued operations</b>	<b>479</b>	<b>1,843</b>
Net gain / (loss) on disposal of investment properties	-	3,044
Net gain / (loss) in fair value of investment properties	-	(1,648)
<b>Net profit before income tax</b>	<b>479</b>	<b>3,239</b>
Income tax (expense)/benefit	-	-
<b>Profit from discontinued operations</b>	<b>479</b>	<b>3,239</b>
Net cash inflow / (outflow) from operating activities	927	1,843
Net cash inflow / (outflow) from investing activities	-	21,811
<b>Net increase / (decrease) in cash generated by the discontinued operation</b>	<b>927</b>	<b>23,654</b>

	31 December 2011	30 June 2011
<b>(b) Carrying amounts of assets and liabilities of the disposal group</b>		
The carrying amounts of assets and liabilities as at reporting date were:		
Investment properties held for sale	7,418	7,418
Receivables and other assets	10	443
<b>Total assets</b>	<b>7,428</b>	<b>7,861</b>
Trade and other payables	17	0
<b>Total liabilities</b>	<b>17</b>	<b>0</b>
<b>Net assets of the disposal group held for sale</b>	<b>7,411</b>	<b>7,861</b>

## Notes to the financial statements (continued)

For the half-year ended 31 December 2011

### 8 Contingencies

#### (a) Details and estimates of contingent liabilities are as follows:

The Group has provided bank guarantees to the total of \$10.7 million (31 December 2010: \$7.0 million) to authorities and councils in relation to certain works to be undertaken or maintained or in support of contractual commitments.

#### (b) Estimates of material amounts of contingent liabilities not provided for in the financial report:

The Group entities have 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 Group's building activities and in the course of their employment. It is impractical to estimate the amount that may arise from these arrangements.

A controlled entity has contractual arrangements that provide for liquidated damages under certain circumstances. It is impractical to estimate the amount of any liability that may arise from these arrangements.

#### (c) Estimates of material amounts of contingent liabilities provided for in the financial report:

##### *Home warranty claim-Thornleigh*

A claim has been made against the Group in respect of damages regarding project development defects. This was disclosed in detail in the annual report for the year ended 30 June 2011.

The proceedings concern a development in Thornleigh, NSW, known as Wild Ash Grove. The plaintiff claims damages, interest and costs of approximately \$7.01 million. The plaintiff has particularised its loss claimed against the Defendants (which consists of several other parties including the contracted builder) as the cost of rectifying alleged defects and the diminution in value of the development. The Group does not accept the claims made by the plaintiff and intends to continue to strenuously defend the claim.

Provisions for the home warranty claim have been raised in the balance sheet based on best estimates. The information in relation to provisions usually required by AASB137 *Provisions, Contingent Liability and Contingent Assets* is not disclosed on the grounds that it is expected to prejudice the outcome of the potential litigation.

##### *Other investigation*

The company is currently investigating potential defects relating to a development. Based on investigations to date, the company believes that any potential liability may be off-set by a corresponding claim against a third-party contractor.

Provisions for the other investigation have been raised in the balance sheet based on best estimates. The information usually required by AASB137 *Provisions, Contingent Liability and Contingent Assets* is not disclosed on the grounds that it is expected to prejudice the outcome of the investigation and potential litigation.

#### (d) Contingent liabilities in respect of other entities:

Group entities have provided guarantees in respect of facilities for advances to other entities, including joint venture partners, as part of a development in Victoria. The special conditions of the debt facility limit the maximum principal amount recoverable from Villa World to 50% of the principal outstanding debt under the facility. As at 31 December 2011, the debt was drawn to \$28.9 million and \$1.5 million of bank guarantees were issued (31 December 2010: \$29 million and \$1 million bank guarantees).

## Directors' declaration

In the Directors' opinion,

- (a) the financial statements and notes, set out on pages 6 to 20 are in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance, as represented by the results of its operations and cash flows, for the six month period ended on that date; and
  - (ii) complying with Australian Accounting Standard, the *Corporations Regulations 2001* and other mandatory professional reporting requirements.
- (b) there are reasonable grounds to believe that the Villa World Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.



**John Potter**  
Managing Director

Broadbeach  
14 February 2012



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

### **Report on the Half-Year Financial Report**

We have reviewed the accompanying half-year financial report of Villa World Limited, which comprises the balance sheet as at 31 December 2011, and the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for Villa World Limited (the consolidated entity). The consolidated entity comprises both Villa World Limited and the entities it controlled during that half-year.

#### *Directors' responsibility for the half-year financial report*

The directors of the Villa World Limited are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

#### *Auditor's responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Villa World Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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#### *Independence*

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

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*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Villa World Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as 31 December 2011 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature in blue ink that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in blue ink that reads 'Brett Delaney'.

Brett Delaney  
Partner

Brisbane  
14 February 2012