1 March 2006

The Manager,
Australian Stock Exchange Ltd,
123 Eagle Street,
Brisbane, Qld, 4000

Dear Sir,

ASX Release

Preliminary Announcement Financial Results 31 December 2005 and Company Update

1. Introduction

Shareholders will recall that, on 1 February 2006, the Directors obtained a suspension from the Australian Stock Exchange for two weeks, due to issues regarding the current trading performance of the Company and the resulting implication on the Company's balance sheet and its Australian Financial Services License, which is critical to the Company's operation as a manager of retail Village Life villages.

On 14 February, 2006, the Directors sought an extension to the suspension for a further two weeks so that they could continue with negotiations that were considered critical to the resolution of the Company's financial position.

The Directors and management of Village Life have continued to address these issues in this time and are able to report back to the market in this release.

An extract of the December 2005 financial statements is attached to this release and includes the Income Statement for the half-year ended 31 December 2005, the Balance Sheet at 31 December 2005 and certain attaching notes to the accounts. The interim financial report for the half-year ended 31 December 2005 will be finalised and released to the ASX by Friday 3 March 2006.

This release includes information in respect of:

- Particular transitional issues regarding the change in accounting under the previous Australian Generally Accepted Accounting Principles (AGAAP) to the new Australian International Financial Reporting Standards (AIFRS) that have impacted on the Company's reported position as at 30 June 2005 and 31 December 2005.
- The reasons behind the Company's unfavourable current financial position.
- Actions taken by the Directors to address these unfavourable factors.
- The current outlook for the Company.

2. Financial performance for the six months to 31 December 2005 and its financial position at 31 December 2005

The Directors recommend that this information be read carefully, as this six month accounting period is the first time that the Company has reported formally under the new accounting standards, although the issues and impacts regarding these standards had been appropriately set out in the 30 June 2005 annual report in the note 37.

The Company made a loss after tax for the six months to 31 December 2005 of $13.426m compared with a 31 December 2004 profit after tax of $1.736m, with the significant components of the current period loss being:

- A pre-tax loss of $5.908m, which, to a large extent, was caused by the lower occupancy levels in the villages Village Life leases from the ING Real Estate Community Living Fund Trust (ILF) and its responsible entity ING Management Limited (ING) and the Village Life Property Trust (VLPT) and its responsible entity, Westpac Funds Management Limited (Westpac). Unlike past reporting periods, there were insufficient development profits in this period to offset this trading loss resulting from the operation of the leased villages.

- The change in accounting for development profits on villages leased from ILF and VLPT under the new accounting standard AASB 118, an issue highlighted as a potential adjustment under AIFRS in note 37 of the Company's annual report at 30 June 2005. However, that disclosure did not anticipate that village occupancy levels would also continue to decline, such that operating losses from these leased villages would worsen, even after incurring additional significant marketing resources to attempt to address this performance issue in the period up to and subsequent to the 31 December 2005.

  The consequence of this decline in trading performance and the probability that the trading position may not improve significantly in following periods to abate this problem has led the Directors to the conclusion that there is considerable uncertainty regarding the capacity of the Company to recover the deferred tax asset of $7.276m. This asset, which arose from the change in accounting for development profits and other adjustments under AIFRS, was written off at 31 December 2005.

- The new accounting standards require the Company to provide for its commitments for the restoration (make good obligations) of the villages under lease from ILF and VLPT, as the previous AGAAP regime did not require the Company to make provisions for these future commitments. The total provision expensed in the 31 December 2005 half-year was $392k.

- The new accounting standards require the Company to expense share options issued to senior executives over shares owned by two of the Company's founding shareholders, even though the Company itself has no obligation to issue any new shares arising from these option obligations. Shareholders may form their own view of this requirement when they note that these accounting standards required the Company to expense $487k and credit equity for the same amount in this period, even though no new shares were issued nor is there any future commitment to issue by the Company under this arrangement.

- Onerous contracts exist where the net present value of the projected trading performance of a contract will produce a negative result for the Company after taking to account all projected revenues and expenses relating to the execution of the contract. At 31 December 2005, the Company identified a number of onerous contracts with VLPT and ILF, and has provided for the net present value of the losses at 31 December 2005 of $1.474m.

The impact of these changes is that the Company's financial position has changed significantly, with negative net assets at 31 December 2005 of $6.845m, compared to a net asset position reported under AIFRS at 30 June 2005 of $5.462m, due to the following major changes:

- A pre-tax loss of $5.908m which includes a write off of $1.474m regarding onerous contracts at 31 December 2005.

- A tax expense of $7.518m which includes a write off $7.276m in deferred tax assets due to the reasons detailed previously.

The after tax loss of $13.426m has been offset by increases in reserves, resulting in a net decrease in equity of $12.3m.

The Directors had already recognised that the transition to the new accounting standards was going to raise significant issues and had expended considerable resources on this transition process in the period to 30 June 2005, as is evidenced by the information detailed in note 37 to the Company's annual accounts at 30 June 2005.

The significant events that arose in the past six month period, which have caused the Directors to revise their outlook in regard to the Company's prospects are:

- The absence of any significant village development profits in this period;

- The continuing deterioration in the trading performance of the villages under leases to ILF and VLPT; and

- The likely continuation of a limited development pipeline and thus development profits for Village Life due to the poor performance of recently developed villages and thus the valuation uncertainty that this trading performance places on future developments.

To assist shareholders understand the components that reflect the trading position of the Company as at 31 December 2005, the following table has been prepared:

Item	Total $'000	Management $'000	Lease $'000	Development $'000	Unallocated $'000
Revenue					
Management fees	4,496	4,496			
Tenanting fees	88	88			
Sale of properties	2,176			2,176	
Deferred income	877			877	
Rental income	8,724		8,724		
Other income	594				594
	16,955	4,584	8,724	3,053	594
Expenses					
Cost of sales	2,387			2,387	
Manager fees	5,300	3,138	2,162		
Lease rental - Villages	6,110		6,110		
- Manager units	286	286			
Onerous contracts	1,474		1,474		
Bad & doubtful debts	507		366	141	
Restoration – provision	392		392		
Employee benefits	1,677	521	375	265	516
On-site costs	2,020	306	1714		
Other	2,710	494	355	856	1,005
	22,863	4,745	12,948	3,649	1,521
Loss before tax	(5,908)	(161)	(4,224)	(596)	(927)

3. Why is Village Life in this position

3.1 Business Model

Shareholders were provided with detailed information in the Company's recent announcement on 1 February 2006 and are encouraged to revisit that statement again as well as having regard for this explanation.

Village Life developed from a vision of its founders to deliver affordable serviced accommodation to the ageing Australian population. Initial developments were successful, sufficient to attract a venture capital investor to assist the founders to grow the business, given the favourable results from the initial developments.

The Company also expanded its capacity by licensing developers across Australia to develop villages under the Village Life system, so that Village Life's capacity to expand rapidly was enhanced.

Initial developments were sold to private investors through the issue of an individual prospectus for 22 village developments with a further 23 villages development sold to syndicate owners. Most of the early 45 villages were financed in this manner, with Village Life having a 25 year management agreement as part of the transaction. Under these management agreements, the owners take the full operating risks of the village, with Village Life offering prescribed village management services.

A further and probably most critical step in the Company's evolution was the creation of the two property trusts that became the owners of a large number of villages developed by Village Life and leased back under lease arrangements, whereby Village Life paid an agreed lease rental to the trusts, which is subject to escalation.

As the business developed, the Company and its licensees focused on the development of new villages and their sale, as significant profits were generated, based upon the "on completion" valuation of the villages, that assumed the villages would trade at an 95% occupancy level, as the initial villages sold to the private investors had exhibited that characteristic in the earlier years of operation.

The Company's developments activities, in conjunction with its licensees, continued to be successful and it expanded to a stage where, at 30 June 2005, the Company had 79 villages under management.

However, it is apparent that, as other forces became active in the market and throughout the 2005 calendar year, occupancy levels in a number of established villages started to decline and newer villages were not tenanting up as well as had been expected.

In early October 2005, a new Managing Director was appointed. One early initiative was that the Directors endorsed a new marketing strategy, to focus on improving the occupancy performance of its then 80 villages under management, particularly its non performing villages, most of which were owned by the two trusts, ILF and VLPT. It was apparent that the owners of some villages had the view that Village Life had not invested sufficient resources into the marketing process and that, once an appropriate strategy was in operation, it was assumed that occupancy levels would improve. This programme used direct targeted marketing, in conjunction with the use of incentives to both new and current residents to take up or maintain residence in the villages. The results of this programme to date have not resulted in a substantial overall improvement in occupancy, despite the investment of significant resources.

At the same time, the Managing Director also initiated a thorough review of every aspect of the Company's business, a process that was completed in time for a scheduled meeting of Directors on 31 January 2006.

The key findings of this strategic review were that:

- The newer village developments are not in as favourable locations as the initial villages as rising land prices, increased construction costs, higher local authority development charges and other competing land uses, particularly across the eastern seaboard in Queensland, New South Wales and Victoria, pushed Village Life and its licenses to seek out lower cost land that would provide the opportunity for feasible developments to occur, given that the "on completion" valuations were driven off a revenue base referenced to the old age pension, and not local market conditions.

- The performances of all villages appear to be particularly sensitive to the geographic location of the village and the underlying demographics and supporting community amenities, as well as the local competitive offerings. The level of home ownership in the catchment zones has been identified as a particularly sensitive factor in the success of the Village Life rental serviced accommodation product, supporting a view that the majority of Australia's current 75 years + senior citizens do have a preference for an "ownership" structured product in deference to rental products in certain locations. The review also noted that a significant number of Village Life villages still trade at occupancy levels above 90% day in day out, so that a general conclusion that the Village Life product is not relevant or competitive would also be incorrect. Rather, the strategic review concluded that the location of the village was absolutely critical in its potential attractiveness as seniors' serviced accommodation.

- Greater competition in the segment that Village Life had to itself in its formative years, from both the Federal Government and State Governments, which have invested significant resources into both ageing in the home programmes and in subsidising seniors public housing, as well as new private sector and not for profit organisations that have, quite logically, moved into this market segment due to the latent and growing demand for product to service the needs of Australia's expanding seniors' population.

- The significant turnover in village residents, which is much higher than historically experienced, as the average age of village residents grew and thus they are older and need to move to higher care facilities, often within months of entering a Village Life village.

- Village Life's pursuit of new developments in deference to addressing the emerging performance issues in the current villages. The reason that the development pipeline was so important was because the majority of the profit was generated at the time of the sale to the ownership vehicle, predicated on the "on completion" valuation of the village. However, the financial risks of the lease arrangements with the trusts proved far more onerous than anticipated when this structure was put in place.

As a consequence of these findings and the failure of the marketing initiative to generate any significant improvement in occupancy levels, at their meeting on 31 January 2006, the Directors formed the view that:

- The Company's trading problems were more systemic than anticipated and thus required new initiatives that would require both time and investment funds to pursue.

- Based on indications of the likely outcome of independent professional village property valuations, it was likely that the current valuation base for developed villages would not be sustained and thus it was unlikely that the Company's future development pipeline would be either profitable or of sufficient size until the Company was able to address the performance issues in the current portfolio of villages or establish a more profitable model for this market.

- If the Company was not able to come to some accommodation with the responsible entities ING and Westpac, which manage ILF and VLPT respectively, that the Company would experience financial difficulties in the near term. As a consequence, it was important that discussions were held with these responsible entities as soon as possible, while the Company had the financial capacity to manage a transition in an orderly and responsible manner, taking into account the interests of all of its stakeholders, not least being its village residents and managers.

3.2 Negotiations with ILF/ING

Subsequent to the Company's suspension from the ASX on 1 February 2006 and the extension of that suspension to 28 February 2006, the Directors have been in discussions with ING, the responsible entity for ILF, regarding these performance issues and potential remedies.

The key outcomes of these negotiations have been that Village Life has:

- Surrendered its current lease obligations over 26 villages owned by ILF effective 1 March 2006.
- Retained its lease commitment in regard to the 8 managers' units leased by Village Life in villages owned by other parties.
- Entered into a three year management agreement with ING over the villages owned by ILF, with management fees being earned on the basis of being paid a fee calculated as 12% of net property income from each village under management. This management agreement also provides for an annual performance review.
- Forfeited its 5.1 million units the Company owned in ILF to ING as part of the transitional arrangements.
- Maintained its arrangements with ING and Village Life licensees in regard to the current licensee developments at Swanview, Lovely Banks 1, Lovely Banks 2 and Grovedale 2, to enable the finalisation of these projects and their transition into operation, as originally envisaged under these development agreements.
- Assigned the commitments that Village Life currently has with regard to its own development projects in progress at Taree, Kingston, Marsden 1, Marsden 2 and Wangaratta to ING, with Village Life appointed to project manage these developments on behalf of ING.

This agreement is also subject to Village Life being able to demonstrate to ING that it can trade successfully into future periods.

The Directors note that, whilst ING and Village Life have reached a suitable accommodation of their respective interests, there still remain issues amongst the Village Life licensees that need to be resolved in the transition of responsibilities from Village Life to ING, such as the transfer of rental guarantees on recently completed or in development villages. These matters are currently still in negotiation.

Shareholders should note that this agreement is now being translated into relevant legal documents.

The Directors have carefully assessed the value of the surrendered 5.1 million units in ILF against both the net present value of the continued trading losses being incurred by Village Life under the leases with ILF as well as the overall impact on the Company's financial position and its forward cash flow projections in deciding to enter into this agreement with ING and ILF and are satisfied that these arrangements with ING are in the best interests of all shareholders at this date.

The Directors also acknowledge and thank ING for the constructive manner in which they have addressed these issues with Village Life.

3.3 Negotiations with VLPT/Westpac

Negotiations with Westpac, as responsible entity for VLPT, have also advanced, but in a different manner to ILF. At this date, there has been no resolution in regard to the lease arrangements with VLPT, despite considerable efforts by both parties to develop a solution that satisfies the interests of all parties. However, Westpac and Village Life have agreed that they will continue to work together to address the performance issues in VLPT through an arrangement that provides for Westpac and Village Life continuing to:

- Develop individual business plans for each village in VLPT, to exploit the highest and best use for every one of the 10 villages in the VLPT.
- Address the financial structure of VLPT and advance ways that may assist both parties to address the need to seek an early resolution to this complex issue, whilst Village Life has the financial capacity to do so.

The Directors also acknowledge and thank Westpac for the constructive manner in which they have addressed these issues with Village Life. At this point in time the Company is unable to provide a definite timeframe for completion of the negotiations, however, as soon as an outcome is achieved the Shareholders will be advised.

3.4 Commonwealth Bank of Australia – Bank clearing facility

The Commonwealth Bank of Australia, the Company's bankers, has advised the Company that, under its security arrangements with the Company, it will accommodate the transition of the 5.1 million units that Village Life has agreed to transfer to ING. However, it has also advised Village Life that it will reassess the provision of the Banks' clearing facility, through which the Company collects its accommodation rentals from its residents, and advise the Company of its intentions by 30 April 2006. The Bank has also advised that, in the event that it chose to withdraw its services, it will provide the Company with 30 days notice. The Company is exploring other alternatives in this regard.

For shareholders information, funds on hand at 31 December 2005 amounted to $4.487m, against which the Bank has specific undertakings to guarantee a Tasmanian development obligation and secure the Company's bank clearing system which reduces the balance to an available $1.7m net cash.

3.5 Australian Financial Services License (AFSL)

On 1 February 2006, the Directors sought suspension from the ASX to address the potential impact of a deficiency in net tangible assets that arose out of the transition to the new accounting standards.

Since the date of the ASX suspension, the Company has maintained communication with the Australian Securities and Investments Commission (ASIC). The Company has also progressed discussions with another independent AFSL holder to assist the Company if a suitable outcome cannot be reached with ASIC with respect to the 22 villages managed under its licence..

3.6 Other options considered by the Directors

Other options considered by the Directors in pursuing the restructuring of the Company have included attracting a substantial new investor.

Parties that may have been interested in pursuing an interest in Village Life have indicated that the inherent uncertainty in the lease arrangements with VLPT and ILF and the contingent GST position create an opportunity that is difficult to assess at this date.

The position was and remains that no matter what other option is considered, it will still involve the need to address the Company's lease agreements with VLPT/Westpac in any event, as sustaining the payments due under these leases remains a core challenge for the Company, no matter how the rest of its structure changes.

Accordingly, with the uncertainty surrounding the Company's lease position with VLPT, the implementation of the ING / ILF restructuring announced on Friday 24 February 2006 and the unresolved position regarding the Company's GST liabilities has led the Directors to conclude that any other potential investor may be awaiting any restructuring initiatives in any event at this date.

3.7 Looking forward

The Directors have considered the future financial position of the Company projected to flow from this restructuring and have concluded that, whilst the restructuring proposal has a most significant impact on the Company's financial position, it still offers shareholders the best option to survive and move forward and both maintain its management services business and pursue new development and management opportunities in the seniors' accommodation market.

However, the Company has also concluded that there will be a need to reduce corporate overheads significantly as part of this restructuring process and will implement a range of initiatives in the coming weeks as part of this plan.

As the ultimate outcome is still subject to a range of uncertainties, including the finalisation of various Village Life and Village Life licensee developments and the recovery of rental guarantees and other outstanding commitments from its licensees, the Directors cannot reliably offer shareholders any further direction on the Company's future prospects at this date.

At this date, in simple terms, the Company is still facing a difficult and uncertain future as it has to:

- Implement the ING/ILF agreement and the resolution of outstanding issues with its licensees.

- Finalise an outcome with VLPT/Westpac, as Village Life is still trading these villages at a gross operating loss under current occupancy levels.

- Restructure its corporate operations successfully over the next month.

- Resolve the settlement of outstanding commitments in its own project development pipeline, which includes discussions with ILF in regard to the project feasibility of these development properties.

- Manage a tighter cash flow position than had originally been anticipated.

In simple terms at 1 March 2006, the Company has, as an underlying position over and above its day to day trading operations:

- Major assets in the form of interests in development properties valued at $6.6m and its sub-ordinated loan in VLPT of $3.7m.

- A major contingent liability for GST tax that has been assessed in a range between $3.4m to $6.2m before any consideration of ATO general interest charges and penalties.

Accordingly, the Directors refer shareholders to the attached financial statements as at 31 December 2005 which highlights the inherent uncertainty in the Company's position at this date and note that the Company's financial accounts at 31 December 2005 are based on the assumption that it is a going concern.

Directors also refer shareholders to note 4 of the attached financial statements, which shows the significant positive impact that the Company's agreement with ILF/ING has, if it had been implemented on 31 December 2005.

4. Conclusion

No shareholder, irrespective of the date that you acquired shares in Village Life can be happy with the contents of this report and the actions that had to be taken to ensure the Company has the opportunity to continue to trade.

Opportunities do exist to improve the performance of every village in the Village Life management portfolio but, to do so will require time and investment, and it is difficult to generate external support for such a plan at a time when the Company has disappointed its owners with results to date. However, as best as Village Life can, it will continue to work with the owners of the entire village portfolio it has under management to improve their performance.

What lies ahead for the Company is uncertain at this date, but at least the Company's core infrastructure and capability remain intact, to enable it to develop a new future. The Directors consider that there is inherent value in Village Life, if it is able to navigate the currently difficult challenges that it faces, and will continue to explore opportunities such as the attraction of a new significant shareholder to inject the necessary capital to enable the Company to pursue the opportunities that currently present themselves and can be generated from its position as a national operator of over 4,000 seniors' serviced accommodation units across Australia.

The Directors would also like to acknowledge the patience and support that its village residents, village managers and staff have given to the Company in what has been most difficult circumstances over the whole of the 2005 calendar year and now into 2006. The Directors consider that these new arrangements have addressed the Company's immediate and potentially terminal problems head on and given Village Life the opportunity to return to its core undertaking of delivering essential services to over 4,000 senior Australian citizens 365 days every year.

Greg Gardiner
Chairman

1 March 2006

Village Life Ltd

ASX Release – 1 March 2006

APPENDIX 1

VILLAGE LIFE LTD
INCOME STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	Half-year 31 Dec 2005 $'000	Half-year 31 Dec 2004 $'000
Revenue		
Licensing fees	-	3,201
Management fees	4,496	3,972
Tenanting fees	88	470
Sale of properties	2,176	3,155
Deferred income – development profits	877	699
Rental income	8,724	5,982
Interest	310	522
Other	284	179
	16,955	18,180
Expenses		
Changes in inventories	(2,765)	(1,578)
Purchases of land and construction costs	5,152	3,930
Employee benefits expense	1,677	1,447
On site manager fees	5,300	4,116
Rental of villages	6,110	4,313
Bad and doubtful debts	507	-
Onerous contracts	1,474	-
Restoration of leased assets	392	291
Advertising and marketing	781	611
Consulting and professional fees	619	311
Telephone and call centre	283	181
Travel	139	117
Insurance	195	72
Depreciation and amortisation	103	119
Finance costs	5	4
Other	2,891	1,788
	22,863	15,722
Profit/(loss) before income tax expense	(5,908)	2,458
Income tax expense	(7,518)	(722)
Net profit/(loss)	(13,426)	1,736

VILLAGE LIFE LTD
BALANCE SHEET
AS AT 31 DECEMBER 2005

	31 December 2005 $'000	30 June 2005 $'000
Current assets		
Cash and cash equivalents	1,749	440
Receivables	2,635	15,430
Inventories	6,601	3,836
Current tax assets	217	120
Other	409	603
Total current assets	11,611	20,429
Non-current assets		
Receivables	3,718	-
Available for sale financial assets	5,972	-
Other financial assets	-	5,104
Property, plant and equipment	834	867
Deferred tax asset	-	7,779
Restricted cash deposits	2,738	1,583
Total non-current assets	13,262	15,333
Total assets	24,873	35,762
Current liabilities		
Payables	5,814	5,339
Interest bearing liabilities	-	44
Provisions	136	143
Deferred income	2,273	2,567
Security deposits	540	536
Other	21	21
Total current liabilities	8,784	8,650
Non-current liabilities		
Interest bearing liabilities	-	38
Deferred tax liabilities	-	244
Provisions	2,953	1,136
Deferred income	19,918	20,158
Other	63	74
Total non-current liabilities	22,934	20,650
Total liabilities	31,718	30,300
Net assets/(deficiency)	(6,845)	5,462
Equity		
Contributed equity	9,018	9,018
Reserves	1,468	349
Accumulated losses	(17,331)	(3,905)
Total equity/(deficiency)	(6,845)	5,462

VILLAGE LIFE LTD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

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1. Explanation of Transition to Australian Equivalents to IFRSs

(a) AASB 1 transition exemptions

The consolidated entity has made its election in relation to the transitional exemptions allowed by AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards' as follows:

Designation of previously recognised financial instruments
Financial instruments were designated as financial assets or liabilities at fair value through profit or loss or as available-for-sale at the date of transition to AIFRS.

Share-based payment transactions
AASB 2 'Share-Based Payments' is applied only to equity instruments granted after 7 November 2002 that had not vested on or before 1 January 2005.

Exemption from the requirement to restate comparative information for AASB 132 and AASB 139
The consolidated entity has elected to adopt this exemption and has not applied AASB 132 'Financial Instruments: Presentation and Disclosure' and AASB 139 'Financial Instruments: Recognition and Measurement' to its comparative information.

(b) Impact of adoption of AIFRS

(i) Reconciliation of total equity as presented under AGAAP to that under AIFRS

	Notes	30 Jun 05 $'000	31 Dec 04 $'000	01 Jul 04 $'000
Total equity under AGAAP		20,730	22,954	25,529
Adjustments to equity:				
Deferred income – development profits	A	(20,553)	(19,786)	(20,134)
Provision for restoration	B	(1,087)	(746)	(455)
De-recognise lease establishment costs	C	(128)	(136)	(142)
Tax effect of the above adjustments		6,531	6,200	6,219
Tax adjustments – balance sheet method	D	(31)	81	127
Total equity under AIFRS		5,462	8,567	11,144

(ii) Reconciliation of profit after tax under AGAAP to that under AIFRS

	Notes	Year ended 30 Jun 05 $'000	Half-year ended 31 Dec 04 $'000
Profit after tax as previously reported		2,003	1,929
AIFRS Adjustments:			
Deferred income – development profits	A	(419)	348
Restoration of leased assets	B	(632)	(291)
Amortisation of lease establishment costs	C	14	6
Tax effect of above adjustments		311	(19)
Share based payment expense	E	(191)	(191)
Tax adjustments – balance sheet method	D	(158)	(46)
		928	1,736

VILLAGE LIFE LTD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

1. Explanation of Transition to Australian Equivalents to IFRSs (cont)

A Revenue recognition – deferred development profits

Under AGAAP, revenue from the sale of goods, amongst other things, is recognised when control of the asset passes to the purchaser which, for sale of properties, is at the time there is an unconditional signed contract. Under the new standard AASB 118, revenue from the sale of goods, which includes land and other property held for resale, is recognised when, amongst other things, the significant risks and rewards of ownership of the goods have transferred to the buyer and neither continuing managerial involvement (to the degree usually associated with ownership) nor effective control over the goods is retained by the seller.

The directors had initially received preliminary independent expert advice from a major international accounting firm that the company had, as at the date of transition, passed the significant risks and rewards of ownership of the land and buildings within the developments sold. The revenue recognition policy under AIFRS requires various judgements which can significantly affect the outcome. As those judgements can be subjective and complex, in particular, the assessment of the significance of the risks retained by Village Life and the definition of continuing managerial involvement, it was disclosed in the 2005 annual report (note 37) that there was potential for a material change to the accounting policy adopted under AGAAP.

The directors have since formed the opinion that profit on property sales with a leaseback arrangement, whereby the company is exposed to occupancy risk, should be deferred and recognised over the term of the initial lease on the basis that the revenue recognition criteria of AASB 118 has not been met.

B Provision for restoration

The consolidated entity has certain operating leases that require the asset to be returned to the lessor in a lease stipulated condition. The operating lease payments do not include an element for the refurbishment costs. Under current AGAAP, the costs of refurbishment are not recognised until the expenditure is incurred, whereas, under AIFRS, a provision for refurbishment costs is recognised over the period of the lease, measured at each reporting date as the expected cost of returning the asset to agreed condition.

C Lease establishment costs

Under AASB 138 *Intangible Assets*, intangible assets should only be recognised when they meet the definition of an intangible asset and certain other criteria. Intangible assets recognised under previous AGAAP do not satisfy this criteria and therefore are not recognised as an asset under AIFRS.

D Income tax

Under AIFRS, the consolidated entity has adopted a “balance sheet method” of tax effect accounting whereby deferred tax balances are recognised when there is a difference between the carrying value of an asset or liability for accounting purposes and its tax base rather than using the “liability method” of tax effect accounting for timing differences between income and accounting profit.

Under the balance sheet method, income tax on the profit or loss for the year comprises current and deferred taxes. Income tax will be recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it will be recognised in equity.

VILLAGE LIFE LTD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

2. Revenue and Expenses

	Notes	Half year 31 Dec 2005 $'000	Half year 31 Dec 2004 $'000
(a) Specific Items – Expenses			
Profit/(loss) before income tax expense includes the following expenses whose disclosure is relevant in explaining the performance of the entity:			
Bad and doubtful debts	(i)	507	-
Onerous contracts	(ii)	1,474	-
Employee benefits share-based payments	(iii)	511	191
		2,492	191

(i) Bad and doubtful debts

Bad and doubtful debts comprise unpaid rental guarantees and unpaid licence fees. Rental guarantees relate to an arrangement between the consolidated entity and third party licencees who developed and sold villages to ILF, which were leased by the consolidated entity. Under the arrangement, the shortfall in rent received and the guaranteed occupancy level was to be paid to the consolidated entity by the developer. This arrangement is currently in dispute and a provision has been made to reflect the likely outcome of the negotiations with the respective licencees. An unpaid licence fee of $141,000 has been written off as the respective development is now unlikely to be completed.

(ii) Onerous contracts

Onerous contracts relate to certain leases of villages from either ILF or WPT, which have been opened longer than 12 months, and are currently under-performing. An analysis was undertaken to assess the potential of these leases having either a positive or negative long term impact on the profitability of the consolidated entity. If the leases were assessed as having a long term negative impact, after allowing for deferred development profits and provision for restoration of each respective village, a provision for onerous contracts would be required to be recognised. In assessing the net present value (NPV) of the future cash flows in respect of each lease identified as a potential onerous contract, a number of material assumptions were made, as set out in the 2005 Annual Report (note 34), except for the assumption regarding occupancy levels. At 30 June 2005, the analysis was based on each village achieving occupancy levels of 90% in FY06 and continuing at this level over the remainder of the lease term, being approximately 9 years for ILF villages and approximately 23 years for WPT villages. The analysis undertaken at 31 December 2005 was based on the assumption that current occupancy levels at each village would continue over the remainder of the lease term.

A majority of the provision for onerous contracts relates to leases of villages that were not developed by the consolidated entity. Two of those villages were developed by licencees, which sold the properties to ILF with rental guarantees that passed through to the consolidated entity as the lessee. During the 2005 half-year, disputes arose with these licences – see (i) above. The rental guarantees also apply to a number of other villages that have been open for less than 12 months, and management consider that it is too early to assess whether these leases will require a provision for onerous contract to be recognised at this date.

(iii) Employee benefits share-based payments
Employee benefits expense includes the value of options granted to employees (share-based payments). In the 2005 half-year, 3,750,000 options were granted to certain executive managers over ordinary shares in Village Life Ltd held by entities associated with directors, JW Krimmer and AR Roberts. In September 2005, shareholders in Village Life Ltd, namely Egalliv Pty Ltd and Piccadillee Pty Ltd, entered into a Call Option Deed with five nominated executives of the consolidated entity. The call options have an exercise period of 37 months with 625,000 options expiring 13 months in October 2006, a further 625,000 options expiring in October 2007 and 2,500,000 options expiring in October 2008. Each option can be exercised for one ordinary share at an exercise price of 40.2 cents per share (2,000,000 options) and 40.048 cents per share (1,750,000 options).

(b) Income tax

Income tax expense for the half-year differs from the amount calculated on the profit/(loss) and is reconciled as follows:

Profit/(loss) before income tax expense	(5,908)	2,458
Income tax calculated at 30%	(1,772)	737
Non-deductible expenses	153	73
Benefit not recognised	1,619	-
Under/(over) provision in prior year	242	(88)
Deferred tax asset written off	7,276	-
Income tax expense	7,518	722

During the 2005 half year the consolidated entity recorded a significant loss. The deferred tax asset of $7,276,000, being the net deferred tax asset at 30 June 2005 adjusted for the temporary difference attributable to available for sale asset during the 2005 half-year has been written off as recovery of the temporary differences giving rise to the deferred tax asset is not probable at this time.

3. Contingent Liabilities

As at 31 December 2005 the directors are not aware of any significant changes in contingent liabilities since the last annual report except as follows:

Non-recoverable GST
As disclosed in the 2005 annual report, the Australian Taxation Office (ATO) is currently examining the GST treatment of the consolidated entity's villages. The Company is also aware that its licensees are also being examined by the ATO regarding the GST of villages developed and sold by the syndicates and trusts through their arrangements with Village Life. A licensee has advised Village Life that the ATO has expressed the view that a Village Life village is residential premises, and not commercial residential premises. The directors have advice of senior counsel and a major accounting firm, supporting the view that Village Life villages are commercial residential premises and not residential premises.

If the ATO's view is ultimately held to be correct, which is disputed by the consolidated entity, management's best estimate of the total possible additional GST liability at 31 December 2005 is $3.8 million, excluding any ATO general interest charge and penalties, although a range of possible outcomes has been estimated at between $3.4 million and $6.2 million, excluding interest and penalties. This estimate was revised from the disclosure included in the 2005 annual report to include the potential GST payable on the sale of properties/development to ILF. Under the Relationship Deed with ILF, the consolidated entity is to reimburse ILF for any GST adjustment arising from the sale of properties, including interest and penalties.

Given the issues surrounding the GST classification between residential premises and commercial residential premises, there is significant uncertainty whether a provision for GST should be recognised at 31 December 2005. Furthermore, at this stage, the directors consider that there is also significant uncertainty regarding the final determination, both in timing and quantum.

4. Subsequent Events – ILF Arrangements

On 24 February 2005, the consolidated entity entered into a new agreement with ING Management Limited (ING), the responsible entity for ING Real Estate Community Living Fund (ILF) regarding the lease obligations of 26 ILF villages. In summary, ING has agreed to terminate the previous lease arrangements between ILF and Village Life effective 1 March 2006 in consideration of Village Life transferring its 5.1 million units in ILF to ING. In addition, Village Life has agreed to assign its interest in its current developments to ING and to continue to assist ING with the ongoing delivery of villages under development by its licencees.

As part of these arrangements, Village Life and ING have entered into a 3 year master management agreement for the ongoing management of the Village Life portfolio of villages, subject to annual performance appraisals.

The financial effects of the lease restructure arrangements with ILF were not recognised as at 31 December 2005. The following is a pro-forma analysis that shows the effect of the revised arrangements with ILF on the consolidated entity's equity as at 31 December 2005, assuming the ILF lease restructure arrangements had occurred as at 31 December 2005, as opposed to 1 March 2006 as agreed.

	31 Dec 2005 $'000
Total equity/(deficiency) – actual	(6,845)
Pro forma adjustments:	
Transfer of units in ILF for no consideration	(5,972)
Write-back liabilities no longer required	
• Provision for restoration	478
• Provision for onerous contracts	1,060
• Deferred income – development profits	11,582
Other	(203)
Total equity – pro forma	100

5. Ongoing Operations

During the December 2005 half-year, the consolidated entity incurred a loss after tax of $13.4 million after writing off deferred tax assets of $7.3 million. At 31 December 2005, the consolidated entity had a net asset deficiency of $6.8 million. Since balance date, the consolidated entity has restructured its lease arrangements with ILF, which has resulted in a significant reduction in liabilities and a resultant improvement in its net asset position – see note 4.

As a result of the changes in its net asset position, due to adjustments under AIFRS (see note 1) and the poor trading result in the December 2005 half-year, the consolidated entity has breached its Australian Financial Services Licence (AFSL) conditions. These conditions require the licence holder (Village Life Ltd) to maintain a certain level of net tangible assets and surplus liquid funds as well as other requirements. The consolidated entity uses its AFSL licence to carry out management services on behalf of owners of retail villages (lease/management services in respect of the syndicate, ILF and VLPT villages do not require the consolidated entity to hold an AFSL licence). Village Life is currently in discussion with the Australian Securities and Investments Commission (ASIC) to renew its AFSL under a revised structure.

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5. Ongoing Operations (cont)

The directors consider that the consolidated entity could continue to manage the retail and syndicate villages without an AFSL licence by arranging a third party to undertake the licence requirements, which is mainly pooling of rental income and distribution to owners. Under these arrangements, the consolidated entity's activities would be restricted to managing the village operations, which could result in a reduced fee.

As from 1 March 2006, the effective date of the new agreements with ILF, the consolidated entity will manage the ILF villages under a master management agreement. As such, the consolidated entity will no longer be exposed to occupancy risk in respect to the ILF villages and will be entitled to a management fee based on the gross operating profit of each village. Gross operating profit will include all rental and other revenues less direct operating expense in accordance with budget approval by ING and excludes direct marketing costs, which will be reimbursed by ILF.

Given these arrangements and other matters set out in this financial report, the consolidated entity's ongoing operations are dependent on:

- A favourable outcome of the GST treatment of the villages leased by the consolidated entity such that no additional GST becomes due and payable (or any interest and penalties) as disclosed in Note 3: Contingent Liabilities;
- The ability to earn profits from the ILF villages under the new management agreement as summarised previously;
- Renewal of the company's AFSL licence to continue to manage the retail villages;
- Ongoing support of ILF and VLPT in respect of its rental and management operations; and
- Ongoing support of the secured lenders and creditors.

The Directors are confident of achieving these outcomes and consider the consolidated entity is a going concern and will be able to pay its debts as and when they become due and payable.

The financial statements have been prepared on a going concern basis which assumes that the consolidated entity will realise its assets and extinguish its liabilities in the normal course of business. Ongoing operations are dependent upon the matters described above. Should these not occur there is significant uncertainty that the consolidated entity will be able to continue as a going concern and whether it will realise its assets and extinguish its liabilities in the normal course of business at the amounts stated in the financial report. No adjustments have been made relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.