

ASX ANNOUNCEMENT



6 September 2019

VILLA WORLD LIMITED ABN 38 117 546 326 ASX CODE: VLW

ASIC Registration of Scheme Booklet

Villa World Limited (ASX: VLW) (*Villa World*) is pleased to announce that the Australian Securities and Investments Commission (**ASIC**) has registered the explanatory statement (the **Scheme Booklet**) in relation to the proposed acquisition of Villa World by AVID Property Group Australia Pty Limited by way of a scheme of arrangement (**Scheme**).

This follows the issuance of orders made by the Supreme Court of New South Wales today approving despatch of the Scheme Booklet to Villa World shareholders and the convening of a meeting of Villa World shareholders to consider and vote on the Scheme (**Scheme Meeting**), which was announced by Villa World earlier today.

Independent Expert's conclusion

The independent expert appointed by the directors of Villa World in relation to the Scheme, Grant Thornton Corporate Finance Pty Limited (**Independent Expert**) has concluded that the Scheme is fair and reasonable and in the best interests of Villa World shareholders in the absence of a superior proposal. A copy of the Scheme Booklet containing information about the Scheme, the Independent Expert's Report and the notice convening the Scheme Meeting, is attached to this announcement. The Scheme Booklet is also available for viewing and downloading online at Villa World's website (<https://www.villaworld.com.au/investor-centre>).

Despatch of Scheme Booklet

A copy of the Scheme Booklet is expected to be sent to Villa World shareholders on 10 September 2019. Villa World shareholders who have elected to receive communications electronically will be sent the materials electronically and Villa World will send the materials to all other shareholders by post.

Directors' recommendation

The directors of Villa World continue to unanimously recommend that Villa World shareholders vote in favour of the Scheme in the absence of a superior proposal, and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Villa World shareholders. Subject to those same qualifications, each director of Villa World intends to vote all the Villa World shares held or controlled by them in favour of the Scheme.

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Scheme Booklet

for a scheme of arrangement in relation to the proposed acquisition of Villa World Limited
by AVID Property Group Australia Pty Limited

Vote in favour

Your Directors unanimously recommend that you **VOTE IN FAVOUR** of the Scheme in the absence of a Superior Proposal, and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Villa World Shareholders.

The Scheme Meeting is scheduled to be held at 2.30pm (Brisbane time) (being 3.30pm, Sydney time) on Friday, 11 October 2019, in the Sorrento Room at the Sofitel Gold Coast Broadbeach, 81 Surf Parade, Broadbeach Queensland.

THIS IS AN IMPORTANT DOCUMENT AND REQUIRES YOUR IMMEDIATE ATTENTION.

You should read this document in its entirety, and consider its contents carefully, before deciding whether or not to vote in favour of the Scheme Resolution required to implement the Scheme.

If you are in any doubt about what you should do, you should consult with a financial, legal, taxation or other professional advisor immediately.

If you have any questions about this Scheme Booklet or the Scheme, please contact the Villa World Shareholder Information Line on 1300 077 476 (within Australia) or +61 3 9415 4079 (outside Australia), Monday to Friday between 8.30am to 5.30pm (Sydney time).

If you have sold all of your Villa World Shares, please disregard this Scheme Booklet.

Financial Advisor:



Legal Advisor:

Allens & Linklaters

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Important Notices

Nature of this Scheme Booklet

This Scheme Booklet is important. You should read it carefully and in its entirety before deciding how to vote at the Scheme Meeting. If you are in doubt as to what you should do, you should consult your legal, financial, taxation or other professional advisor.

This Scheme Booklet provides Villa World Shareholders with information about the proposed acquisition of Villa World by AVID, by way of a scheme of arrangement between Villa World and the Scheme Shareholders under Part 5.1 of the Corporations Act. A copy of the proposed Scheme is set out at Annexure B.

This Scheme Booklet also sets out the manner in which the Scheme will be considered and implemented (if all of the Conditions Precedent are satisfied or, if permitted, waived) and provides such information as is prescribed by law or is otherwise material to the decision of Villa World Shareholders whether to vote in favour of the Scheme.

This Scheme Booklet is not a disclosure document required by Chapter 6D of the Corporations Act.

If you have sold all of your Villa World Shares, please disregard this Scheme Booklet.

Defined terms

Capitalised terms used in this Scheme Booklet are defined in the Glossary in Section 9 of this Scheme Booklet.

No investment advice

The information contained in this Scheme Booklet does not constitute financial product advice and has been prepared without reference to the investment objectives, financial situation, taxation position or particular needs of any individual Villa World Shareholder or any other person. Before making any investment decision in relation to the Scheme, you should consider whether that decision is appropriate in light of your particular investment needs, objectives and financial circumstances.

This Scheme Booklet should not be relied upon as the sole basis for any investment decision. Independent financial, legal or taxation advice should be sought before making any investment decision in relation to your Villa World Shares.

Not an offer

This Scheme Booklet does not constitute or contain an offer to Villa World Shareholders, or a solicitation of an offer from Villa World Shareholders, in any jurisdiction.

Foreign jurisdictions

The release, publication or distribution of this Scheme Booklet in jurisdictions other than Australia may be restricted by law or regulation in such other jurisdictions, and persons outside Australia who come into possession of this Scheme Booklet should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable laws or regulations.

This Scheme Booklet has been prepared in accordance with Australian law and the information contained in this Scheme Booklet may not be the same as that which would have been disclosed if this Scheme Booklet had been prepared in accordance with the laws and regulations of jurisdictions other than Australia. No action has been taken to register or qualify this Scheme Booklet or any aspect of the Scheme in any jurisdiction outside Australia.

Regulatory information and role of ASIC and ASX

This document is the explanatory statement for the Scheme of Arrangement between Villa World and the Scheme Shareholders for the purposes of section 412(1) of the Corporations Act. A copy of the proposed Scheme is included in this Scheme Booklet at Annexure B.

A copy of this Scheme Booklet (including the Independent Expert's Report) was provided to ASIC for examination in accordance with section 411(2)(b) of the Corporations Act and was lodged with ASIC for registration under section 412(6) of the Corporations Act. It was then registered by ASIC under section 412(6) of the Corporations Act before being sent to Villa World Shareholders.

ASIC has been requested to provide a statement, in accordance with section 411(17)(b) of the Corporations Act, that it has no objection to the Scheme. If ASIC provides that statement, it will be produced to the Court at the Second Court Hearing. Neither ASIC nor any of its officers takes any responsibility for the contents of this Scheme Booklet.

A copy of this Scheme Booklet will be lodged with ASX. Neither ASX nor any of its officers take any responsibility for the contents of this Scheme Booklet.

Notice of Meeting

The Notice of Meeting is set out at Annexure D.

A Villa World Shareholder's right to appear at the Second Court Hearing

At the Second Court Hearing, the Court will consider whether to approve the Scheme following the vote at the Scheme Meeting.

Any Villa World Shareholder may appear at the Second Court Hearing, which is expected to be held at 9.15am (Sydney time) on Tuesday, 15 October 2019 at the Supreme Court of New South Wales, Law Courts Building, 184 Phillip Street, Sydney.

Any Villa World Shareholder who wishes to oppose approval of the Scheme at the Second Court Hearing may do so by filing with the Court and serving on Villa World a notice of appearance, in the prescribed form, together with any affidavit upon which the Villa World Shareholder proposes to rely.

Important notice associated with the Court order under section 411(1) of the Corporations Act

The fact that, under section 411(1) of the Corporations Act, the Court has ordered that a meeting be convened and has approved this Scheme Booklet required to accompany the Notice of Meeting does not mean that the Court:

- has formed any view as to the merits of the proposed Scheme or as to how Villa World Shareholders should vote (on this matter, Villa World Shareholders must reach their own decision); or
- has prepared, or is responsible for, the content of this Scheme Booklet.

The order of the Court that the Scheme Meeting be convened is not, and should not be treated as, an endorsement by the Court of, or any other expression of opinion by the Court on, the Scheme.

Disclaimer as to forward-looking statements

This Scheme Booklet contains both historical and forward-looking statements. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements.

All forward-looking statements in this Scheme Booklet reflect views only as at the date of this Scheme Booklet, and generally may be identified by the use of forward-looking words such as "believe", "aim", "expect", "anticipate", "intending", "foreseeing", "likely", "should", "planned", "may", "estimate", "potential", or other similar words. Similarly, statements that describe Villa World's or the AVID Group's objectives, plans, goals or expectations are or may be forward-looking statements.

Any statements contained in this Scheme Booklet about the impact that the Scheme may have on the results of Villa World's operations, and the advantages and disadvantages anticipated to result from the Scheme, are also forward-looking statements.

All forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to differ materially from the anticipated results, performance or achievements, expressed, projected or implied by those forward-looking statements.

The operations and financial performance of Villa World are subject to various risks, including those summarised in this Scheme Booklet, which may be beyond the control of Villa World and/or the AVID Group. Those risks and uncertainties include factors and risks specific to the industry in which Villa World operates as well as general economic conditions, prevailing exchange rates and interest rates and conditions in the financial markets. As a result, the actual results, operations and earnings of Villa World (whether or not the Scheme is implemented), as well as the actual advantages or disadvantages of the Scheme, may differ significantly from those that are anticipated in respect of timing, amount or nature and may never be achieved. Villa World Shareholders should note that the historical financial performance of Villa World is no assurance of future financial performance of Villa World (whether the Scheme is implemented or not).

The forward-looking statements included in this Scheme Booklet are made only as of the date of this Scheme Booklet.

Although Villa World believes that the views reflected in any forward-looking statements included in the Villa World Information have been made on a reasonable basis, no assurance can be given that such views will prove to have been correct. Although AVID believes that the views reflected in any forward-looking statements included in the AVID Information have been made on a reasonable basis, no assurance can be given that such views will prove to have been correct.

None of the Villa World Group, the AVID Group, the Villa World Group's officers, the AVID Group's officers, any persons named in this Scheme Booklet with their consent or any person involved in the preparation of this Scheme Booklet makes any representation or warranty (express or implied) as to the likelihood of fulfilment of any forward-looking statement, or any events or results expressed or implied in any forward-looking statement, except to the extent required by law. You are cautioned not to place undue reliance on any forward-looking statement.

All subsequent written and oral forward-looking statements attributable to any member of the Villa World Group or any member of the AVID Group or any person acting on their behalf are qualified by this cautionary statement.

Subject to any continuing obligations under relevant laws or the listing rules of a relevant exchange, the Villa World Group and the AVID Group do not give any undertaking to update or revise any such statements after the date of this Scheme Booklet, to reflect any change in expectations in relation thereto or any change in events, conditions or circumstances on which any such statement is based.

Effect of rounding

A number of figures, amounts, percentages, estimates, calculations of value and fractions in this Scheme Booklet are subject to the effect of rounding. Accordingly, the actual calculation of these figures may differ from the figures set out in this Scheme Booklet.

Responsibility statement

Villa World has been solely responsible for preparing the Villa World Information. The Villa World Information concerning Villa World and the intentions, views and opinions of Villa World and the Villa World Directors contained in this Scheme Booklet has been prepared by Villa World and the Villa World Directors and is the responsibility of Villa World. The AVID Group Members and their respective officers do not assume any responsibility for the accuracy or completeness

of any Villa World Information or the Independent Expert's Report (or any information contained therein).

AVID has been solely responsible for preparing the AVID Information. The AVID Information concerning the AVID Group and the intentions, views and opinions of any AVID Group Member and the board of directors of AVID contained in this Scheme Booklet have been prepared by AVID and the board of directors of AVID and is the responsibility of AVID. The Villa World Group Members and their respective officers do not assume any responsibility for the accuracy or completeness of any AVID Information or the Independent Expert's Report (or any information contained therein).

Allens has provided and is responsible for the information contained in Section 7. Neither Villa World nor AVID assumes any responsibility for the accuracy or completeness of the information contained in Section 7. Allens does not assume any responsibility for the accuracy or completeness of the information contained in this Scheme Booklet other than that contained in Section 7.

Grant Thornton has prepared the Independent Expert's Report in relation to the Scheme and takes responsibility for that report. The Independent Expert's Report is set out in Annexure A. Grant Thornton does not assume any responsibility for the accuracy or completeness of the information contained in this Scheme Booklet other than the Independent Expert's Report.

Computershare has had no involvement in the preparation of any part of this Scheme Booklet other than being named as the Villa World Registry. Computershare has not authorised or caused the issue of, and expressly disclaims and takes no responsibility for, any part of this Scheme Booklet.

Privacy

Villa World and its agents and representatives may collect personal information in the process of implementing the Scheme. Such information may include the name, contact details and shareholdings of Villa World Shareholders and the name of persons appointed by those persons to act as a proxy, attorney or corporate representative at the Scheme Meeting. The primary purpose of the collection of personal information is to assist Villa World to conduct the Scheme Meeting and to implement the Scheme. Personal information of the type described above may be disclosed to the Villa World Registry, print and mail service providers, authorised securities brokers, AVID, Villa World and their respective Related Bodies Corporate, advisors and service providers. Villa World Shareholders have certain rights to access personal information that has been collected. Villa World Shareholders should contact the Villa World Registry in the first instance, if they wish to access their personal information. Villa World Shareholders who appoint a named person to act as their proxy, attorney or corporate representative should ensure that they inform that person of these matters.

Times and dates

Unless otherwise stated, all times referred to in this Scheme Booklet are times in Sydney, Australia. All dates following the date of the Scheme Meeting are indicative only and, among other things, are subject to the Court approval process and the satisfaction or, where capable, waiver of the Conditions Precedent. The Conditions Precedent are summarised in Section 8.10(a) and set out in full in clause 3.1 of the Scheme Implementation Agreement.

Currency and exchange

Unless otherwise stated, all dollar amounts in this Scheme Booklet are in Australian currency and all share prices and trading volumes refer to Villa World Shares trading on the ASX.

Date of this Scheme Booklet

This Scheme Booklet is dated 6 September 2019.

Key Dates

EVENT	DATE
First Court Date	Friday, 6 September 2019
Date of this Scheme Booklet	Friday, 6 September 2019
Scheme Meeting Proxy Forms Last date and time for receipt of Proxy Forms (including proxies lodged online), powers of attorney or certificates of appointment of body corporate representatives by the Villa World Registry for the Scheme Meeting	2.30pm (Brisbane time) (being 3.30pm, Sydney time) on Wednesday, 9 October 2019
Scheme Meeting record date Time and date for determining eligibility to vote at the Scheme Meeting	7.00pm (Sydney time) on Wednesday, 9 October 2019
Scheme Meeting To be held in the Sorrento Room at the Sofitel Gold Coast Broadbeach, 81 Surf Parade, Broadbeach Queensland	2.30pm (Brisbane time) (being 3.30pm, Sydney time) on Friday, 11 October 2019
Special Dividend declared¹	
IF THE SCHEME IS APPROVED BY VILLA WORLD SHAREHOLDERS AT THE SCHEME MEETING	
Second Court Date For approval of the Scheme	Tuesday, 15 October 2019
Effective Date The date on which the Scheme becomes Effective and is binding on Scheme Shareholders The Court order will be lodged with ASIC and announced on the ASX Last day of trading in Villa World Shares – Villa World suspended from trading on the ASX from close of trading	Wednesday, 16 October 2019
Special Dividend Record Date All Villa World Shareholders who hold Villa World Shares on the Special Dividend Record Date will be entitled to receive the Special Dividend (if declared)	7.00pm (Sydney time) on Friday, 18 October 2019
Scheme Record Date All Villa World Shareholders who hold Villa World Shares on the Scheme Record Date will be entitled to receive the Scheme Consideration	7.00pm (Sydney time) on Wednesday, 23 October 2019
Special Dividend Payment Date Payment of the Special Dividend (if declared)	Monday, 28 October 2019
Implementation Date All Scheme Shareholders will be paid the Scheme Consideration to which they are entitled on this date	Wednesday, 30 October 2019

¹ Subject to the determination of the Villa World Board.

All dates following the date of the Scheme Meeting are indicative only and, among other things, are subject to the Court approval process and satisfaction or, where applicable, waiver of the Conditions Precedent. Villa World reserves the right to vary the times and dates set out above. Any changes to the above timetable (which may include an earlier or later date for the Second Court Hearing) will be announced through the ASX and notified on Villa World's website at www.villaworld.com.au/investor-centre.

All references to time in this Scheme Booklet are references to Sydney, Australia time, unless otherwise stated. Any obligation to do an act by a specified time in an Australian time zone must be done at the corresponding time in any other jurisdiction.

Villa World Shareholders who have elected to receive communications electronically will receive an email which contains instructions about how to download a copy of the Scheme Booklet, and to lodge their proxy vote online. The Scheme Booklet will also be available for viewing and downloading on the Villa World website at www.villaworld.com.au/investor-centre.

Letter from the Chairman

6 September 2019

Dear Villa World Shareholder,

On behalf of the Villa World Board, I am pleased to provide you with this Scheme Booklet, which contains information relating to the proposed acquisition of Villa World by AVID, a diversified Australian property development business with an A\$2.5 billion portfolio of broad acre and medium density residential and industrial projects.

On 14 March 2019, Villa World announced that it had received a non-binding indicative proposal from AVID (**Initial Proposal**) to acquire all Villa World Shares for an effective consideration of A\$2.23 per Villa World Share.² On 2 May 2019 and after AVID increased its offer to A\$2.345 per Villa World Share, Your Directors granted AVID access to exclusive due diligence on customary terms to enable AVID to progress its revised proposal and facilitate a binding proposal.

On 8 July 2019, Villa World announced that it had entered into the Scheme Implementation Agreement with AVID, under which it is proposed that AVID will acquire all Villa World Shares for a Total Cash Consideration of A\$2.345 per Villa World Share by way of the Scheme of Arrangement. The Scheme is subject to several conditions, including shareholder, Court and regulatory approvals, together with other customary conditions. Full details of the Scheme are set out in this Scheme Booklet.

The Villa World Board believes that the Total Cash Consideration of A\$2.345 per Villa World Share represents an attractive premium of:

- 17.8% to the "undisturbed" closing price of Villa World Shares on 14 March 2019³ of A\$1.99;
- 17.4% to the one-month VWAP of Villa World Shares up to and including 14 March 2019 of A\$2.00;
- 25.1% to the three-month VWAP of Villa World Shares up to and including 14 March 2019 of A\$1.88;
- 2.9% to the 30 June 2019 NTA per Villa World Share of A\$2.28; and
- 5.2% to the Initial Proposal, under which AVID offered to acquire all Villa World Shares for an effective consideration of A\$2.23 per Villa World Share.²

If the Scheme is approved and implemented, Villa World Shareholders will receive the Total Cash Consideration of A\$2.345 per Villa World Share, comprising:

- **(if the Special Dividend is declared)** (i) Scheme Consideration of A\$2.035 per Villa World Share held by them on the Scheme Record Date; and (ii) a Special Dividend of A\$0.31 per Villa World Share held by them on the Special Dividend Record Date; or
- **(if the Special Dividend is not declared)** Scheme Consideration of A\$2.345 per Villa World Share held by them on the Scheme Record Date.

The Villa World Board intends to declare a Special Dividend of A\$0.31 per Villa World Share, which, subject to the Scheme becoming Effective, will be paid on the Special Dividend Payment Date to Villa World Shareholders who held Villa World Shares on the Special Dividend Record Date. If the Special Dividend is declared, those Villa World Shareholders who are entitled to the Special Dividend may be entitled to a franking credit of up to approximately A\$0.13 per Villa World Share (subject to confirmation from the ATO via a class ruling).⁴ Whether you will be able to realise the full benefit of franking credits attached to any Special Dividend will depend on your tax status and specific circumstances. Villa World Shareholders should seek independent taxation advice in respect of this matter and refer to Section 7 of this Scheme Booklet.⁵

² The Initial Proposal contained a headline price of A\$2.31 per Villa World Share which was expressed to be adjusted for the 1H19 dividend of \$0.08 per Villa World Share.

³ 14 March 2019, being the last trading day prior to announcement of the Initial Proposal.

⁴ The maximum benefit associated with the franking credits will be less if the Special Dividend is less than A\$0.31 per Villa World Share.

⁵ In assessing the value to them of the Special Dividend, Villa World Shareholders should seek professional taxation advice as to whether or not the receipt of the Special Dividend and any entitlement to a tax offset in respect to the franking credits attached to the Special Dividend are beneficial to them in their own individual circumstances. Refer to Section 7 for further information.

Letter from the Chairman (cont.)

Directors' Recommendation

Your Directors unanimously recommend that you vote in favour of the Scheme in the absence of a Superior Proposal, and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Villa World Shareholders.

Each of your Directors intends to vote all Villa World Shares held or controlled by them, or on their behalf, in favour of the Scheme, in the absence of a Superior Proposal, and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Villa World Shareholders.

Craig Treasure (Villa World's Chief Executive Officer and Managing Director) will, if the Scheme is implemented, become entitled to early vesting of unvested Villa World Performance Rights. The Villa World Board (excluding Mr Treasure)⁶ exercised its discretion to give effect to these arrangements in accordance with the terms of the Villa World LTIP, and after negotiations to grant exclusive due diligence to AVID based on the Revised Proposal had concluded. These matters and other interests and benefits of Villa World Directors in relation to the Scheme are set out in Sections 8.1, 8.5, 8.6 and 8.12. Villa World Shareholders should have regard to these arrangements when considering Mr Treasure's recommendation on the Scheme, which appears throughout this Scheme Booklet. Mr Treasure considers that, despite these arrangements, it is appropriate for him to make a recommendation on the Scheme. The Villa World Board (excluding Mr Treasure) also considers that it is appropriate for him to make a recommendation on the Scheme given his role in the operation and management of Villa World and his deep industry knowledge.

Your Directors, having regard to multiple factors, including the dynamics of the industry within which Villa World operates and the cash premium available to Villa World Shareholders compared to the trading price of Villa World Shares prior to announcement of the Initial Proposal, have formed the view that the Scheme is in the best interests of Villa World Shareholders for the following reasons:

- the Independent Expert has concluded that the Scheme is fair and reasonable and therefore in the best interests of Villa World Shareholders in the absence of a Superior Proposal;
- all cash consideration delivers certainty and immediate value for your Villa World Shares;
- the Total Cash Consideration represents an attractive premium to the trading price of Villa World Shares prior to announcement of the Initial Proposal (after market close on 14 March 2019);
- those Villa World Shareholders who can capture the full benefit of the franking credits attached to the Special Dividend (if declared and provided a favourable class ruling is obtained from the ATO) may receive additional benefit from the value of those franking credits;⁷
- since the announcement of the Scheme, no Superior Proposal has emerged;
- the price of Villa World Shares may fall in the near-term if the Scheme is not implemented and in the absence of a Superior Proposal; and
- no brokerage fees will be payable by you for the transfer of your Villa World Shares under the Scheme.

In forming their view that the Scheme is in the best interest of Villa World Shareholders, Your Directors considered the potential disadvantages of the Scheme proceeding. In particular, you may prefer to realise the potential value of Villa World over the long term, and may consider that the Scheme does not capture Villa World's long-term potential. You may also believe that there is potential for a Superior Proposal to be made in relation to Villa World. However, as at the date of this Scheme Booklet, no Superior Proposal has been received by the Villa World Board since the announcement of the Scheme to the ASX.

Further details on the recommendation given by the Villa World Board are contained in Section 1.

⁶ The exercise of discretion by the Villa World Board was approved by the Independent Non-Executive Villa World Directors. Craig Treasure did not vote on the resolution given his interest in the subject matter of the resolution.

⁷ The maximum benefit associated with the franking credits will be less if the Special Dividend is less than A\$0.31 per Villa World Share.

Independent Expert

Your Directors appointed Grant Thornton as the Independent Expert to assess the merits of the Scheme.

The Independent Expert has concluded that the Scheme is fair and reasonable and therefore in the best interests of Villa World Shareholders in the absence of a Superior Proposal.

The Independent Expert has assessed the fully diluted value of Villa World Shares to be in the range of A\$2.236 to A\$2.649 on a 100% controlling interest basis. Further, Villa World's intention to pay a Special Dividend of A\$0.31 per Villa World Share (as part of the Total Cash Consideration) may provide certain eligible Villa World Shareholders with a franking credit of up to approximately A\$0.13 per Villa World Share (subject to confirmation from the ATO via a class ruling), reinforcing the Independent Expert's conclusion.⁸

A complete copy of the Independent Expert's report is included in Annexure A.

How to Vote

For the Scheme to be implemented, a majority in number (more than 50%) of Villa World Shareholders present and voting at the Scheme Meeting (either in person or by proxy, corporate representative or attorney) (unless the Court orders otherwise), and at least 75% of the total number of votes cast on the Scheme Resolution by Villa World Shareholders present and voting at the Scheme Meeting (either in person or by proxy, corporate representative or attorney), must vote in favour of the Scheme.

The Scheme Meeting will be held on Friday, 11 October 2019 in the Sorrento Room at the Sofitel Gold Coast Broadbeach, 81 Surf Parade, Broadbeach Queensland, commencing at 2.30pm (Brisbane time) (being 3.30pm, Sydney time).

Your vote is important, and I strongly encourage you to vote on this significant proposed transaction. You may vote on the Scheme Resolution by attending the Scheme Meeting in person, or by appointing a proxy, corporate representative or attorney to attend the Scheme Meeting on your behalf. If you do not wish to, or are unable to attend the Scheme Meeting in person, you may vote on the Scheme Resolution by completing the personalised Proxy Form accompanying this Scheme Booklet or voting online using the log in information provided. Your proxy instruction must be received by Computershare by no later than 2.30pm (Brisbane time) (being 3.30pm, Sydney time) on Wednesday, 9 October 2019.

If you wish for the Scheme to proceed, it is important that you vote in favour of the Scheme.

Additional Information

This Scheme Booklet sets out important information regarding the Scheme, including the reasons for Your Directors' recommendation, key questions and answers that you might find useful in Section 2 of this Scheme Booklet and the Independent Expert's Report. It also sets out some of the reasons why you may wish to vote against the Scheme.

Please read this document carefully and in its entirety as it will assist you in making an informed decision on how to vote. Your Directors also encourage you to seek independent financial, legal and taxation advice before making any investment decision in relation to your Villa World Shares.

If you require further information, you can call the Villa World Shareholder Information Line on 1300 077 476 (within Australia) or +61 3 9415 4079 (outside Australia), Monday to Friday between 8.30am to 5.30pm (Sydney time).

On behalf of the Villa World Board, I would like to take this opportunity to thank you for your continued support of Villa World and I look forward to your participation at the Scheme Meeting.

Yours sincerely,



Mark Jewell
Chairman - Villa World Limited

⁸ The maximum benefit associated with the franking credits will be less if the Special Dividend is less than A\$0.31 per Villa World Share.

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1

**Key considerations
relevant to your vote**

1 Key considerations relevant to your vote

1.1 Recommendation

The Scheme has a number of advantages and disadvantages which may affect Villa World Shareholders in different ways depending on their individual circumstances. Villa World Shareholders should seek professional advice on their particular circumstances, as appropriate.

The Villa World Directors unanimously recommend that Villa World Shareholders vote in favour of the Scheme Resolution at the Scheme Meeting in the absence of a Superior Proposal, and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Villa World Shareholders.

Each Villa World Director intends to vote all Villa World Shares held or controlled by them, or on their behalf, in favour of the Scheme at the Scheme Meeting, in the absence of a Superior Proposal, and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Villa World Shareholders. The Relevant Interests of the Villa World Directors in Villa World Shares as at the date of this Scheme Booklet are set out in Section 8.1.

As noted in the Chairman's Letter, in relation to the recommendation of Mr Treasure, Villa World Shareholders should have regard to the fact that, if the Scheme is implemented, Mr Treasure will become entitled to early vesting of unvested Villa World Performance Rights. Villa World Shareholders should have regard to these arrangements when considering Mr Treasure's recommendation on the Scheme, which appears throughout this Scheme Booklet. Mr Treasure considers that, despite these arrangements, it is appropriate for him to make a recommendation on the Scheme. The Villa World Board (excluding Mr Treasure) also considers that it is appropriate for him to make a recommendation on the Scheme given his role in the operation and management of Villa World and his deep industry knowledge.

Section 1.2 provides a summary of some of the reasons why the Villa World Directors unanimously recommends Villa World Shareholders vote in favour of the Scheme. This section should be read in conjunction with Section 1.3, which sets out some of the reasons why Villa World Shareholders may wish to vote against the Scheme.

You should read this Scheme Booklet in full, including the Independent Expert's Report, before deciding how to vote at the Scheme Meeting.

While the Villa World Directors acknowledge the reasons to vote against the Scheme, they believe the advantages of the Scheme significantly outweigh the disadvantages.

1.2 Why you should vote in favour of the Scheme

The Villa World Directors, having regard to multiple factors, including the dynamics of the industry within which Villa World operates and the cash premium available to Villa World Shareholders compared to the trading price of Villa World Shares prior to announcement of the Initial Proposal, have formed the view that the Scheme is in the best interests of Villa World Shareholders for the following reasons:

(a) The Villa World Directors have assessed the merits of the Scheme and unanimously recommend that you vote in favour of the Scheme, in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Villa World Shareholders

In reaching their recommendation, the Villa World Board has considered the advantages and disadvantages of the Scheme, including the information contained in:

- Section 1.2 (Why you should vote in favour of the Scheme);
- Section 1.3 (Why you may wish to vote against the Scheme);
- Section 6 (Risks);
- Section 7 (Taxation Implications); and
- Annexure A (Independent Expert's Report).

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1. Key considerations relevant to your vote

In the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Villa World Shareholders, each of the Villa World Directors intends to vote all Villa World Shares held or controlled by them, or on their behalf, in favour of the Scheme.

In relation to the recommendation of Craig Treasure, Villa World Shareholders should have regard to the fact that, if the Scheme is implemented, Mr Treasure will become entitled to early vesting of unvested Villa World Performance Rights. The Villa World Board (excluding Mr Treasure)⁹ exercised its discretion to give effect to these arrangements in accordance with the terms of the Villa World LTIP. Villa World Shareholders should have regard to these arrangements when considering Mr Treasure's recommendation on the Scheme, which appears throughout this Scheme Booklet. Mr Treasure considers that, despite these arrangements, it is appropriate for him to make a recommendation on the Scheme. The Villa World Board (excluding Mr Treasure) also considers that it is appropriate for him to make a recommendation on the Scheme given his role in the operation and management of Villa World and his deep industry knowledge.

The Relevant Interests of Villa World Directors in Villa World Shares as at the date of this Scheme Booklet are set out in Section 8.1.

(b) The Independent Expert has concluded that the Scheme is fair and reasonable and therefore in the best interests of Villa World Shareholders in the absence of a Superior Proposal

The Villa World Directors appointed Grant Thornton as the Independent Expert to assess the merits of the Scheme and to provide an opinion as to whether the Scheme is in the best interests of Villa World Shareholders.

The Independent Expert has concluded that the Scheme is fair and reasonable and therefore in the best interests of Villa World Shareholders in the absence of a Superior Proposal.

The Independent Expert has assessed the fully diluted value of Villa World Shares to be in the range of A\$2.236 to A\$2.649 on a 100% controlling interest basis. Further, Villa World's intention to pay a Special Dividend of A\$0.31 per Villa World Share (as part of the Total Cash Consideration) may provide certain eligible Villa World Shareholders with a franking credit of up to approximately A\$0.13 per Villa World Share (subject to confirmation from the ATO via a class ruling), reinforcing the Independent Expert's conclusion.¹⁰

A complete copy of the Independent Expert's Report is included in Annexure A. The Villa World Directors encourage you to read the Independent Expert's Report in its entirety before making a decision as to whether or not to vote in favour of the Scheme Resolution.

(c) All cash consideration delivers certainty and immediate value for your Villa World Shares

The offer from AVID is a 100% cash offer. This offers a high degree of certainty of value and timing. If the Scheme is approved and implemented, Villa World Shareholders will receive the Total Cash Consideration of A\$2.345 for each Villa World Share, comprising:

- **(if the Special Dividend is declared)** (i) Scheme Consideration of A\$2.035 per Villa World Share held by them on the Scheme Record Date; and (ii) a Special Dividend of A\$0.31 per Villa World Share held by them on the Special Dividend Record Date; or
- **(if the Special Dividend is not declared)** Scheme Consideration of A\$2.345 per Villa World Share held by them on the Scheme Record Date.

⁹ The exercise of discretion by the Villa World Board was approved by the Independent Non-Executive Villa World Directors. Craig Treasure did not vote on the resolution given his interest in the subject matter of the resolution.

¹⁰ The maximum benefit associated with the franking credits will be less if the Special Dividend is less than A\$0.31 per Villa World Share.

1. Key considerations relevant to your vote

In contrast, if the Scheme does not proceed, and having regard to multiple factors including the dynamics of the industry within which Villa World operates, the amount that Villa World Shareholders will be able to realise for their investment in Villa World Shares will be uncertain. The Scheme removes this uncertainty for Villa World Shareholders by offering Villa World Shareholders a cash premium for their Villa World Shares compared to recent share trading results.

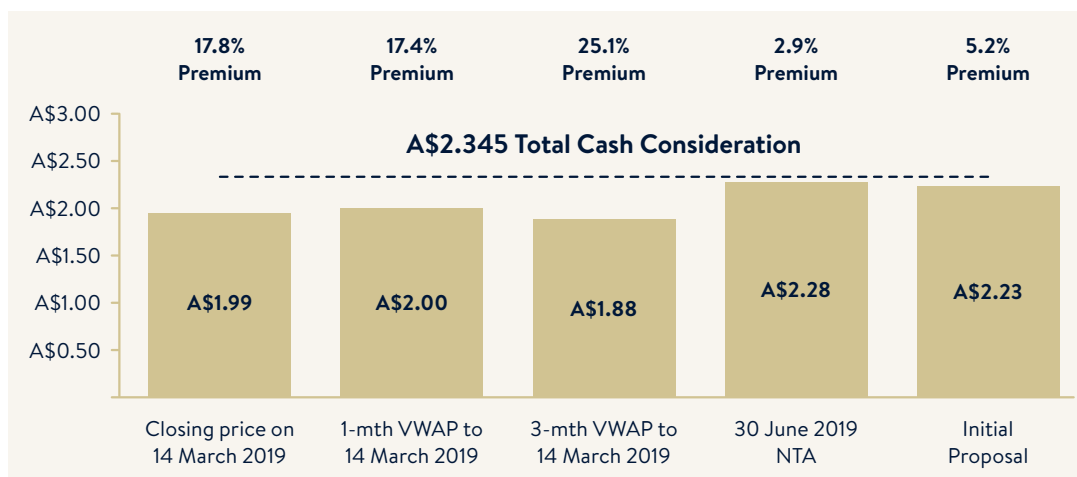
For details of the risks relating to remaining a Villa World Shareholder, see Section 6.

(d) The Total Cash Consideration represents an attractive premium to the trading price of Villa World Shares prior to the announcement of the Initial Proposal on 14 March 2019

If the Scheme is approved and implemented, Villa World Shareholders will receive the Total Cash Consideration of A\$2.345 for each Villa World Share held by them on both the Scheme Record Date and Special Dividend Record Date (if the Special Dividend is declared).

The Total Cash Consideration represents an attractive premium of:

- 17.8% to the "undisturbed" closing price of the Villa World Shares on 14 March 2019 of A\$1.99;
- 17.4% to the one-month VWAP of the Villa World Shares up to 14 March 2019 of A\$2.00;
- 25.1% to the three-month VWAP of the Villa World Shares up to 14 March 2019 of A\$1.88;
- 2.9% to the 30 June 2019 NTA per Villa World Share of A\$2.28; and
- 5.2% to the Initial Proposal, under which AVID offered to acquire all Villa World Shares for an effective consideration A\$2.23 per Villa World Share.¹¹



(e) Those Villa World Shareholders who can capture the full benefit of the franking credits attached to the Special Dividend (if declared and provided a favourable class ruling is obtained from the ATO) will receive additional benefit from the value of those franking credits to them

The Villa World Board intends to declare a Special Dividend of A\$0.31 per Villa World Share which, subject to the Scheme becoming Effective, will be paid on the Special Dividend Payment Date. If the Special Dividend is paid, it will form part of the Total Cash Consideration to be received by Villa World Shareholders.

¹¹ The Initial Proposal contained a headline price of A\$2.31 per Villa World Share which was expressed to be adjusted for the 1H19 dividend of \$0.08 per Villa World Share.

1. Key considerations relevant to your vote

Depending on the tax status and individual circumstances of each Villa World Shareholder and on the proviso that a favourable class ruling is obtained from the ATO, each Villa World Shareholder on the Villa World Register on the Special Dividend Record Date may also receive a franking credit of up to approximately A\$0.13 per Villa World Share.¹² Section 7 sets out a general summary regarding taxation implications of the Scheme for Villa World Shareholders. You should consult your own taxation advisor to determine the tax consequences relevant to your circumstances.

(f) Since the announcement of the Scheme, no Superior Proposal has emerged

Since the announcement of entry into the Scheme Implementation Agreement on 8 July 2019 and up to the date of this Scheme Booklet:

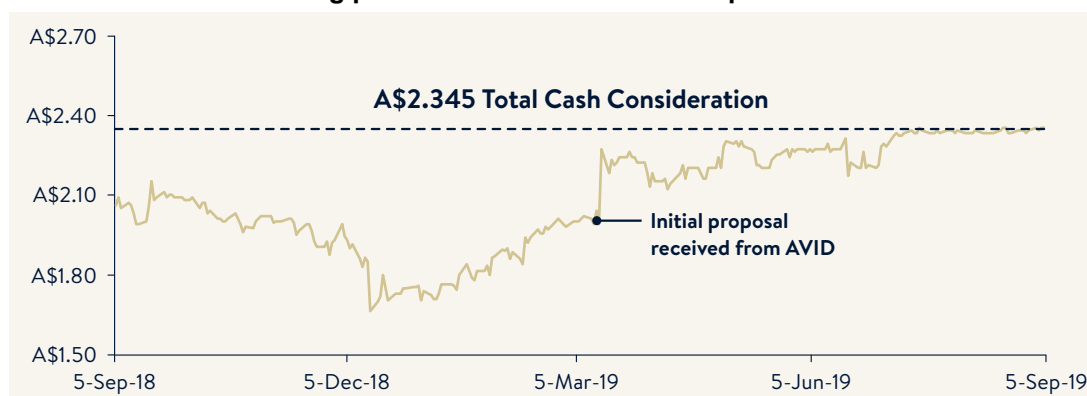
- no Superior Proposal has emerged; and
- the Villa World Directors are not aware of any Superior Proposal that is likely to emerge.

(g) The price of Villa World Shares may fall in the near-term if the Scheme is not implemented and in the absence of a Superior Proposal

The closing price of Villa World Shares on 14 March 2019 was A\$1.99, being the last trading day prior to announcement of the Initial Proposal. Since then, it has increased by 18.1% to A\$2.35 per Villa World Share on 5 September 2019 (being the last practicable trading day prior to the date of the Scheme Booklet).

The Villa World Directors are unable to predict the price at which Villa World Shares will trade in the future, but consider that if the Scheme is not implemented and in the absence of a Superior Proposal, the price of Villa World Shares may fall below the price levels at which it has traded since 14 March 2019.

Villa World Shares closing price – last 12 months to 5 September 2019



(h) No brokerage fees will be payable by you for the transfer of your Villa World Shares under the Scheme

You will not incur any brokerage fees on the transfer of your Villa World Shares to AVID under the Scheme. It is possible that such charges may be incurred if you transfer your Villa World Shares other than under the Scheme.

1.3 Why you may wish to vote against the Scheme

Although the Scheme is recommended unanimously by the Villa World Directors and the Independent Expert has concluded that the Scheme is in the best interests of Villa World Shareholders in the absence of a Superior Proposal, factors which may lead you to consider voting against the Scheme include the following:

¹² The maximum benefit associated with the franking credits will be less if the Special Dividend is less than A\$0.31 per Villa World Share.

- (a) **You may disagree with Your Directors' unanimous recommendation and the Independent Expert's conclusion and consider that the Scheme is not in your best interests**

Despite the view of Your Directors and the Independent Expert, you may believe that the Scheme is not in the best interests of Villa World Shareholders or not in your individual interest.

- (b) **You may prefer to realise the potential value of Villa World over the long term, and may consider that the Scheme does not capture Villa World's long-term potential**

If the Scheme is approved and implemented, you will cease to be a Villa World Shareholder. As such, you will no longer be able to participate in the financial performance of Villa World in the future, or the future prospects of Villa World's ongoing business, including any benefits that may result from being a Villa World Shareholder. However, there is no guarantee as to Villa World's future performance, as with all investments in listed securities.

- (c) **You may believe that it is in your interests to maintain your current investment and risk profile**

You may wish to maintain your investment in Villa World in order to have an investment in a publicly listed company with the specific characteristics of Villa World in terms of industry, operations, profile, size, capital structure and potential dividend stream.

Implementation of the Scheme may result in a disadvantage to those who wish to maintain their investment profile. Villa World Shareholders who wish to maintain their investment profile may find it difficult to find an investment with a similar profile to that of Villa World and they may incur transaction costs in undertaking any new investment.

- (d) **The tax consequences of the Scheme may not suit your current financial position**

Implementation of the Scheme may trigger taxation consequences for Villa World Shareholders, such as the realisation of a capital gain or a capital loss. A general guide to the taxation implications of the Scheme is set out in Section 7. This guide is expressed in general terms only and Villa World Shareholders should seek professional taxation advice regarding the tax consequences applicable to their own circumstances.

- (e) **You may consider that there is potential for a Superior Proposal to be made in the foreseeable future**

It is possible that, if Villa World were to continue as an independent listed entity, a corporate control proposal for Villa World could materialise in the future, such as a takeover bid with a higher price. Implementation of the Scheme will mean that there is no longer the possibility of any such proposal.

Since the announcement of entry into the Scheme Implementation Agreement on 8 July 2019 and up to the date of this Scheme Booklet:

- no Superior Proposal has emerged; and
- the Villa World Directors are not aware of any Superior Proposal that is likely to emerge.

The Scheme Implementation Agreement prohibits Villa World from soliciting a Competing Proposal. However, Villa World is permitted to respond to any Competing Proposal should the Villa World Directors determine that the Competing Proposal is or is reasonably likely to be a Superior Proposal and that failing to respond would likely constitute a breach of their fiduciary or statutory duties (and after having obtained written advice from Villa World's external legal advisors). Further details of the key terms of the Scheme Implementation Agreement (including a summary of Villa World's obligations in relation to responding to a Competing Proposal) are provided in Section 8.10.

1.4 Other considerations relevant to your vote on the Scheme

You should also take into account the following additional considerations in deciding whether to vote in favour of, or against, the Scheme.

1. Key considerations relevant to your vote

(a) **The Scheme may proceed even if you vote against it**

If you do not vote on, or if you vote against, the Scheme Resolution, the Scheme may still be implemented if the Scheme Resolution is passed by the Requisite Majorities, is approved by the Court and if all Conditions Precedent are satisfied or waived (where capable of waiver).

If this occurs, any Villa World Shares you hold on the Scheme Record Date will be transferred to AVID and you will receive the Total Cash Consideration of A\$2.345 for each Villa World Share, comprising:

- **(if the Special Dividend is declared)** (i) Scheme Consideration of A\$2.035 per Villa World Share held by you on the Scheme Record Date; and (ii) a Special Dividend of A\$0.31 per Villa World Share held by you on the Special Dividend Record Date; or
- **(if the Special Dividend is not declared)** Scheme Consideration of A\$2.345 per Villa World Share held by you on the Scheme Record Date,

even if you did not vote on, or voted against, the Scheme Resolution.

(b) **If the Scheme does not proceed, Villa World Shareholders will not receive the Scheme Consideration or the Special Dividend**

If the Scheme is not approved or all outstanding Conditions Precedent are not satisfied or waived (where capable of waiver), the Scheme will not proceed. In that case, Villa World Shareholders will not receive the Scheme Consideration or the Special Dividend and, in the absence of another proposal, Villa World will continue to operate as a stand-alone entity listed on the ASX and Villa World Shareholders will retain their Villa World Shares and continue to be exposed to risks and opportunities associated with their investment in Villa World.

If the Scheme is not implemented, the advantages of the Scheme described in Section 1.2 (*Why you should vote in favour of the Scheme*) will not be realised.

(c) **Regardless of whether or not the Scheme Proceeds, Villa World Shareholders will not receive a final dividend for the financial year ended 30 June 2019**

As announced to the ASX on 20 August 2019, Villa World has determined not to declare a final dividend for the financial year ended 30 June 2019.

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Frequently asked questions



2 Frequently Asked Questions

QUESTION	ANSWER	MORE INFORMATION
<i>An Overview of the Scheme</i>		
Why have I received this Scheme Booklet?	<p>This Scheme Booklet has been sent to you because you are a Villa World Shareholder and Villa World Shareholders are being asked to vote on a Scheme, which, if approved, will result in AVID acquiring all of the Villa World Shares.</p> <p>This Scheme Booklet is intended to help you to decide how to vote on the Scheme Resolution, which needs to be passed by the Requisite Majorities at the Scheme Meeting to allow the Scheme to proceed.</p>	N/A
What is the Scheme?	<p>The Scheme is a scheme of arrangement between Villa World and the Scheme Shareholders. A "scheme of arrangement" is a statutory procedure under the Corporations Act that is commonly used to enable one company to acquire another company.</p> <p>If the Scheme is approved and implemented, Villa World Shareholders will receive the Total Cash Consideration of A\$2.345 per Villa World Share, comprising:</p> <ul style="list-style-type: none"> • (if the Special Dividend is declared) (i) Scheme Consideration of A\$2.035 per Villa World Share held by them on the Scheme Record Date; and (ii) a Special Dividend of A\$0.31 per Villa World Share held by them on the Special Dividend Record Date; or • (if the Special Dividend is not declared) Scheme Consideration of A\$2.345 per Villa World Share held by them on the Scheme Record Date. <p>Please note that Villa World Shareholders will only receive the Total Cash Consideration in respect of Villa World Shares held by them on both the Scheme Record Date and the Special Dividend Record Date (if the Special Dividend is declared). If a person becomes a Villa World Shareholder after the Special Dividend Record Date, they will not receive the Special Dividend. Similarly, if a Villa World Shareholder sells their Villa World Shares before the Scheme Record Date, they will not receive the Scheme Consideration. Refer to the question "Can I sell my Villa World Shares now?" for more information.</p>	Section 3 contains an overview of the Scheme and a copy of the Scheme is contained in Annexure B.
Who is AVID?	<p>AVID is a diversified Australian property development business with an A\$2.5 billion portfolio of broad acre and medium density residential and industrial projects. Its current portfolio comprises over 6,500 residential lots and 180 hectares of industrial land.</p> <p>AVID currently has eight active residential projects in Queensland, New South Wales and Victoria. AVID is owned by a number of significant international institutional investors. Their investment in AVID is managed and advised by Proprium.</p>	Section 5 contains further details about AVID.

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2. Frequently asked questions

QUESTION	ANSWER	MORE INFORMATION
	<p>Proprium and its affiliates manage funds with over US\$2 billion of assets under management for over 50 institutional investors, including government and private sector pension and retirement funds, banks, family offices and sovereign wealth funds. Proprium is headquartered in the United States and has offices in the New York area, London, Netherlands, Mumbai, Hong Kong, Sydney and Atlanta.</p>	
<p>What do the Villa World Directors recommend and how do they intend to vote?</p>	<p>Your Directors unanimously recommend that Villa World Shareholders vote in favour of the Scheme, in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Villa World Shareholders.</p> <p>Each Villa World Director who holds Villa World Shares intends to vote all Villa World Shares held or controlled by them or on their behalf, in favour of the Scheme, in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Villa World Shareholders.</p> <p>In relation to the recommendation of Craig Treasure, Villa World Shareholders should have regard to the fact that, if the Scheme is implemented, Mr Treasure will become entitled to early vesting of unvested Villa World Performance Rights. The Villa World Board (excluding Mr Treasure)¹³ exercised its discretion to give effect to these arrangements in accordance with the terms of the Villa World LTIP.</p> <p>Villa World Shareholders should have regard to these arrangements when considering Mr Treasure's recommendation on the Scheme, which appears throughout this Scheme Booklet. Mr Treasure considers that, despite these arrangements, it is appropriate for him to make a recommendation on the Scheme. The Villa World Board (excluding Mr Treasure) also considers that it is appropriate for him to make a recommendation on the Scheme given his role in the operation and management of Villa World and his deep industry knowledge.</p> <p>The Relevant Interests of Villa World Directors in Villa World Shares as at the date of this Scheme Booklet are set out in Section 8.1.</p>	<p>Section 1.2 provides a summary of the reasons why the Villa World Directors consider that Villa World Shareholders should vote in favour of the Scheme.</p> <p>Section 1.3 provides a summary of some of the reasons why Villa World Shareholders may wish to vote against the Scheme.</p>
<p>What is the conclusion of the Independent Expert?</p>	<p>The Independent Expert has concluded that the Scheme is fair and reasonable and, therefore, is in the best interests of Villa World Shareholders, in the absence of a Superior Proposal. The Villa World Directors encourage you to read the Independent Expert's Report in its entirety before making a decision as to whether or not to vote in favour of the Scheme.</p>	<p>A copy of the Independent Expert's Report is contained in Annexure A.</p>

¹³ The exercise of discretion by the Villa World Board was approved by the Independent Non-Executive Villa World Directors. Craig Treasure did not vote on the resolution given his interest in the subject matter of the resolution.

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2. Frequently asked questions

QUESTION	ANSWER	MORE INFORMATION
Why should I vote in favour of the Scheme?	The reasons to vote in favour of the Scheme are set out in Section 1.2.	Section 1.2.
Why may I consider voting against the Scheme?	The reasons why you may wish to vote against the Scheme are set out in Section 1.3.	Section 1.3.
<i>Voting at the Scheme Meeting</i>		
Am I entitled to vote?	Each Villa World Shareholder who is registered on the Villa World Register at 7.00pm (Sydney time) on Wednesday, 9 October 2019 is entitled to vote at the Scheme Meeting.	The Notice of Meeting contained in Annexure D sets out further details on your entitlement to vote.
When and where will the Scheme Meeting be held?	The Scheme Meeting will be held on Friday, 11 October 2019 in the Sorrento Room at the Sofitel Gold Coast Broadbeach, 81 Surf Parade, Broadbeach Queensland, commencing at 2.30pm (Brisbane time) (being 3.30pm, Sydney time).	The Notice of Meeting contained in Annexure D sets out further details on the Scheme Meeting.
How do I vote?	<p>You may vote on the Scheme Resolution by attending the Scheme Meeting in person, or by appointing a proxy, corporate representative or attorney to attend the Scheme Meeting on your behalf.</p> <p>If you do not wish to, or are unable to, attend the Scheme Meeting in person, you may vote on the Scheme Resolution by completing the personalised Proxy Form accompanying this Scheme Booklet or voting online using the log in information provided.</p> <p>Your proxy instruction must be received by Computershare by no later than 2.30pm (Brisbane time) (being 3.30pm, Sydney time) on Wednesday, 9 October 2019.</p>	The Notice of Meeting contained in Annexure D sets out further details on how to vote at the Scheme Meeting.
What vote is required to approve the Scheme?	<p>For the Scheme to proceed, the Scheme Resolution must be passed by the Requisite Majorities, being:</p> <ul style="list-style-type: none"> a majority in number (more than 50%) of Villa World Shareholders present and voting at the Scheme Meeting (whether in person or by proxy, corporate representative or attorney) (unless the Court orders otherwise); and 	Section 3.7(c) and the Notice of Meeting contained in Annexure D set out further details on the Scheme approval requirements.

2. Frequently asked questions

QUESTION	ANSWER	MORE INFORMATION
	<ul style="list-style-type: none"> at least 75% of the total number of votes cast on the Scheme Resolution by Villa World Shareholders present and voting at the Scheme Meeting (whether in person or by proxy, corporate representative or attorney). 	
<p>What choices do I have as a Villa World Shareholder?</p>	<p>As a Villa World Shareholder, you have the following choices in relation to the Scheme:</p> <ul style="list-style-type: none"> vote in favour of the Scheme Resolution at the Scheme Meeting; vote against the Scheme Resolution at the Scheme Meeting; sell your Villa World Shares on the ASX; or do nothing. 	<p>For key considerations that may be relevant to your vote, see Section 1.</p>
<p>What happens to my Villa World Shares if I do not vote, or if I vote against the Scheme, and the Scheme becomes Effective?</p>	<p>If you do not vote, or if you vote against the Scheme Resolution, the Scheme may not be approved at the Scheme Meeting. If this occurs, the Scheme will not be implemented, you will not receive the Scheme Consideration or the Special Dividend and you will remain a Villa World Shareholder.</p> <p>However, if the Scheme Resolution is approved by the Requisite Majorities at the Scheme Meeting and the Scheme is implemented, your Villa World Shares will be transferred to AVID and you will receive the Total Cash Consideration of A\$2.345 for each Villa World Share, comprising:</p> <ul style="list-style-type: none"> (if the Special Dividend is declared) (i) Scheme Consideration of A\$2.035 per Villa World Share held by you on the Scheme Record Date; and (ii) a Special Dividend of A\$0.31 per Villa World Share held by you on the Special Dividend Record Date; or (if the Special Dividend is not declared) Scheme Consideration of A\$2.345 per Villa World Share held by you on the Scheme Record Date, <p>whether or not you voted in favour of the Scheme Resolution.</p>	<p>N/A</p>
<p>When will the result of the Scheme Meeting be known?</p>	<p>The results of the Scheme Meeting will be available shortly after the conclusion of the Scheme Meeting and will be announced to the ASX once available.</p> <p>Even if the Scheme Resolution is passed at the Scheme Meeting by the Requisite Majorities, the Scheme will only be implemented if Court approval of the Scheme is obtained and all other Conditions Precedent are satisfied or waived (where capable of waiver).</p>	<p>The Conditions Precedent are summarised in Section 8.10(a).</p>
<p>Can I sell my Villa World Shares now?</p>	<p>You can sell your Villa World Shares on-market at any time before close of trading on the ASX on the Effective Date at the then prevailing market price (which may differ from the Total Cash Consideration).</p>	<p>N/A</p>

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2. Frequently asked questions

QUESTION	ANSWER	MORE INFORMATION
	<p>Villa World intends to apply to ASX for Villa World Shares to be suspended from official quotation on the ASX from close of trading on the Effective Date. You will not be able to sell your Villa World Shares on-market after this time.</p> <p>If you sell your Villa World Shares before the Special Dividend Record Date, then you will not receive the Special Dividend (if declared) nor the franking credits attached to the Special Dividend.</p> <p>You will only receive the Total Cash Consideration in respect of the Villa World Shares that you hold both on the Scheme Record Date and the Special Dividend Record Date (if the Special Dividend is declared). For example, if you sell any Villa World Shares through an off-market transfer after the Special Dividend Record Date but before the Scheme Record Date:</p> <ul style="list-style-type: none"> • the "seller" will receive the Special Dividend of A\$0.31 (if declared) and may be entitled to the franking credits of A\$0.13¹⁴ attached to the Special Dividend, and will also receive any consideration for the sale, but will not receive the Scheme Consideration of A\$2.035; and • the "buyer" will receive the Scheme Consideration of A\$2.035, but will not receive the Special Dividend of A\$0.31 and the franking credits of A\$0.13¹⁴ attached to the Special Dividend, <p>which may not be the same amount in aggregate as the Total Cash Consideration.</p>	
<p>What can I do if I oppose the Scheme?</p>	<p>If you, as a Villa World Shareholder, oppose the Scheme, you can do the following:</p> <ul style="list-style-type: none"> • call the Villa World Shareholder Information Line on 1300 077 476 (within Australia) or +61 3 9415 4079 (outside Australia), Monday to Friday between 8.30am to 5.30pm (Sydney time) and obtain further information; • attend the Scheme Meeting either in person or by proxy, corporate representative or attorney and vote against the Scheme Resolution; and/or • if the Scheme Resolution is approved by the Requisite Majorities at the Scheme Meeting and you wish to appear and be heard at the Second Court Hearing and oppose the approval of the Scheme at the Second Court Hearing, you must file with the Court and serve on Villa World a notice of appearance (together with any affidavit on which you propose to rely), attend the Second Court Hearing and indicate opposition to the Scheme. 	<p>Important Notices</p>

¹⁴ The maximum benefit associated with the franking credits will be less if the Special Dividend is less than A\$0.31 per Villa World Share.

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2. Frequently asked questions

QUESTION	ANSWER	MORE INFORMATION
	<p>You have the right as a Villa World Shareholder to appear and make submissions at the Second Court Hearing which is scheduled to be held at 9.15am (Sydney time) on Tuesday, 15 October 2019 at the Supreme Court of New South Wales, Law Courts Building, 184 Phillip Street, Sydney.</p>	
<p><i>What will Villa World Shareholders receive under the Scheme?</i></p>		
<p>What will I receive if the Scheme is implemented?</p>	<p>If the Scheme is approved and implemented, you will receive the Total Cash Consideration of A\$2.345 per Villa World Share, comprising:</p> <ul style="list-style-type: none"> • (if the Special Dividend is declared) (i) Scheme Consideration of A\$2.035 per Villa World Share held by you on the Scheme Record Date; and (ii) a Special Dividend of A\$0.31 per Villa World Share held by you on the Special Dividend Record Date; or • (if the Special Dividend is not declared) Scheme Consideration of A\$2.345 per Villa World Share held by you on the Scheme Record Date. <p>Please note that you will only receive the Total Cash Consideration in respect of Villa World Shares held by you on both the Scheme Record Date and the Special Dividend Record Date (if the Special Dividend is declared). If you become a Villa World Shareholder after the Special Dividend Record Date, you will not receive the Special Dividend. Similarly, if you sell your Villa World Shares before the Scheme Record Date, you will not receive the Scheme Consideration. Refer to the question "Can I sell my Villa World Shares now?" for more information.</p>	<p>Section 3.2.</p>
<p>What is the premium of the Total Cash Consideration to Villa World's recent share price performance?</p>	<p>The Total Cash Consideration of A\$2.345 per Villa World Share represents a premium of:</p> <ul style="list-style-type: none"> • 17.8% to the closing share price of Villa World Shares on 14 March 2019 (being the last trading day prior to the announcement of the Initial Proposal) of A\$1.99; • 17.4% to the one-month VWAP of Villa World Shares up to 14 March 2019 of A\$2.00; • 25.1% premium to the three-month VWAP of Villa World Shares up to 14 March 2019 of A\$1.88; • 2.9% premium to the 30 June 2019 NTA per Villa World Share of A\$2.28; and • 5.2% to the Initial Proposal, under which AVID offered to acquire all Villa World Shares for an effective consideration A\$2.23 per Villa World Share.¹⁵ 	<p>Section 1.2(d).</p>

¹⁵ The Initial Proposal contained a headline price of A\$2.31 per Villa World Share which was expressed to be adjusted for the 1H19 dividend of \$0.08 per Villa World Share.

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2. Frequently asked questions

QUESTION	ANSWER	MORE INFORMATION
When will I be paid?	<p>If all Conditions Precedent are satisfied or waived (where capable of waiver):</p> <ul style="list-style-type: none"> Villa World Shareholders on the Villa World Register on the Scheme Record Date will be sent or have paid to them the Scheme Consideration on the Implementation Date; and if a Special Dividend is declared, Villa World Shareholders on the Villa World Register on the Special Dividend Record Date will be sent or have paid to them the Special Dividend on the Special Dividend Payment Date. <p>Villa World shareholders can update their payment information online by logging in to www.computershare.com.au/easyupdate/vlw.</p>	Section 3.9.
How will I be paid?	<p>All payments will be made:</p> <ul style="list-style-type: none"> where you have nominated a bank account that is currently used by Villa World for the payment of dividends – by electronic funds transfer in Australian currency into that account; or where you have not nominated a bank account – by a cheque in Australian currency, sent by pre-paid post to your registered address as shown on the Villa World Register. 	Section 3.9.
Will I have to pay brokerage or stamp duty?	No, you will not have to pay brokerage or stamp duty if your Villa World Shares are acquired under the Scheme.	Section 1.2(h).
Special Dividend		
What is the Special Dividend?	<p>The Special Dividend is a cash dividend that may be declared and paid by Villa World of A\$0.31 per Villa World Share held by a Villa World Shareholder on the Special Dividend Record Date.</p> <p>The Special Dividend, if declared, is conditional on the Scheme becoming Effective.</p>	Section 3.2.
When will I know if a Special Dividend has been declared and, if declared, what the amount of the Special Dividend will be?	On or before the date of the Scheme Meeting.	N/A
Am I eligible to receive the Special Dividend?	If you hold Villa World Shares on the Special Dividend Record Date, you will be eligible to receive the Special Dividend in respect of each Villa World Share held by you on that date.	Section 3.6.

2. Frequently asked questions

QUESTION	ANSWER	MORE INFORMATION
When will I receive the Special Dividend?	The Special Dividend is conditional on the Scheme becoming Effective and is expected to be paid on the Special Dividend Payment Date.	Section 3.2(a).
Will the Special Dividend be franked?	Villa World intends that the Special Dividend will be fully franked. This means that, depending on the tax status and individual circumstances of each Villa World Shareholder and on the proviso that a favourable class ruling is obtained from the ATO, each Villa World Shareholder on the Villa World Register on the Special Dividend Record Date may also receive a franking credit of up to approximately A\$0.13 per Villa World Share. ¹⁶	Section 7.
Implementation of the Scheme		
What will happen to Villa World if the Scheme becomes Effective and is implemented?	If the Scheme becomes Effective and is implemented, AVID will acquire 100% of the Villa World Shares, and Villa World will be delisted from the ASX.	N/A
Are there any conditions to be satisfied?	Yes, there are certain Conditions Precedent that will need to be satisfied or waived (where capable of waiver) before the Scheme can become Effective. As at the date of this Scheme Booklet, the Directors are not aware of any reason why these Conditions Precedent should not be satisfied or waived (where capable of waiver).	Section 8.10(a) contains further information on the Conditions Precedent.
What happens if the Scheme does not proceed?	If the Scheme is not approved at the Scheme Meeting, or another Condition Precedent is not satisfied or waived (where capable of waiver), the Scheme will not be implemented. If the Scheme is not implemented, Villa World Shareholders will not receive the Scheme Consideration or the Special Dividend but will retain their Villa World Shares. In these circumstances, Villa World will, in the absence of another proposal, continue to operate as a stand-alone entity listed on the ASX and Villa World Shareholders will retain their Villa World Shares and continue to be exposed to risks and opportunities associated with their investment in Villa World. Villa World Shareholders should also note that Villa World has agreed to pay a Break Fee to AVID in certain circumstances where the Scheme is not implemented, as described in Section 8.10(c).	Section 6 sets out further details of the risks relating to remaining a Villa World Shareholder. Section 8.10(c) sets out the circumstances in which the Break Fee is payable.

¹⁶ The maximum benefit associated with the franking credits will be less if the Special Dividend is less than A\$0.31 per Villa World Share.

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2. Frequently asked questions

QUESTION	ANSWER	MORE INFORMATION
What are the taxation implications of the Scheme?	<p>The taxation implications of the Scheme will depend on your personal circumstances.</p> <p>A general outline of the main Australian taxation implications of the Scheme for certain Villa World Shareholders is set out in Section 7 of this Scheme Booklet.</p> <p>As this outline is general in nature, you should consult with your own taxation advisors for detailed tax advice regarding the Australian and, if applicable, foreign taxation implications for participating in the Scheme in light of the particular circumstances which apply to you before making a decision as to how to vote on the Scheme.</p>	Section 7 sets out further details on the taxation implications of the Scheme.
Further Information		
Where can I get further information?	For further information, you can call the Villa World Shareholder Information Line on 1300 077 476 (within Australia) or +61 3 9415 4079 (outside Australia), Monday to Friday between 8.30am to 5.30pm (Sydney time).	N/A

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Overview of the Scheme



3 Overview of the Scheme

3.1 Background

On 8 July 2019, Villa World announced that it had entered into the Scheme Implementation Agreement with AVID, under which it is proposed that AVID will acquire all Villa World Shares by way of the Scheme.

For the Scheme to proceed, Villa World Shareholders must vote in favour of the Scheme by the Requisite Majorities set out in Section 3.7(c) and the Scheme must be approved by the Court. The Scheme is also subject to the satisfaction or waiver (where capable of waiver) of the other Conditions Precedent described in Section 8.10(a).

If the Scheme is approved by Villa World Shareholders and by the Court, and all other Conditions Precedent are satisfied or waived (where capable of waiver), then Villa World will become a wholly-owned Subsidiary of AVID and will be removed from the official list of the ASX on or around the Business Day immediately following the Implementation Date.

If the Scheme is not approved, Villa World Shareholders will not receive the Scheme Consideration or the Special Dividend but will retain their Villa World Shares. In these circumstances, Villa World will, in the absence of another proposal, continue to operate as a stand-alone entity listed on the ASX and Villa World Shareholders will retain their Villa World Shares and continue to be exposed to risks and opportunities associated with their investment in Villa World.

3.2 Total Cash Consideration

(a) Total Cash Consideration

If the Scheme is approved and implemented, Villa World Shareholders will receive the Total Cash Consideration of A\$2.345 per Villa World Share, comprising:

- **(if the Special Dividend is declared)** (i) Scheme Consideration of A\$2.035 per Villa World Share held by them on the Scheme Record Date; and (ii) a Special Dividend of A\$0.31 per Villa World Share held by them on the Special Dividend Record Date; or
- **(if the Special Dividend is not declared)** Scheme Consideration of A\$2.345 per Villa World Share held by them on the Scheme Record Date.

The Villa World Board will determine whether to declare the Special Dividend and, if declared, the amount of the Special Dividend, on or before the Scheme Meeting.

Payment of the Scheme Consideration will be made on the Implementation Date, and payment of the Special Dividend (if declared) will be made on the Special Dividend Payment Date.

The Total Cash Consideration will be \$2.345 regardless of the amount of any Special Dividend. This is because the Scheme Consideration you receive from AVID will be \$2.345 less the cash amount of any Special Dividend you receive from Villa World.

If the Special Dividend is declared, those Villa World Shareholders who are entitled to the Special Dividend may be entitled to a franking credit of up to approximately A\$0.13 per Villa World Share (subject to confirmation from the ATO via a class ruling).¹⁷ Whether you will be able to realise the full benefit of franking credits attached to any Special Dividend will depend on your tax status and specific circumstances.

Villa World Shareholders should seek independent taxation advice in respect of this matter and refer to Section 7 of this Scheme Booklet.¹⁸

¹⁷ The maximum benefit associated with the franking credits will be less if the Special Dividend is less than A\$0.31 per Villa World Share.

¹⁸ In assessing the value to them of the Special Dividend, Villa World Shareholders should seek professional taxation advice as to whether or not the receipt of the Special Dividend and any entitlement to a tax offset in respect to the franking credits attached to the Special Dividend are beneficial to them in their own individual circumstances. Refer to Section 7 for further information.

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3. Overview of the Scheme

(b) Payment of Total Cash Consideration

Payments will be made by electronic funds transfer into the Villa World Shareholder's nominated bank account, as advised to the Villa World Registry. If the Villa World Shareholder has not nominated a bank account, payment will be made by Australian dollar cheque, sent by pre-paid post to the Villa World Shareholder's registered address as shown on the Villa World Register.

If the Villa World Shareholder does not have a registered address, or Villa World considers the Villa World Shareholder is not known at its registered address and no bank account has been nominated, payments due to the Villa World Shareholder will be held by Villa World until claimed or applied under the relevant laws dealing with unclaimed money.

Villa World Shareholders are encouraged to ensure that their contact details and banking instructions are up to date. Villa World Shareholders can review their shareholder information either online at www.computershare.com.au/easyupdate/vlw or by calling the Villa World Shareholder Information Line on 1300 077 476 (within Australia) or +61 3 9415 4079 (outside Australia), Monday to Friday between 8.30am to 5.30pm (Sydney time).

3.3 Scheme

If the Scheme is approved by Villa World Shareholders and the Court, and if all other Conditions Precedent are satisfied or waived (where capable of waiver), then:

- the Scheme will become Effective on the Effective Date;
- at the close of trading on the Effective Date, Villa World Shares will cease trading on the ASX;
- on the Special Dividend Payment Date, the Special Dividend (if declared) will be paid to Villa World Shareholders for each Villa World Share held by them on the Special Dividend Record Date; and
- on the Implementation Date, all Villa World Shares will be transferred to AVID (without any need for action by Scheme Shareholders) and the Scheme Consideration will be paid to Villa World Shareholders for each Villa World Share held by them as at the Scheme Record Date.

As a result of the implementation of the Scheme, Scheme Shareholders will cease to hold Villa World Shares and Villa World will become a wholly-owned Subsidiary of AVID and will be delisted from the ASX.

A copy of the Scheme is contained in this Scheme Booklet.

3.4 Entitlement to participate in the Scheme and to receive the Special Dividend

Villa World Shareholders recorded as such in the Villa World Register as at the Scheme Record Date (being "Scheme Shareholders") will be entitled to participate in the Scheme. Scheme Shareholders will be entitled to receive the Scheme Consideration in respect of Villa World Shares held by them as at the Scheme Record Date.

Villa World Shareholders recorded as such in the Villa World Register as at the Special Dividend Record Date will be entitled to receive the Special Dividend (if declared) in respect of Villa World Shares held by them on the Special Dividend Record Date. The Special Dividend will only be paid if the Scheme becomes Effective and then on the Special Dividend Payment Date.

3.5 Determination of persons entitled to Scheme Consideration

(a) Dealings on or before the Scheme Record Date

For the purpose of establishing the identity of Scheme Shareholders, dealings in Villa World Shares will be recognised only if:

- in the case of dealings of the type to be effected using CHESS, the transferee is registered on the Villa World Register as the holder of the relevant Villa World Shares as at the Scheme Record Date; and

- in all other cases, registrable transmission applications or transfers in respect of those dealings are received by the Villa World Registry on or before the Scheme Record Date (and the transferee remains registered as at the Scheme Record Date).

For the purpose of determining entitlements under the Scheme, Villa World will not accept for registration or recognise any transfer or transmission applications in respect of Villa World Shares received after the Scheme Record Date.

(b) Dealings after the Scheme Record Date

For the purposes of determining entitlements to the Scheme Consideration, Villa World will, until the Scheme Consideration has been paid to the Scheme Shareholders on the Implementation Date, maintain the Villa World Register in its form as at the Scheme Record Date. The Villa World Register in this form will solely determine entitlements to the Scheme Consideration.

After the Scheme Record Date:

- all statements of holding for Villa World Shares will cease to have effect as documents relating to title in respect of such Villa World Shares; and
- each entry on the Villa World Register relating to the Villa World Shares will cease to have effect except as evidence of entitlement to the Scheme Consideration in respect of such Villa World Shares.

3.6 Determination of persons entitled to the Special Dividend (if declared)

For the purpose of establishing the identity of the persons who are entitled to receive the Special Dividend (if declared), dealings in Villa World Shares will be recognised only if:

- in the case of dealings of the type to be effected using CHESSE, the transferee is registered on the Villa World Register as the holder of the relevant Villa World Shares as at the Special Dividend Record Date; and
- in all other cases, registrable transmission applications or transfers in respect of those dealings are received by the Villa World Registry on or before the Special Dividend Record Date (and the transferee remains registered as at the Special Dividend Record Date).

For the purposes of establishing the persons who are entitled to receive the Special Dividend (if declared), Villa World will not accept for registration or recognise any transfer or transmission applications in respect of Villa World Shares received after the Special Dividend Record Date.

3.7 Scheme Meeting

(a) Date and time of Scheme Meeting

In accordance with an order of the Court dated Friday, 6 September 2019, Villa World has convened the Scheme Meeting to be held on Friday, 11 October 2019 in the Sorrento Room at the Sofitel Gold Coast Broadbeach, 81 Surf Parade, Broadbeach Queensland, commencing at 2.30pm (Brisbane time) (being 3.30pm, Sydney time). The notice convening the Scheme Meeting is set out in Annexure D to this Scheme Booklet and the terms of the Scheme are contained in Annexure B to this Scheme Booklet. The purpose of the Scheme Meeting is for Villa World Shareholders to consider whether to approve the Scheme.

The fact that the Court has ordered the Scheme Meeting does not mean that the Court has formed any view as to the merits of the Scheme or as to how Villa World Shareholders should vote on the Scheme Resolution. On these matters, Villa World Shareholders must reach their own decision. In any event, the Court must approve the Scheme at the Second Court Hearing before the Scheme becomes Effective.

(b) Scheme Resolution

At the Scheme Meeting, Villa World Shareholders will be asked to consider and, if thought fit, to pass the Scheme Resolution to approve the Scheme.

3. Overview of the Scheme

(c) Requisite Majorities required to pass resolution

The Scheme Resolution must be approved by:

- a majority in number (more than 50%) of Villa World Shareholders present and voting at the Scheme Meeting (whether in person or by proxy, corporate representative or attorney) (unless waived by the Court); and
- at least 75% of the total number of votes cast on the Scheme Resolution by Villa World Shareholders present and voting at the Scheme Meeting (whether in person or by proxy, corporate representative or attorney).

(d) Entitlement to vote

Each Villa World Shareholder who is registered on the Villa World Register at 7.00pm (Sydney time) on Wednesday, 9 October 2019 is entitled to vote at the Scheme Meeting.

3.8 Conditions Precedent to implementation of the Scheme

The implementation of the Scheme is subject to Conditions Precedent which must be satisfied or waived (where capable of waiver) for the Scheme to proceed. A summary of the Conditions Precedent is included in Section 8.10(a) and the Conditions Precedent are set out in full in clause 3.1 of the Scheme Implementation Agreement, a full copy of which is attached to Villa World's ASX Announcement on 8 July 2019, which can be obtained from www.asx.com.au or from www.villaworld.com.au/investor-centre/asx-announcements.

3.9 Implementation of the Scheme

If the Scheme Resolution is approved by Villa World Shareholders by the Requisite Majorities and all other Conditions Precedent as described in Section 8.10(a) (other than Court approval of the Scheme) have been satisfied or waived (where capable of waiver), then the steps described below will be taken to implement the Scheme.

(a) Court approval of the Scheme

Villa World will apply to the Court for orders approving the Scheme at the Second Court Hearing. The Court has a broad discretion whether or not to approve the Scheme under section 411(4)(b) of the Corporations Act. The Second Court Hearing is scheduled to occur on the Second Court Date. Each Villa World Shareholder has the right to appear at the Second Court Hearing.

(b) Court orders

If the Court makes orders approving the Scheme, then Villa World will lodge a copy of those orders with ASIC under section 411(10) of the Corporations Act. As soon as copies of the Court orders approving the Scheme are lodged with ASIC, the Scheme will become Effective. This is expected to occur on the Effective Date.

If the Scheme becomes Effective, then Villa World and AVID will become bound to implement the Scheme in accordance with the terms of the Scheme and the Deed Poll.

(c) Suspension of trading of Villa World Shares

Villa World will notify ASX of the approval of the Scheme by the Court on the day the Scheme becomes Effective. It is expected that suspension of trading in Villa World Shares on the ASX will occur from the close of trading on the Effective Date.

(d) Payment of the Special Dividend

If the Special Dividend is declared, Villa World will send to each Villa World Shareholder, on the Special Dividend Payment Date, the Special Dividend for each Villa World Share held by them as at the Special Dividend Record Date. If the Special Dividend is declared, it will be paid:

- where the Villa World Shareholder has nominated a bank account that is currently used by Villa World for the payment of dividends – by electronic funds transfer in Australian currency into that account; or

- where the Villa World Shareholder has not nominated a bank account – by a cheque in Australian currency, sent by pre-paid post to the registered address of the Villa World Shareholder as shown on the Villa World Register.

Villa World shareholders can update their payment information online by logging in to www.computershare.com.au/easyupdate/vlw.

(e) Transfer of Villa World Shares

By no later than one Business Day before the Implementation Date, AVID will deposit into an Australian dollar denominated account in the name of Villa World, an amount equal to the aggregate amount of Scheme Consideration to be provided to Scheme Shareholders.

On the Implementation Date, subject to the deposit of the aggregate Scheme Consideration being made, all Villa World Shares will be transferred to AVID (without the need for any further act by any Scheme Shareholder).

(f) Payment of Scheme Consideration

On the Implementation Date, Villa World will send to each Scheme Shareholder their entitlement to the Scheme Consideration for each Villa World Share held by them as at the Scheme Record Date. That Scheme Consideration will be paid:

- where the Scheme Shareholder has nominated a bank account that is currently used by Villa World for the payment of dividends – by electronic funds transfer in Australian currency into that account; or
- where the Scheme Shareholder has not nominated a bank account – by a cheque in Australian currency, sent by pre-paid post to the registered address of the Scheme Shareholder as shown on the Villa World Register.

(g) Delisting of Villa World

Following the implementation of the Scheme, Villa World will apply for the termination of the official quotation of Villa World Shares on the ASX and for Villa World to be removed from the official list of the ASX.

(h) End Date

The Scheme will lapse and be of no further force or effect (and implementation will not occur) if the Effective Date has not occurred on or before the End Date.

3.10 Timetable

An indicative timetable for the Transaction appears on page 3. All dates and times following the date of the Scheme Meeting are indicative only and, among other things, are subject to the Court approval process and satisfaction or, where applicable, waiver of the Conditions Precedent. Any changes to the timetable (which may include an earlier or later date for the Second Court Hearing) will be announced on the ASX and notified on the Villa World website at <https://www.villaworld.com.au/investor-centre>.

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**Information about
Villa World**



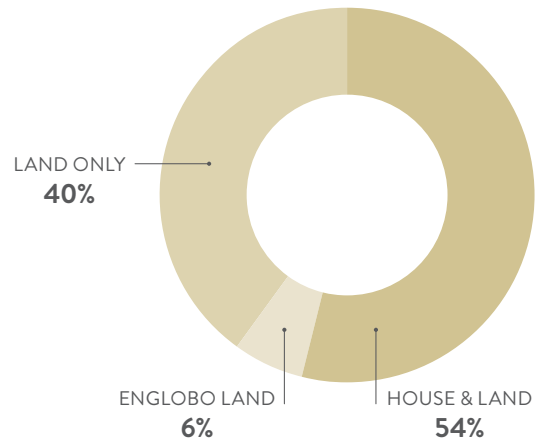
4 Information about Villa World

4.1 Overview

Villa World is an east coast residential developer with development and construction operations across New South Wales, Queensland and Victoria. Villa World acquires, develops and markets residential land, and house and land estates within the affordable to mid-priced residential housing market.

Villa World has been operating for over 30 years and is currently an S&P/ASX300 company. As at 5 September 2019, being the last practicable date before the date of this Scheme Booklet, Villa World had a market capitalisation of approximately A\$294 million (based on a closing price of A\$2.35 per Villa World Share).

Villa World derives its income from land development, residential building and construction contracts. For the house and land estates, Villa World operates a turnkey house and land model where homes are completed, landscaped and ready to move into. Villa World maintains a strong presence across its core customer segments, being retail buyers (comprising first home buyers and other owner occupiers), as well as builders and predominantly local investors. The following figures outline the split of revenues for the last twelve months to 30 June 2019 by property type.



Villa World also deploys development management skills into joint venture arrangements and derives income through development management fees and profit sharing from equity accounted investments.

4.2 Overview of assets and operations

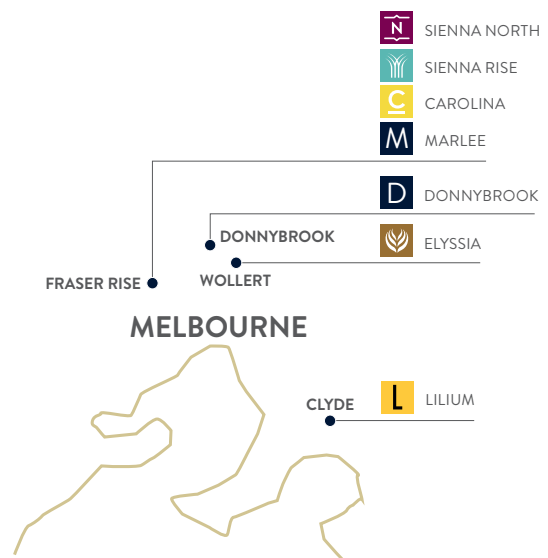
Villa World's portfolio provides it with both geographic and product diversification. Villa World's operations currently comprise 26 on-going projects which span the east coast of Australia. Villa World is involved in both house and land and land-only developments and sales.

(a) Current Victoria portfolio

In Victoria, Villa World currently offers a range of developments in Melbourne's north west, north and south east regions.

North West Melbourne: Centred around the Caroline Springs and Taylors Hill Town Centres, this area has easy freeway access to the Melbourne CBD and continues to experience housing demand and the development of new infrastructure. The Sienna Rise, Sienna North and Carolina land subdivisions offer a range of sites from terrace to traditional land product and provide Villa World with a significant footprint in the Plumpton area of North West Melbourne.

The neighbouring Marlee project is a 471-lot project intended to offer turnkey three and four-bedroom homes plus some terrace product. This project is in the final stages of planning approval, and will commence civil construction work once approval is received.



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4. Information about Villa World

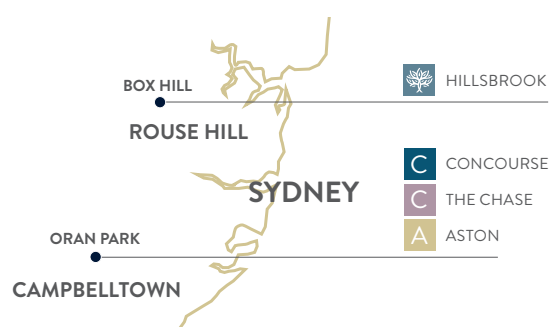
North Melbourne: This area offers proximity to Melbourne Airport and ease of access to the Melbourne CBD. The Elyssia land-only joint venture development is expected to receive planning approval by 30 September 2019 and will offer 303 land-only lots in a diverse range of sizes. Two englobo parcels at the Donnybrook joint venture development are conditionally contracted to sell. Villa World's share of the revenue from those sales will be dependent on the outcome of the Shenstone Park Precinct Structure Plan approval process and will be recognised progressively in line with the staged settlements.

South East Melbourne: The Liliun development continues Villa World's history of projects in this region, including the Cascade on Clyde and Cardinia Views projects. As at the date of this Scheme Booklet, the 412-lot land subdivision has delivered 4 of 11 stages of civil work.

(b) Current New South Wales Portfolio

In New South Wales, Villa World currently offers a range of developments in Sydney's south west and north west regions.

South West Sydney: Driven by anticipated demand from the proposed Western Sydney Airport, Villa World has, through its Concourse, The Chase and Aston projects, strategically positioned itself in the Oran Park area with a variety of housing products such as townhouses, terraces and medium density homes.



North West Sydney: Box Hill is a major growth area for the Sydney basin and now offers increased facilities with the opening of the Sydney Metro Northwest rapid transit link. After selling out all 42 designer homes at Allure, Villa World continues to retain its presence in this area with 25 designer homes plus nine land-only lots at Hillsbrook.

(c) Current Queensland Portfolio

In Queensland, Villa World provides a range of products extending from affordable to premium housing and homesites across the east coast of Queensland.

Logan City / South Brisbane: With its central location and proximity to Brisbane City, Ipswich and the Gold Coast, the population of Logan City is growing. Villa World has secured a sizable footprint in this area.

The flagship 1,502-lot Covella joint venture and Killara projects both feature an extensive builder display village, and offer diverse choices of land product. The neighbouring Chambers Ridge project offers three and four-bedroom affordable turnkey homes.

In South Brisbane, The Orchard offers two-storey, three-bedroom townhouses.

North Brisbane: Villa World has a history of house and land developments in the Northern suburbs of Brisbane. The Meadows in Strathpine is a 426-lot development offering family-sized designer homes in addition to a selection of townhouses. In Burpengary, Acacia will deliver 88 affordable homes and an additional 70 houses will be delivered through a 'capital lite' structure at the neighbouring North Harbour site. Also in North Brisbane are the 291-lot project at Upper Caboolture and the 450-lot projects in the neighbouring suburb of Bellmere, both of which are currently in the planning phase and will provide a range of land-only and house and land products.

Gold Coast: Villa World offers a 393-lot project comprised of premium land homesites and designer three-bedroom townhouses constructed around parks and recreation zones at its Arundel Springs development. A 'capital lite' development at Coomera will deliver 35 affordable homes.

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Regional Queensland: Villa World's Augustus project provides affordable housing products in Hervey Bay, while the 688-lot Little Creek project in Gladstone offers a mix of land and homes set around the Little Creek parklands. Gladstone sales conditions remain challenging.



4.3 Strategy

Villa World's objective of "Helping People Reach Home" delivers a strategic direction that focuses Villa World on its customers, people and community. To achieve this objective, Villa World has implemented a number of initiatives designed to grow its core business, including by delivering new projects in its existing markets, entering into new geographic locations and extending and increasing partnering arrangements.

Villa World measures its success in terms of mastering operational fundamentals, while also identifying effective growth opportunities and complementary income streams without detracting from its core business.

Villa World operates its development business through the acquisition of sites, either independently or through capital efficient structures, such as joint ventures with selected partners or partnership arrangements (in the nature of development or project management agreements or put and call options) with third party land owners.

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4. Information about Villa World

In the case of joint ventures and partnership arrangements, Villa World usually receives fees for providing development management services for the project.

4.4 Board and Senior Leadership Team

(a) Villa World Board

As at the date of this Scheme Booklet, the Villa World Board is comprised of the following directors:

Name	Current position
Mark Jewell	Independent Non-Executive Chairman
Craig Treasure	Chief Executive Officer and Managing Director
David Rennick	Independent Non-Executive Director
Lisa MacCallum	Independent Non-Executive Director

(b) Villa World senior management

As at the date of this Scheme Booklet, the Senior Leadership Team of Villa World includes the following members:

Name	Current position
Craig Treasure	Chief Executive Officer and Managing Director
Lorelei Nieves	Chief Financial Officer
Michael Vinodolac	Chief Operating Officer
Robyn Valmadre	General Manager – Sales and Marketing
Brad Scale	General Counsel and Company Secretary
Leanne Morgan	Organisational Development Manager
Peter Wood	National Building Manager
Andrew Ashwood	General Manager – Victoria & NSW
John Meyers	General Manager – Business Development

4.5 Capital structure

(a) Capital structure and market capitalisation

As at the date of this Scheme Booklet, the capital structure of Villa World is as follows.

Capital	Total number on issue
Villa World Shares	125,159,925
Villa World Performance Rights	1,967,346

See Section 8.12 for further information on the intended treatment of the Villa World Performance Rights in connection with the Scheme.

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

(b) Substantial shareholders

Based on filings to the ASX, the substantial holders of Villa World Shares as at 5 September 2019 are set out overleaf.

Name	Number of Villa World Shares ¹⁹	Percentage
Accordion Investments Pty Ltd, Ho Bee Land Limited, Ho Bee Holdings (Pte) Ltd and Chua Thian Poh	14,542,060	11.62%
Dimensional Fund Advisors LP	7,622,612	6.09%
Mitsubishi UFJ Financial Group, Inc.	6,289,912	5.03%

The shareholdings listed in this Section 4.5(b) are as disclosed to Villa World by the shareholders in substantial holding notices. Information in regard to substantial holdings arising, changing or ceasing after 5 September 2019 or in respect of which the relevant announcement is not available on the ASX website (www.asx.com.au) is not included above.

4.6 Group structure

Villa World has an ownership interest of 50% or more in the following entities.

Name	Principal place of business/ country of incorporation	Ownership interest
Ature Pty Ltd	Australia	100%
GPDQ Pty Ltd	Australia	100%
Hervey Bay (JV) Pty Ltd	Australia	100%
Villa World Byron Pty Ltd	Australia	100%
Villa World Developments Pty Ltd	Australia	100%
Villa World Employee Share Scheme Trust	Australia	100%
Villa World ESS Pty Ltd	Australia	100%
Villa World Heritage Pty Ltd	Australia	100%
Villa World Lifestyle Pty Ltd	Australia	100%
Villa World Plumpton Pty Ltd	Australia	100%
Villa World Properties Pty Ltd	Australia	100%
Villa World Realty (NSW) Pty Ltd	Australia	100%
Villa World Realty (QLD) Pty Ltd	Australia	100%
Villa World Realty (VIC) Pty Ltd	Australia	100%
Villa World Redlands Pty Ltd	Australia	100%
Villa World Rochedale Pty Ltd	Australia	100%
Villa World Seascape Pty Ltd	Australia	100%

¹⁹ This refers to the number of Villa World Shares in which the person or any of the person's Associates has a Relevant Interest.

4. Information about Villa World

Name	Principal place of business/ country of incorporation	Ownership interest
Villa World Strathpine Pty Ltd	Australia	100%
Villa World Thornlands Pty Ltd	Australia	100%
Villa World Wollert Pty Ltd	Australia	100%
Villa World Yatala Pty Ltd	Australia	100%
Donnybrook JV Pty Ltd	Australia	51%
Heritage JV Pty Ltd	Australia	51%
Wollert JV Pty Ltd	Australia	51%
Villa Green Pty Ltd	Australia	50%
Villa Green (South Maclean) Pty Ltd	Australia	50%
Yatala JV Pty Ltd	Australia	50%

An organisational chart showing the group structure of Villa World is set out in Annexure E.

4.7 Recent Villa World share price performance

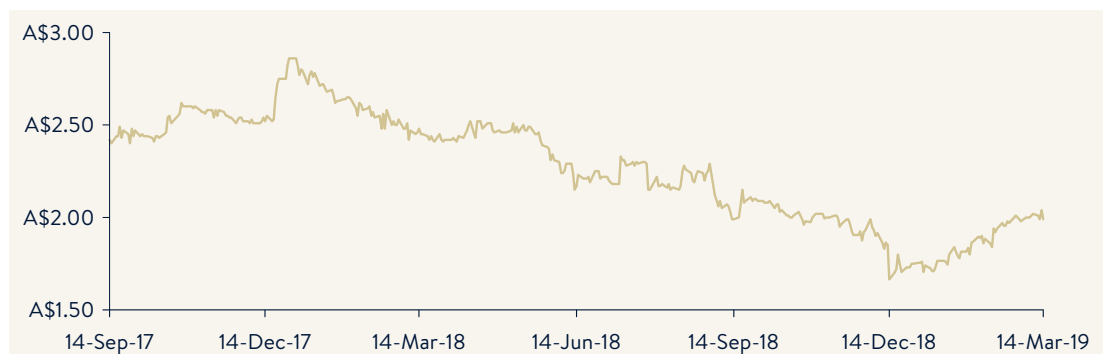
Villa World Shares are listed on the ASX under the trading symbol "VLW".

On 14 March 2019, Villa World announced that it had received the Initial Proposal from AVID to acquire all Villa World Shares for an effective consideration of A\$2.23 per Villa World Share.²⁰ On 2 May 2019 and after AVID increased its offer to A\$2.345 per Villa World Share, Villa World announced that it granted AVID access to exclusive due diligence on customary terms to enable AVID to progress its revised proposal and facilitate a binding proposal. On 8 July 2019, Villa World announced that it had entered into the Scheme Implementation Agreement with AVID, under which it is proposed that AVID will acquire all Villa World Shares for a Total Cash Consideration of A\$2.345 per Villa World Share by way of the Scheme of Arrangement.

The closing price of Villa World Shares on the ASX on 14 March 2019 (being the last trading day prior to announcement of the Initial Proposal) was A\$1.99. During the three months ended 14 March 2019:

- the highest recorded daily closing price for Villa World Shares was A\$2.04 on 13 March 2019; and
- the lowest recorded daily closing price for Villa World Shares was A\$1.70 on 17 December 2018.

The chart below shows Villa World's share price performance over the last 18 months to 14 March 2019.



²⁰ The Initial Proposal contained a headline price of A\$2.31 per Villa World Share which was expressed to be adjusted for the 1H19 dividend of \$0.08 per Villa World Share.

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4.8 Historical financial information

This Section contains financial information relating to Villa World for the financial years ended 30 June 2019 and 30 June 2018. The financial information has been extracted from Villa World's audited financial statements for the financial years ended 30 June 2019 and 30 June 2018.

The financial information in this Section is a summary only and has been prepared and extracted for the purposes of this Scheme Booklet.

Further detail about Villa World's financial position and performance can be found in the financial statements for the financial years ended 30 June 2019 and 30 June 2018, as announced to the ASX on 20 August 2019 and 15 August 2018 respectively and which can be found on the ASX website at www.asx.com.au and the Villa World website at www.villaworld.com.au/investor-centre/shareholder/financial-reports.

(a) Basis of preparation

The historical financial information of Villa World is presented in an abbreviated form and does not contain all the disclosures, presentations, statements or comparatives that are usually provided in an annual report prepared in accordance with the Corporations Act. It should therefore be read in conjunction with the financial statements for the respective periods, including the description of accounting policies contained in those financial statements and the notes to those financial statements.

The following selected financial information of Villa World has been prepared in accordance with the recognition and measurement requirements of the Australian Accounting Standards (including Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board and the Corporations Act. The selected financial information is presented in Australian dollars, which is Villa World's functional currency. Amounts have been rounded off to the nearest thousand dollars, unless otherwise stated.

Australian Accounting Standard AASB 15 – Revenue from Contracts with Customers (AASB 15) came into effect on 1 July 2018 and changes the point in time at which Villa World recognises revenue for certain contractual arrangements.

Villa World adopted AASB 15 under the modified retrospective approach to transition and thus has not restated comparatives (such that comparative information provided continues to be accounted for in accordance with Villa World's previous accounting policy). Instead, a one-off retained earnings reduction of \$20.6 million was made for contracts not completed. Any comparison with prior periods should therefore be considered with caution.

Details of the revenue recognition for the current and prior period can be found at Note A1(c) of Villa World's 2019 Annual Report, and further information on the impact of the transition to AASB 15 can be found in Note E5(h)(iii) of the 2019 Annual Report.

(b) Consolidated statement of comprehensive income

The following table presents the historical consolidated statement of comprehensive income for the financial years ended 30 June 2019 and 30 June 2018.

During the financial year ended 30 June 2019, Villa World changed:

- (i) the presentation of borrowing costs previously capitalised. Prior to this change, when revenue was recognised on land development and residential housing, borrowing costs previously capitalised into inventory were presented as part of total finance costs. For the financial year ended 30 June 2019, such borrowing costs are presented as part of the cost of inventory sold; and
- (ii) the presentation of net (impairment) / reversal of impairment of developed land. Prior to this change, net (impairment) / reversal of impairment of developed land was disclosed in the statement of comprehensive income after the determination of gross margin. For the financial year ended 30 June 2019, net (impairment) / reversal of impairment of developed land is presented as part of the cost of inventory sold.

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4. Information about Villa World

These reclassifications do not impact Villa World's NPAT but have resulted in changes to certain accounting classifications (including gross margin, EBITDA, and finance costs).²¹

The consolidated statement of comprehensive income for the financial year ended 30 June 2018 set out below reflects these changes.

	Consolidated	
	30 June 2019	30 June 2018
	\$'000	\$'000
Revenue from continuing operations		
Revenue from land development, residential building and construction contracts	391,609	441,573
Cost of land development, residential building and construction contracts	(291,111)	(323,975)
Gross margin before interest and net impairments	100,498	117,598
Capitalised interest and net impairments	(7,492)	(6,157)
Gross margin	93,006	111,441
Development management fees	1,266	11,134
Other income	1,114	1,049
Share of profit from associates and joint ventures	2,089	6,374
Other expenses from ordinary activities		
Property sales and marketing expenses	(22,745)	(25,509)
Land holding costs	(6,340)	(4,559)
Legal and professional costs	(2,051)	(2,515)
Employee benefits	(23,111)	(25,037)
Depreciation and amortisation expense	(777)	(710)
Administration costs and other expenses	(6,266)	(6,772)
Other finance costs	(3,837)	(2,914)
Profit before income tax	32,348	61,982
Income tax expense	(9,396)	(18,348)
Profit for the year	22,952	43,634
Profit is attributable to:		
Owners of Villa World Limited	22,952	43,634
	Cents	Cents
Earnings per share for profit attributable to the ordinary equity holders of the Company:		
Basic earnings per share	18.2	34.4
Diluted earnings per share	18.0	34.2
	Consolidated	
	30 June 2019	30 June 2018
	\$'000	\$'000
Profit for the year	22,952	43,634
Other comprehensive income		
Items that may be reclassified to profit or loss		
Changes in the fair value of cash flow hedges	(143)	1,803
Income tax relating to these items	43	(541)
Other comprehensive income for the year, net of tax	(100)	1,262
Total comprehensive income for the year, net of tax	22,852	44,896
Total comprehensive income for the year is attributable to:		
Owners of Villa World Limited	22,852	44,896

²¹ Full details are included in the Investor Insight released on the ASX on 13 November 2018.

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4. Information about Villa World

(d) Consolidated statement of cash flows

The following table presents the historical consolidated statement of cash flows for the financial years ended 30 June 2019 and 30 June 2018.

	Consolidated	
	30 June 2019 \$'000	30 June 2018 \$'000
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	415,871	396,887
Receipts from the transfer of development rights	-	18,951
Payments to suppliers and employees (inclusive of goods and services tax)	(289,527)	(292,267)
Cash generated from trading activities	126,344	123,571
Payments for land acquired	(29,875)	(155,516)
Interest received	432	358
Interest paid	(9,972)	(7,996)
Income tax paid	(11,001)	(21,542)
Borrowing costs	(281)	(120)
GST received/(paid)	12,439	(6,395)
Net cash (outflow) / inflow from operating activities	88,086	(67,640)
Cash flows from investing activities		
Payments for property, plant and equipment	(662)	(1,518)
Payments for equity accounted investments	(8,851)	(23,167)
Distributions received from equity accounted investments	5,193	19,636
Net cash outflow from investing activities	(4,320)	(5,049)
Cash flows from financing activities		
Proceeds from borrowings	56,942	225,353
Repayment of borrowings	(119,389)	(124,215)
Payments for shares acquired by Employee Share Scheme Trust	(725)	(77)
Payments for shares acquired as part of the share buy-back	(3,370)	-
Proceeds from shares allocated under Employee Share Scheme Trust	38	91
Dividends paid to Company's shareholders	(23,338)	(23,481)
Net cash inflow / (outflow) from financing activities	(89,842)	77,671
Net (decrease) / increase in cash and cash equivalents	(6,076)	4,982
Cash and cash equivalents at the end of the previous financial year	12,645	7,663
Cash and cash equivalents at the end of year	6,569	12,645
Reconciliation to cash at the end of the year:		
Cash and cash equivalents	6,569	12,645
Cash and cash equivalents at the end of the year:	6,569	12,645

4.9 Financial results

On 20 August 2019, Villa World publicly released its consolidated financial statements for the financial year ended 30 June 2019. The following should be noted:

- revenue decreased 11% to A\$391.6 million from A\$441.6 million for the financial year ended 30 June 2018;
- EBITDA decreased 44% to A\$37.0 million from A\$65.6²² million for the financial year ended 30 June 2018; and
- statutory NPAT decreased 47% to A\$23.0 million from A\$43.6 million for the financial year ended 30 June 2018.

As announced to the ASX on 20 August 2019, Villa World has determined not to declare a final dividend for the financial year ended 30 June 2019.

²² Presentation of borrowing costs changed on 1 July 2018 and the EBITDA for the financial year ended 30 June 2018 of \$71.4 million is revised for this reclassification. Refer to Note C5 in the Annual Report for the financial year ended 30 June 2019.

4.10 Material changes to Villa World's financial position since 30 June 2019

To the knowledge of the Villa World Directors, the financial position of Villa World has not materially changed since 30 June 2019, other than the changes to Villa World's banking facility as announced to the ASX by Villa World on 14 August 2019 – specifically, that ANZ is now the sole lender under Villa World's club debt facility, with a facility limit of A\$190 million and extended maturity dates.

4.11 Villa World Directors' intentions for the business

The Corporations Act requires a statement by the Villa World Directors of their intentions regarding Villa World's business.

If the Scheme is implemented, the existing Villa World Directors will resign, and the Villa World Board will be reconstituted in accordance with the instructions of AVID on the Implementation Date. Accordingly, it is not possible for the Villa World Directors to provide a statement of their intentions after the Scheme is implemented regarding:

- the continuation of the business of Villa World or how Villa World's existing business will be conducted;
- any major changes, if any, to be made to the business of Villa World; or
- any future employment of the present employees of Villa World.

If the Scheme is implemented, AVID will own and control all Villa World Shares. The Villa World Directors have been advised that the intentions of AVID with respect to these matters are set out in Section 5.5.

If the Scheme is not implemented, the Villa World Directors intend to continue to operate the business of Villa World in the ordinary course and continue to seek to deliver long-term shareholder value.

4.12 Risks relating to Villa World's business

The existing risks relating to Villa World's business and an investment in Villa World will continue to be relevant to Villa World Shareholders if the Scheme does not become Effective. A summary of the key risks relating to Villa World's business and an investment in Villa World is set out in Section 6.

4.13 Publicly available information

Villa World is a listed disclosing entity for the purposes of the Corporations Act and as such is subject to regular reporting and disclosure obligations. Specifically, as a company listed on the ASX, Villa World is subject to the Listing Rules which require (subject to some exceptions) continuous disclosure of any information Villa World has that a reasonable person would expect to have a material effect on the price or value of Villa World Shares.

ASX maintains files containing publicly disclosed information about all companies listed on the ASX. Information disclosed to ASX by Villa World is available on the ASX's website at www.asx.com.au.

In addition, Villa World is required to lodge various documents with ASIC. Copies of documents lodged with ASIC by Villa World may be obtained using the ASIC Connect online search function.

Villa World Shareholders may obtain a copy of:

- Villa World's 2018 Annual Report (being the financial statements for the financial year ended 30 June 2018); and
- Villa World's 2019 Annual Report (being the last full financial statements given to ASX),

free of charge, from the ASX website (www.asx.com.au), the Villa World website (www.villaworld.com.au/investor-centre) or by calling the Villa World Shareholder Information Line on 1300 077 476 (within Australia) or +61 3 9415 4079 (outside Australia), Monday to Friday between 8.30am to 5.30pm (Sydney time).

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**Information about
AVID**



5 Information about AVID

The information contained in this Section 5 has been prepared by AVID. The information concerning AVID Group and the intentions, views and opinions contained in this section are the responsibility of AVID. Villa World and its officers and advisors do not assume any responsibility for the accuracy or completeness of this information.

5.1 Overview of AVID

AVID is a diversified Australian property development business with a A\$2.5 billion portfolio of broad acre and medium density residential and industrial projects. Its current portfolio comprises over 6,500 residential lots and 180 hectares of industrial land. AVID currently has 8 active residential projects in Queensland, New South Wales and Victoria. The business has successfully delivered over A\$2.2 billion worth of residential projects in Australia over the last 12 years.

AVID is owned by a number of significant international institutional investors. Their investment in AVID is managed and advised by Proprium. Proprium and its affiliates manage funds with over US\$2 billion of assets under management for over 50 institutional investors, including government and private sector pension and retirement funds, banks, family offices and sovereign wealth funds. Proprium is headquartered in the United States and has offices in the New York area, London, Netherlands, Mumbai, Hong Kong, Sydney and Atlanta.

AVID is headquartered in Sydney, with offices in Melbourne and Brisbane. Further information on AVID is available from its website at www.avid.com.au.

5.2 Directors of AVID

The directors of AVID as at the date of this Scheme Booklet are:

- Anthony Kingsley (Non-Executive Director and Chairman);
- Cameron Holt (Managing Director and Chief Executive Officer); and
- Thomas Chun Kwan Wong (Director).

5.3 Rationale for AVID's proposed acquisition of Villa World

Villa World's exposure to greenfield growth corridors on Australia's east coast fits well with AVID's strategic ambitions to expand its existing platform. AVID views the two platforms as being highly complementary and recognises the value of Villa World's brand, people and long-term track record of developing high quality residential communities.

5.4 Funding arrangements for the Scheme Consideration

(a) Scheme Consideration

If the Scheme is implemented, Scheme Shareholders will be entitled to receive the Scheme Consideration.

The Scheme is not conditional on AVID obtaining debt or equity finance to fund the payment of the Scheme Consideration. AVID has access to sufficient funds and intends to fund the Scheme Consideration with a combination of the AVID Group's own cash resources, debt funding and equity funding from its shareholders, as detailed below.

(b) Debt funding

AVID has entered into a commitment letter with Australia and New Zealand Banking Group Limited (**ANZ**) pursuant to which ANZ has agreed to provide and underwrite up to A\$420 million of debt facilities (**Facilities**) to assist in funding the Scheme Consideration. The Facilities are available to AVID and its Subsidiaries for the purposes of:

- funding the purchase price for the acquisition of the Scheme Shares;
- refinancing existing debt facilities of Villa World;
- paying costs and expenses incurred in connection with the Scheme and associated transaction; and
- funding working capital and general corporate purposes of the AVID Group and (after implementation of the Scheme) the Villa World Group.

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5. Information about AVID

The Facilities are sufficient to fund both the Scheme Consideration and AVID's costs and expenses associated with the implementation of the Scheme. The funding of the Facilities is subject to satisfaction of certain conditions precedent which are customary for facilities of this nature and include confirmation that:

- a minimum amount of equity funding has been provided to AVID;
- subject only to the payment of the purchase consideration due and payable under the Scheme Implementation Agreement and satisfaction of any other steps contemplated to occur as part of the completion process under the Scheme Implementation Agreement, completion of the acquisition of the Scheme Shares will occur in accordance with the Scheme Implementation Agreement;
- all authorisations necessary for the completion of the acquisition of the Scheme Shares have been obtained (including any from the Foreign Investment Review Board under FATA).

AVID expects that all conditions will be satisfied before the Second Court Date (other than certain conditions which are intended to be satisfied concurrently with, or prior to, the first drawdown under the Facilities as required by the Scheme Implementation Agreement, including the payment of fees and expenses).

If all of the conditions precedent are satisfied or waived, then (subject to the provisions set out in the paragraph below and provided it is not unlawful for ANZ to do so) ANZ must provide funding under the Facilities. As at the date of this Scheme Booklet, AVID is not aware of any reason why any of the conditions precedent to the Facilities will not be satisfied, and is confident they will be satisfied, in time to allow payment in full of the aggregate Scheme Consideration as and when due under the terms of the Scheme.

The provision of the Facilities is subject to the correctness of certain representations and that certain events of default have not occurred and are not subsisting. As at the date of this Scheme Booklet, AVID is not aware of the occurrence of any misrepresentation or event of default or any circumstance that would lead to any misrepresentation or an event of default or which would give rise to a right of ANZ to terminate the Facilities.

The representations and warranties given by AVID and its Subsidiaries in relation to the Facilities are customary for facilities of this nature.

As at the date of this Scheme Booklet, AVID is not aware of any reason why the Facilities will not be available to be drawn down for the purpose of the acquisition of the Scheme Shares as contemplated under the terms of the Scheme.

(c) Equity funding

AVID has received a commitment letter from each of Malone Co-Investment, LP and Proprium Real Estate Special Situations Fund, LP (together the **AVID Investors**) pursuant to which the AVID Investors have agreed to provide funding to AVID in an aggregate amount of A\$65.8 million (**Equity Commitment**) to assist AVID in meeting its obligations to fund the Scheme Consideration. The obligation to provide the Equity Commitment under the commitment letters is conditional only on the satisfaction or waiver (as applicable) of all the Conditions Precedent to the Scheme Implementation Agreement.

5.5 AVID's intentions if the Scheme is implemented

This Section 5.5 sets out AVID's current intentions on the basis of facts and information concerning Villa World and the general business environment known to AVID, in each case, as at the time of the preparation of this Scheme Booklet. Final decisions will only be reached by AVID in light of increased knowledge through exposure to the business and material information and circumstances at the relevant time. Any major decisions regarding the business of Villa World will only be made following receipt of appropriate legal, taxation and financial advice and a detailed review of Villa World's strategic, financial and commercial operational matters to determine the optimum manner of operating and managing the business. Accordingly, the statements set out in this Section 5.5 are statements of current intention only, which may change as new information becomes available or circumstances change.

If the Scheme is implemented, AVID intends to fully integrate the Villa World business into its existing operations.

(a) Operations

AVID views the Villa World business as consistent with AVID Group's existing strategy. AVID intends to integrate the Villa World business into its existing operations, corporate and governance structure.

(b) Board of Directors

If the Scheme is implemented, AVID intends to reconstitute the Villa World Board to include nominees of AVID Group (who are yet to be identified at the date of this Scheme Booklet).

(c) Management and employees

AVID considers that the Villa World culture shares many similarities to AVID's own culture and sees the organisations as a strong fit. AVID recognises the knowledge and experience of Villa World's employees and intends to integrate the two businesses over the short term without significant disruption.

AVID's intention is to best utilise the talent and skill sets across the combined platform.

(d) Delisting

If the Scheme is implemented, it is intended that quotation of the Villa World Shares on the ASX will be terminated and Villa World will be removed from the official list of the ASX on or around the Business Day immediately following the Implementation Date.

5.6 AVID's interests in Villa World Shares

(a) Interest in Villa World Shares

As at the date of this Scheme Booklet, none of the AVID Group or any of its Associates has any Relevant Interest or voting power in Villa World Shares.

(b) Dealing in Villa World Shares in previous four months

None of the AVID Group or any of its Associates has provided or agreed to provide consideration for any Villa World Shares under any other transaction during the period of 4 months before the date of this Scheme Booklet.

(c) Benefits to holders of Villa World Shares

During the 4 months immediately prior to the date of this Scheme Booklet, none of the AVID Group or any of its Associates has given or offered to give or agreed to give a benefit to another person where the benefit was likely to induce the other person or an associate to:

- vote in favour of the Scheme; or
- dispose of Villa World Shares,

where the benefit was not offered to all Villa World Shareholders.

(d) Benefits to Villa World officers

None of AVID or any of its Associates will be making any payment or giving any benefit to any current officers of Villa World as consideration for, or otherwise in connection with, their resignation or retirement from their respective offices if the Scheme is implemented.

5.7 Other material information

AVID confirms that there is no other material information regarding AVID or AVID's intentions that have not been previously disclosed to Villa World Shareholders.

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Risks

6

6 Risks

6.1 Introduction

The Villa World Board considers that it is appropriate for Villa World Shareholders, in considering the Scheme, to be aware that there are a number of risk factors, general and specific, which could materially adversely affect the future operating and financial performance of Villa World and the value of Villa World Shares and Villa World's dividends.

This Section 6 outlines:

- general investment risks (refer to Section 6.2); and
- specific risks associated with your current investment in Villa World Shares (refer to Section 6.3).

The risk factors described in this Section 6 are not an exhaustive list and should be read in conjunction with the other information contained in this Scheme Booklet. There may be additional risks and uncertainties not currently known to Villa World which may also have a material adverse effect on Villa World's financial and operational performance and the value of Villa World Shares.

If the Scheme is implemented, you will receive the Scheme Consideration and the Special Dividend (if declared), cease to be a Villa World Shareholder and will also no longer be exposed to the risks set out below (and other risks to which Villa World may be exposed). If the Scheme does not proceed, you will continue to hold your Villa World Shares, not receive the Scheme Consideration or the Special Dividend and continue to be exposed to risks and opportunities associated with that investment.

In making your decision to vote on the Scheme Resolution, you should read this Scheme Booklet carefully. You should carefully consider the risk factors outlined below and your individual circumstances. This Section 6 is general in nature only and does not take into account your individual objectives, financial situation, taxation position or particular needs.

While the Villa World Board recommends a vote in favour of the Scheme in the absence of a Superior Proposal, Villa World Shareholders are encouraged to make their own independent assessment as to whether to vote in favour of the Scheme Resolution.

6.2 General investment risks

The market price of Villa World Shares and future dividends made to Villa World Shareholders are influenced by a number of factors, including the following:

- change in investor sentiment and overall performance of the Australian and international stock markets;
- changes in sentiment in credit markets;
- general economic conditions, including changes in business and industry cycles, inflation, interest rates, exchange rates, prices of commodities and raw materials, the cost of energy and other utility costs, employment levels, sentiment in credit markets and consumer demand;
- changes in government fiscal, monetary and regulatory policies, including legislative and regulatory regimes for corporations, taxation laws and foreign investment rules;
- government or political intervention in export and import markets and the disruptions this causes to supply and demand dynamics;
- loss of key personnel;
- interruptions at Villa World's workplaces arising from industrial disputes, work stoppages and accidents, which may result in business operations delays;
- natural disasters and catastrophes, whether on a global, regional or local scale;
- accounting standards which affect the financial performance and position reported by Villa World; and
- reputational risks, particularly in connection with the property development industry.

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6. Risks

6.3 Risks associated with your current investment in Villa World Shares

There are a range of business-specific risks associated with your current investment in Villa World Shares, as set out below. You will only continue to be exposed to these risks if the Scheme does not proceed, in which case Villa World will continue to operate as a stand-alone entity.

(a) Residential property market conditions

Villa World's revenues are closely tied to residential property market conditions. Should the future market value and/or sales volumes be lower than expected, Villa World's earnings and returns to investors could be negatively impacted.

General and specific market conditions, including the availability of mortgage finance, among other things, also have an impact on the ability of buyers to complete sales contracts and may negatively impact consumer confidence.

A significant number of contracts for the sale of residential lots are entered into on a "conditional" basis (e.g. subject to finance or subject to the sale of the buyer's existing property). Should market conditions remain challenging or deteriorate, the level of terminations may increase. There may also be an increase in the rate of buyers defaulting under unconditional contracts.

Where there are terminations due to default, Villa World will be entitled to retain the deposits paid by the buyers in most cases, but the properties may be re-sold at lower prices depending on market conditions.

Property market conditions have a significant impact on the ability of investor buyers, both domestically and internationally, to complete sales contracts.

(b) Property values

Unanticipated factors can influence the realisable value of Villa World's property and property-related assets. These include:

- the profit and risk factors, including discount rates applied, that are considered appropriate by professional valuers, for any properties held by Villa World in response to changes in market conditions;
- changes in the conditions of town planning consents applicable to Villa World's projects, as a consequence of changes to council policies;
- development cost increases including, but not limited to, construction, consultants, imposition of taxes and increases to state and local government charges will reduce the profitability of Villa World;
- the presence of previously unidentified threatened flora and fauna species, which may influence the amount of developable land on major projects;
- the activities of lobby groups;
- general cost increases;
- archaeological or ethnographic claims, including native title claims; and
- land resumptions for roads and major infrastructure, which cannot be adequately offset by the amount of compensation eventually paid, if any.

(c) Interest rates and bank lending criteria

Increases in interest rates and/or the persistence of tight lending criteria for the provision of mortgage financing could have the effect of reducing the affordability and availability of funding for buyers, therefore reducing demand and the number of lot sales made by Villa World. Interest rates also impact Villa World's costs of funds.

The recommendations produced by the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry are likely to result in significant regulatory and policy changes affecting banking institutions which may result in banks further tightening lending criteria and/or increasing the costs of funding.

(d) Apartment market

There is a risk that at any point in time there may be an over-supply of apartment product across Australian markets. Villa World's projects include a limited number of low-rise townhouse complexes, but it has no exposure to medium-rise product or high-rise towers. However, it is possible that an oversupply in the apartment market may affect overall sentiment towards the residential market as a whole.

(e) Sales prices

Lower than expected sales prices across Villa World's portfolio of projects would generally result in lower profits by reducing the settlement revenue from Villa World's development business and the fee income from the joint venture businesses.

(f) Inflation and construction costs

Higher than expected inflation rates generally, or specific to the broadacre, residential development industry, could be expected to increase operating costs and development costs and potentially reduce the value of land owned by Villa World. Additionally, there may be upward pressure on the costs of materials and labour required for housing construction. These cost increases may be offset by increased selling prices, although there can be no certainty that increased selling prices will be achieved.

(g) Availability of funding and refinancing risk

Villa World's business is capital intensive. Villa World's ability to raise funds on favourable terms for future refinancing, development and acquisitions depends on a number of factors including general economic conditions, political, capital and credit market conditions, and the reputation, performance and financial strength of Villa World's business. These factors could increase the cost of funding, or reduce the availability of funding, as well as increase Villa World's refinancing risk for maturing debt facilities.

Villa World and its joint ventures have existing debt facilities with staggered maturity dates. The ability to refinance these debt facilities as they fall due on satisfactory terms that allow current strategies to be implemented will depend upon market conditions, the operating performance of Villa World and its joint ventures and the policies of financiers. If the debt facilities are not refinanced and need to be repaid, it is possible that Villa World will need to contribute capital which may necessitate assets being realised for less than their fair value, which would impact future cash flows and profits.

(h) Rezoning and planning approval delays

The sale of lots in Villa World's residential projects depends on obtaining planning and works approvals (and in some cases rezoning approvals). If these approvals take longer than expected, are not obtained, or are obtained subject to conditions which are more onerous than expected, Villa World's sales volumes and profitability could be negatively impacted.

In particular, delays in obtaining planning approval may result in Villa World being unable to create registered titles for lots within timeframes required under existing sales contracts with purchasers of affected projects. If such timeframes are not met, purchasers may have the right to terminate their sales contracts with Villa World.

Where Villa World enters into acquisition or development arrangements with land owners who are responsible for carrying out civil works and delivering developed land, delays on the part of those land owners in delivering the land (whether due to delays in obtaining approvals or for other reasons) could adversely impact Villa World's returns from those projects.

(i) Changes in government policy

Changes in government policy (including taxation, fiscal, monetary and regulatory policies at federal, state and local levels), including policies on government land development, public housing, immigration, negative gearing and first home buyer assistance and delays in the granting of approvals or the registration of subdivision plans may affect the amount and timing of Villa World's future profits.

6. Risks

State government and/or council development contributions may be introduced or increased, impacting land values and the profitability of projects.

(j) Breach of financial covenants

As at the date of this Scheme Booklet, Villa World is in compliance with all covenants under its debt facilities. The financial covenants in Villa World's debt facilities relate to, among other things, Villa World's earnings, cash flow and asset values, and a material movement in any of these may cause covenants under Villa World's debt facilities to be breached. If a breach occurs, this is likely to have negative consequences for Villa World, including the possibility of early repayment of drawn debt. Property assets are by their nature illiquid investments. This may make it difficult to sell assets quickly to repay debt.

(k) Capital efficient structures

From time to time, Villa World enters into put and call options or other partnering arrangements with landowners. Under those arrangements, Villa World is typically allowed a period of time to sell house and land packages to buyers without Villa World being required to purchase the lots from the land owner. If sales rates are lower than expected, Villa World may be required to purchase lots or make payments to land owners under those arrangements, which may negatively impact Villa World's returns from those projects.

Where Villa World undertakes a land-only project (and does not carry out housing construction), a proportion of lots are sold to builders under put and call arrangements or otherwise on extended terms, under which the builders are allowed a period of time to sell those lots to third party buyers. If those lots are not sold to third party buyers within the required timeframes, Villa World may require the builders to purchase the lots and in that case, there is a risk that the builders will not be able to complete those purchases.

(l) Counterparty risk

Villa World deals with many counterparties, including customers who purchase individual lots, builders who purchase multiple lots, parties who purchase englobo sites, suppliers, subcontractors, and other service providers. If any of these parties fail to meet their contractual obligations, the result could have an adverse impact on Villa World's business and financial performance.

(m) Major suppliers' risk

Villa World may be unable to procure delivery of key supplies and services within timeframes and at prices required to meet current project feasibilities. Villa World also faces the risk of a civil contractor or other major supplier or service provider encountering financial difficulty or experiencing other delays and being unable to complete or deliver contracted works or materials either in a timely fashion or at all. In such cases, the timing of settlement of lots may be delayed, resulting in a greater risk of sale contracts for contracted lots terminating, additional holding costs and/or a delay in the receipt of settlements proceeds or fees.

In addition to the above, if Villa World is required to appoint an alternative service provider or materials supplier to complete outstanding works or deliver outstanding materials, Villa World may incur additional expenses than would otherwise have been the case. Insurance may not be available to cover such additional expenses (for example, in situations where insurance held by Villa World, or the civil contractor, service provider or supplier may not cover those events).

(n) Increase in unemployment rate

Sales of lots in Villa World's residential projects may be negatively impacted by a sustained increase in the unemployment rate in Australia, particularly in key markets where Villa World has residential projects. This impact could be through a reduction in the number of lots sold and/or in the value of lots sold and profit achieved.

(o) Inventory write-downs

Unanticipated factors affecting the value of land or development costs, including environmental issues, native title claims, land resumptions, failure to obtain necessary approvals, market conditions and major infrastructure charges might impact future earnings through a write-down in property values. A decision to change the strategy for a project may also lead to a write-down in property values.

(p) Dependence on key personnel

Villa World is reliant on a number of key personnel employed by Villa World and will need to retain and attract suitably qualified and skilled personnel to support its strategic objectives. Loss of such personnel, or inability to attract suitably qualified personnel, may have a material adverse impact on Villa World's business and financial performance. Villa World's efforts to retain and develop key personnel may also result in additional expenses which could adversely affect its profitability.

(q) Acquisitions and joint ventures

The ability of Villa World to deliver projects and achieve sales targets is affected by the availability of suitable development sites through acquisitions, joint ventures or other arrangements (including development agreements or put and call options) with land owners. Villa World's financial performance may be adversely affected by reduced supply of land and increased competition for development sites, causing an inability to secure development sites within the times and at the prices expected.

Villa World may make strategic acquisitions and enter into joint ventures as part of its growth strategies. There can be no assurance that Villa World will be able to successfully identify or acquire such acquisitions or joint ventures.

Whilst it is Villa World's policy to conduct a thorough due diligence process in relation to any such acquisition or joint venture, inherent risks remain, such as reliance on advice from consultants and assumptions made, which may prove to be incorrect.

Subject to relevant joint venture agreements, Villa World may be unable to control the actions of its joint venture partners and therefore cannot guarantee that the joint ventures will be operated or managed in accordance with Villa World's preferred direction or strategy. Joint venture partners may change their internal investment strategies requiring them to exit existing arrangements with Villa World or preventing them from entering into future potential transactions with Villa World.

(r) Environmental and cultural heritage matters

The discovery of, or incorrect assessment of costs associated with, environmental matters, cultural heritage or contamination on any of Villa World's projects could have an adverse effect on the profitability and timing of receipt of revenue from that project.

There is a risk that a property development may be contaminated now or in the future. Government regulatory authorities may require such contamination to be remediated, and there is a risk that Villa World may be required to undertake any such remediation at its own cost. Further, environmental laws impose penalties for environmental damage and contamination, which can be material in size. Such events could adversely affect Villa World's financial condition or performance.

(s) Licensing

Villa World, via one or more of its wholly-owned Subsidiaries, holds building licenses and real estate agency licenses where required in the jurisdictions in which it operates. Failure to comply with the requirements of those licenses, or failure to maintain those licenses, may have a significant impact on Villa World's financial performance.

(t) Capital expenditure

The risk of unforeseen capital or other expenditure requirements for Villa World may impact its financial performance.

6. Risks

(u) Insurance

Villa World carries a range of insurance products for, among other things, workers compensation, public liability, professional indemnity, industrial special risks, and directors and officers. However, Villa World's insurance will not cover every potential risk associated with its operations.

The occurrence of a significant adverse event, the risks of which are not, or are not fully, covered by insurance, could have a material adverse effect on Villa World's financial condition or performance. Dependent on the type of coverage, Villa World may have to incur an excess prior to any payment by the insurer or pay for any difference between the full replacement cost and insured amount. Villa World may also incur increases to its insurance premium applicable to other areas of cover as a result of the event.

Villa World may not be able to recover under its insurance if the company or companies providing the insurance (or any reinsurance) are under financial distress or fail.

(v) Workplace health and safety

Villa World may face the risk of workplace injuries, which may result in production or industrial stoppages, workers' compensation claims, related common law claims and potential work health and safety prosecutions. This may have a material adverse impact on Villa World's financial performance.

(w) Competition risk

Villa World may face the risk of loss of market share in the various residential corridors in which it operates as a result of the launch of competitors' residential estates. Such competition may adversely affect Villa World's ability to acquire development sites or may result in the reduction of sales of residential lots or reduction in sales prices of residential lots or both. This may adversely affect Villa World's financial condition or performance and the ability of Villa World to meet its interest payment and debt repayment obligations.

(x) Inability to pay dividends or make distributions

The payment of dividends (if any) by Villa World will be determined by the Villa World Board from time to time at its discretion and will be dependent upon factors including the profitability and cash flow of Villa World's business at the relevant time.

(y) Warranty claims

Warranty claims and potential associated litigation for building defects are risks inherent in the development and construction industry. While Villa World makes general provision for such claims in its financial statements, if the claims made are in excess of such provisions, this may adversely affect Villa World's financial condition or performance.

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Taxation implications



7 Taxation implications

7.1 Introduction

The following is a general summary of the Australian income tax, goods and services tax (**GST**), and stamp duty implications for Villa World Shareholders for any Special Dividend that may be declared and paid by Villa World prior to the implementation of the Scheme and their disposal of Villa World Shares under the Scheme.

This summary is general in nature and does not purport to be a complete analysis of the tax consequences arising from the Scheme. Villa World Shareholders are advised to seek professional tax advice in relation to their particular circumstances.

This summary is based on the provisions of the *Income Tax Assessment Act 1936 (ITAA 1936)* and the *Income Tax Assessment Act 1997 (ITAA 1997)* as at the date of this Scheme Booklet. The laws are complex and subject to change periodically, as is their interpretation by the courts and the tax authorities.

The information provided below is not applicable to all Villa World Shareholders. This tax summary applies to Australian tax resident and non-resident shareholders who hold their shares on capital account. This summary will not apply to Villa World Shareholders who:

- hold their Villa World Shares on “revenue account” (such as share trading entities or entities who acquired their Villa World Shares for the purposes of resale at a profit) or as “trading stock”;
- hold their Villa World Shares under an employee share scheme offered by Villa World or otherwise hold Villa World Performance Rights that will vest and automatically convert into Villa World Shares on the Effective Date where those shares remain subject to deferred taxation under Division 83A of the ITAA 1997;
- may be subject to special tax rules, such as partnerships, tax exempt organisations, insurance companies, dealers in securities or shareholders who change their tax residency while holding their Villa World Shares;
- have a functional currency for Australian tax purposes other than an Australian functional currency; and/or
- are subject to the taxation of financial arrangements rules in Division 230 of the ITAA 1997 in relation to gains and losses on their Villa World Shares.

7.2 Class Ruling

Villa World has lodged a class ruling application with the ATO to obtain the Commissioner of Taxation's views on specific Australian income tax implications for certain Villa World Shareholders for any Special Dividend that may be declared and paid by Villa World prior to the implementation of the Scheme and their disposal of Villa World Shares under the Scheme.

The Scheme is not conditional on the receipt of the class ruling.

The class ruling has not been issued by the ATO as at the date of this Scheme Booklet. It is not expected to be issued until after the implementation of the Scheme. Villa World Shareholders should refer to the class ruling once it is published. The class ruling will be available at www.ato.gov.au.

7.3 Special Dividend

(a) Overview of proposed Special Dividend

If the Scheme becomes Effective, Villa World is permitted to pay the Special Dividend to all Villa World Shareholders who are registered as a holder of Villa World Shares on the Special Dividend Record Date. The Special Dividend is expected to be fully franked, and will be paid on the Special Dividend Payment Date.

Under Australian tax law, certain Villa World Shareholders who receive a fully franked Special Dividend may be entitled to a “tax offset” equal to the amount of the franking credit attaching to the dividend, provided they are not prevented from claiming the benefit of the franking credit (see further below).

7. Taxation implications

If a Villa World Shareholder is entitled to a “tax offset”, the shareholder may offset or reduce the amount of tax payable on their taxable income. However, certain Villa World Shareholders may not be eligible to receive a “tax offset” for their franking credits. This is explained further below.

The Australian tax legislation prescribes a number of rules which may prevent Villa World Shareholders from claiming the benefit of franking credits on a Special Dividend, including the requirement that a Villa World Shareholder is not a “qualified person” (see further below).

Broadly, these rules are designed to, amongst other things, discourage trading in franking credits, and may deny the benefit of franking credits to Villa World Shareholders generally, or because of their particular circumstances. It is expected that these issues will be addressed in the Class Ruling requested by Villa World. Villa World Shareholders should refer to the Class Ruling once published. The commentary below is subject to the Commissioner's determination in respect of these matters.

(b) Assessability of special dividend

(i) Australian resident individuals, companies and complying superannuation funds

Australian tax resident Villa World Shareholders who are individuals, or that are companies or complying superannuation entities:

- should include any Villa World Special Dividend in their assessable income in the income year in which the dividend is paid, together with any franking credits attached to that dividend; and
- should be entitled to a tax offset equal to the franking credits attached to any Special Dividend.

A franking credit tax offset that is received by an individual or complying superannuation entity can be applied to offset or reduce the tax payable on their taxable income. Where the tax offset exceeds the tax payable on their taxable income, these Villa World Shareholders should be entitled to a tax refund.

Where the Villa World Shareholder is a corporate shareholder, franked dividends will generally give rise to a franking credit in the company's franking account.

To the extent that any Special Dividend is unfranked, a Villa World Shareholder should generally be taxed at their applicable tax rate on the Special Dividend, with no entitlement to any tax offset.

(ii) Australian resident trusts and partnerships

Australian tax resident Villa World Shareholders who are trustees (other than trustees of complying superannuation entities) or partnerships should include any Villa World Special Dividend in the net income of the partnership or trust in the income year in which the dividend is paid, together with any franking credits attached to that dividend.

The tax laws that apply to the treatment of dividends, and in particular franked dividends, for trusts and partnerships are complex. However, subject to satisfying certain conditions, the liability to pay tax on any Special Dividend (and any franking credits) and the tax offset provided by any franking credits can flow through to the eligible beneficiaries or partners.

(iii) Non-Australian resident individuals and corporate Villa World Shareholders

Dividends paid to Villa World Shareholders who are non-residents of Australia should not be subject to Australian dividend withholding tax to the extent that any Special Dividend has been franked.

To the extent that the Villa World Special Dividend is unfranked, Australian dividend withholding tax will be imposed at a rate not exceeding 30% by Villa World on behalf of the Villa World Shareholder.

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In certain circumstances, it is possible for the rate of dividend withholding tax to be reduced under an applicable double taxation agreement which Australia has with certain countries.

(c) Franking credits – shares held at risk

The benefit of franking credits can be denied where a Villa World Shareholder is not a “qualified person”. If a Villa World Shareholder is not a “qualified person”, then the shareholder would not need to include an amount equal to any franking credits attaching to any Special Dividend in their assessable income but would also not be entitled to a tax offset.

Broadly, to be a “qualified person”, a shareholder must satisfy the “holding period rules”.

Under these rules, a Villa World Shareholder is required to have held their Villa World Share “at risk” for a continuous period of at least 45 days (not including the date of acquisition and the date of disposal of the shares) within the relevant “qualification period”.

A Villa World Share will not be taken to have been held “at risk” by a Villa World Shareholder where they hold positions (such as hedging positions) that materially diminish the risks of loss or opportunities for gain on their shares by more than 70%.

In relation to this Scheme, it is expected that Villa World Shareholders will be said to cease holding their Villa World Shares at risk from the Scheme Record Date, and the relevant “qualification period” will commence 45 days before the ex-dividend date and end 45 days after the ex-dividend date (the ex-dividend date being one day after the Special Dividend Record Date).

As a practical matter, and applying the indicative timetable, a Villa World Shareholder who receives a Special Dividend and holds their Villa World Shares “at risk” for a continuous period of at least 45 days during the period from 4 September 2019 to 22 October 2019 (inclusive) should satisfy the “holding period rules” and be eligible for the franking credit and tax offset. This issue is expected to be addressed in the Class Ruling requested by Villa World. Villa World Shareholders should refer to the Class Ruling once published.

7.4 Disposal of Villa World Shares

(a) Australian tax residents

The disposal of a Villa World Share by a Villa World Shareholder will trigger capital gains tax (**CGT**) event A1.

The CGT event should occur when the change of ownership of the Villa World Shares occurs. Under the Scheme, the change of ownership will occur on the Implementation Date.

Broadly, a Villa World Shareholder will:

- make a “capital gain” if the capital proceeds from the disposal of their Villa World Shares exceeds the cost base of their Villa World Shares; or
- make a “capital loss” if the capital proceeds from the disposal of their Villa World Shares are less than the reduced cost base of their Villa World Shares.

Villa World Shareholders who make a capital gain on the disposal of their Villa World Shares will be required to include the net capital gain (if any) for the income year in their assessable income.

A capital loss realised on the disposal of the Villa World Shares may be used to offset other capital gains derived by a Villa World Shareholder in the income year in which the capital loss is realised, or may be carried forward to offset capital gains derived by the shareholder in future income years. Specific capital loss recoupment rules apply to companies to restrict their ability to utilise capital losses in future years in some circumstances. Villa World Shareholders should obtain their own tax advice in relation to the operation of these rules.

7. Taxation implications

(i) Capital Proceeds

The capital proceeds for the CGT event arising from the disposal of Villa World Shares under the Scheme will consist of the money received, or entitled to be received, by a Villa World Shareholder. Accordingly, the capital proceeds should include the Scheme Consideration (being \$2.345 per Villa World Share, reduced by the amount of any Special Dividend that may be declared and paid by Villa World) received under the Scheme.

Based on the facts and circumstances of the Scheme, it is expected that any Special Dividend that may be declared and paid by Villa World should not constitute capital proceeds from the disposal of the Villa World Shares. This issue is being addressed in the class ruling requested from the ATO. It is possible that the Commissioner may adopt a contrary view in regard to the Special Dividend and require that it form part of capital proceeds. Villa World Shareholders should refer to the Class Ruling once published.

(ii) Cost base

The cost base and reduced cost base of Villa World Shares will generally include the amount paid, or the market value of any property given, to acquire the Villa World Shares, plus any incidental costs of acquisition (e.g. brokerage fees and stamp duty). The cost base of each Villa World Share will depend on the individual circumstances of each Villa World Shareholder.

Villa World Shares acquired in different transactions may have different cost bases and therefore capital gains may arise in respect of some Villa World Shares while capital losses may arise in respect of other Villa World Shares.

(iii) CGT discount

Generally, Australian resident Villa World Shareholders who are individuals, trusts, and complying superannuation funds that have held Villa World Shares for at least 12 months at the time of disposal should be entitled to a CGT discount in calculating the amount of capital gain on disposal of their Villa World Shares.

The CGT discount is applied after any available capital losses have been offset to reduce the capital gain.

The applicable CGT discount which would reduce a capital gain arising from the disposal of Villa World Shares is 50% in the case of individuals and trusts or 33 1/3% in the case of Australian complying superannuation entities. The CGT discount is not available for Villa World Shareholders that are companies.

As the rules relating to discount capital gains for trusts are complex, Villa World recommends that Villa World Shareholders who are trustees seek their own independent advice on how the CGT discount provisions will apply to them and the trusts' beneficiaries.

(b) Non-Australian tax resident Villa World Shareholders

For a Villa World Shareholder who:

- is a foreign resident, or the trustee of a foreign trust for CGT purposes; and
- has not used their Villa World Shares at any time in carrying on a business through a permanent establishment in Australia,

the disposal of the Villa World Shares will generally only result in Australian CGT implications if, in broad terms:

- that Villa World Shareholder together with their associates held an interest of 10% or more in Villa World at the time of disposal or for a 12 month period within two years preceding the disposal (referred to as a "non-portfolio interest"); and
- more than 50% of the market value of Villa World's assets is attributable to direct or indirect interests in "taxable Australian real property" (as defined in the income tax legislation).

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A non-resident individual Villa World Shareholder who has previously been an Australian tax resident and chose to disregard a capital gain or loss in respect of their Villa World Shares from CGT event A1 on ceasing to be an Australian tax resident may be subject to Australian CGT consequences on disposal of their Villa World Shares.

Villa World Shareholders that are non-Australian tax residents should seek their own independent tax advice as to the tax implications of the Scheme, including tax implications in their country of residence.

7.5 Foreign Resident Capital Gains Withholding

The foreign resident capital gains withholding regime may impose a 12.5% “withholding” obligation (calculated by reference to the Scheme Consideration) on AVID if:

- AVID considers, or reasonably believes that a Villa World Shareholder is a foreign resident; and
- the Villa World Shareholder satisfies the “non-portfolio interest” test referred to above.

It is expected that AVID will not withhold any amount from the Scheme Consideration.

7.6 GST

There should be no GST payable in respect of the sale of Villa World Shares under the Scheme. Where a Villa World Shareholder is not registered or required to be registered for GST, the sale will be outside the scope of the GST. Otherwise, the sale of the Villa World Shares will be an input taxed financial supply. Where this is the case, Villa World Shareholders should obtain independent advice in relation to whether there is an ability to claim any input tax credits for the costs (such as legal or professional fees) associated with the disposal of the Villa World Shares.

7.7 Stamp Duty

No stamp duty should be payable by Villa World Shareholders on the disposal of Villa World Shares in accordance with the Scheme.

Any stamp duty payable in connection with the transfer of the Villa World Shares to AVID, must be paid by AVID.

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**Additional
information**



8 Additional information

8.1 Interests of Villa World Directors in Villa World Shares

The table below lists the Relevant Interests of Villa World Directors in Villa World Shares as at the date of this Scheme Booklet.

Villa World Director	Position	Relevant Interest in Villa World Shares
Mark Jewell	Independent Non-Executive Chairman	107,127 Villa World Shares
Craig Treasure	Chief Executive Officer and Managing Director	1,137,053 Villa World Shares
David Rennick	Independent Non-Executive Director	54,155 Villa World Shares
Lisa MacCallum	Independent Non-Executive Director	Nil

Villa World Directors who hold Villa World Shares as at 7.00pm (Sydney time) on Wednesday, 9 October 2019 will be entitled to vote at the Scheme Meeting and receive the Scheme Consideration along with the other Scheme Shareholders.

Each Villa World Director intends to vote, or cause to be voted, all Villa World Shares held or controlled by them, or on their behalf, in favour of the Scheme, in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Villa World Shareholders.

The table below lists the Relevant Interests of Villa World Directors in Villa World Performance Rights as at the date of this Scheme Booklet.

Villa World Director	Position	Relevant Interest in Villa World Performance Rights
Mark Jewell	Independent Non-Executive Chairman	Nil
Craig Treasure	Chief Executive Officer and Managing Director	1,160,393
David Rennick	Independent Non-Executive Director	Nil
Lisa MacCallum	Independent Non-Executive Director	Nil

Craig Treasure, Villa World's Chief Executive Officer and Managing Director, will be entitled to receive Villa World Shares in respect of each of the Villa World Performance Rights held by him, subject to the Scheme becoming Effective. The Villa World Board (excluding Mr Treasure)²³ exercised its discretion to give effect to these arrangements in accordance with the terms of the Villa World LTIP. Please refer to Section 8.12 for details regarding the treatment of Villa World Performance Rights if the Scheme becomes Effective.

8.2 Marketable securities in AVID held by, or on behalf of, Villa World Directors

No marketable securities of AVID are held by, or on behalf of, Villa World Directors as at the date of this Scheme Booklet.

8.3 Interests of Villa World Directors in contracts of an AVID Group Member

No Villa World Director has an interest in any contract entered into by an AVID Group Member.

8.4 Other interests of Villa World Directors

Other than in Section 8.3 above and as set out in Sections 8.5 and 8.12, no Villa World Director has any other interest, whether as a director, member or creditor of AVID or otherwise, which is material to the Scheme.

²³ The exercise of discretion by the Villa World Board was approved by the Independent Non-Executive Villa World Directors. Craig Treasure did not vote on the resolution given his interest in the subject matter of the resolution.

8. Additional information

8.5 Agreements or arrangements with Villa World Directors

As noted in Section 8.1 above, Craig Treasure, Chief Executive Officer and Managing Director, holds 1,160,393 Villa World Performance Rights that will be subject to the regime described in Section 8.12. Other than this, there is no agreement or arrangement made between any Villa World Director and any other person, including an AVID Group Member, in connection with or conditional upon the outcome of the Scheme.

8.6 Payments and other benefits to directors, secretaries or executive officers of Villa World

Brad Scale, General Counsel and Company Secretary, has elected to accept voluntary redundancy from Villa World on or shortly after implementation of the Scheme. Villa World proposes to make Brad Scale a payment of approximately \$385,000 as compensation for loss of, or as consideration for or in connection with his retirement from, office in Villa World, which amount includes statutory entitlements, accrued leave and other agreed payments.

Except as otherwise disclosed in this Scheme Booklet, no payment or other benefit is proposed to be made or given to a director, secretary or executive officer of Villa World or any member of the Villa World Group as compensation for loss of, or as consideration for or in connection with their retirement from, office in Villa World or any member of the Villa World Group as a result of the Scheme.

8.7 Suspension of trading of Villa World Shares

If the Court approves the Scheme, Villa World will notify ASX. It is expected that suspension of trading on the ASX in Villa World Shares will occur from close of trading on the Effective Date.

8.8 Deed Poll

AVID has executed the Deed Poll pursuant to which it has undertaken in favour of each Scheme Shareholder to procure that each Scheme Shareholder is provided the Scheme Consideration to which they are entitled under the Scheme, in accordance with the terms of the Scheme and subject to the Scheme becoming Effective.

A copy of the Deed Poll is contained in Annexure C.

8.9 Warranties by Scheme Shareholders

The Scheme provides that each Scheme Shareholder is taken to have warranted to AVID that:

- all of their Scheme Shares which are transferred under the Scheme will be, at the date of transfer, fully paid, free from all Encumbrances and third-party rights or interests of any kind, and free from all restrictions on transfer of any kind;
- they have full power and capacity to sell and transfer their Scheme Shares (together with all rights and entitlements attaching to such shares) to AVID; and
- they have no existing right to be issued any Villa World Shares or other Villa World securities (other than the right to be issued Villa World Shares on vesting of Villa World Performance Rights before the Scheme Record Date in accordance with their terms).

8.10 Summary of Scheme Implementation Agreement

On 5 July 2019, Villa World and AVID entered into a binding Scheme Implementation Agreement under which Villa World agreed to propose the Scheme. The Scheme Implementation Agreement sets out the parties' obligations in connection with the Scheme.

A summary of the key elements of the Scheme Implementation Agreement is set out below. A full copy of the Scheme Implementation Agreement was lodged with ASX on 8 July 2019 and can be obtained from www.asx.com.au or from www.villaworld.com.au/investor-centre/asx-announcements.

(a) Conditions Precedent

Implementation of the Scheme is subject to the following Conditions Precedent which must be satisfied or waived (where capable of waiver) before the Scheme can be implemented:

- (i) **(FIRB approval)** before 5.00pm on the Business Day before the Second Court Date, the Treasurer of Australia (or his delegate) (**Treasurer**) either:
- (A) has provided written notice that there is no objection under the *Foreign Acquisitions and Takeovers Act 1975* (Cth) (**FATA**) to the Scheme either unconditionally, or subject only to the Tax Conditions or conditions that are acceptable to AVID, acting reasonably and in good faith; or
- (B) the Treasurer becomes precluded from exercising any power to make an order under FATA in relation to the Scheme.
- (ii) **(No restraints)** there is no legal restraint or prohibition preventing the Scheme or its implementation in effect as at 8.00am on the Second Court Date.
- (iii) **(No Villa World Prescribed Occurrence)** no Villa World Prescribed Occurrence has occurred or become known to AVID or Villa World between the date of the Scheme Implementation Agreement and 8.00am on the Second Court Date.
- (iv) **(Villa World Shareholder approval)** Villa World Shareholders approve the Scheme at the Scheme Meeting by the Requisite Majorities.
- (v) **(Court approval)** the Court approves the Scheme in accordance with the Corporations Act.
- (vi) **(Villa World Warranties)** at all times on and before 8.00am on the Second Court Date, the Villa World Warranties are true and correct in all material respects (other than the Villa World Warranties qualified by materiality, which must be true and correct in all respects) as at the time they are given.
- (vii) **(AVID Warranties)** at all times on and before 8.00am on the Second Court Date, the AVID Warranties are true and correct in all material respects (other than the AVID Warranties qualified by materiality, which must be true and correct in all respects) as at the time they are given.
- (viii) **(Employee incentive arrangements)** Villa World has taken all necessary steps by 8.00am on the Second Court Date to ensure that all outstanding Villa World Performance Rights vest or lapse before the Scheme Record Date.
- (ix) **(No Material Adverse Change)** no Material Adverse Change occurs, or becomes known to AVID or Villa World, between the date of the Scheme Implementation Agreement and 8.00am on the Second Court Date.

(b) Exclusivity

The Scheme Implementation Agreement contains certain exclusivity arrangements in favour of AVID. In summary, from the date of the Scheme Implementation Agreement until the earlier of the Implementation Date, the End Date and the date the Scheme Implementation Agreement is terminated in accordance with its terms (**Exclusivity Period**):

- (i) **(No shop)** Villa World must not, and must ensure that its Representatives do not solicit, invite, initiate or encourage any Competing Proposal or any inquiry, expression of interest, offer, proposal, negotiations or discussions by or with any third party in relation to, or that may reasonably be expected to lead to, a Competing Proposal (or communicate any intention to any person to do any of those things), except with the prior written consent of AVID.
- (ii) **(No talk)** Villa World must not, and must ensure that its Representatives do not continue or participate in negotiations or discussions, or accept or enter into (or offer to accept or enter into) any agreement, arrangement or understanding, with any third party in relation to any inquiry, expression of interest, offer, proposal or discussion by any person to make, or which may reasonably be expected to lead to, a Competing Proposal (or communicate any intention to any person to do any of those things), except with the prior written consent of AVID.

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- (iii) **(No due diligence)** Villa World must not, and must ensure that its Representatives do not, make available to any third party, or permit any third party to receive, any non-public information relating to any Villa World Group Member in connection with such third party formulating, developing or finalising, or assisting in the formulation, development or finalisation of, or which could reasonably be expected to encourage or lead to, a Competing Proposal (or communicate any intention to any person to do any of those things), except with the prior written consent of AVID.
- (iv) **(Notification of approaches)** Villa World must notify AVID in writing as soon as reasonably practicable (and in any event within 24 hours) if it or any of its Representatives receives or becomes aware of:
- (A) any approach or proposal made to Villa World or its Representatives in connection with a Competing Proposal and include reasonable details of the approach or proposal; or
 - (B) provision by Villa World or its Representatives of any information relating to Villa World or any of its Related Bodies Corporate or any of their businesses or operations to any person in connection with or for the purposes of the person formulating, developing or finalising an actual, proposed or potential Competing Proposal.
- (v) **(Matching right)** Villa World:
- (A) must not, and must procure that its Related Bodies Corporate do not, enter into any agreement, arrangement or understanding in relation to the implementation of any Competing Proposal; and
 - (B) must ensure that no Villa World Director withdraws, changes or qualifies their recommendation or voting intention, or recommends, supports or endorses a Competing Proposal,

unless the Competing Proposal is a Superior Proposal, Villa World has complied with the notification obligation set out in Section 8.10(b)(iv) above and, after three Business Days, AVID either has not made a new proposal or has not made a new proposal that is at least as favourable (as a whole) to the Competing Proposal.

The "no talk" and "no due diligence" provisions in the Scheme Implementation Agreement do not prevent Villa World from undertaking any action in relation to a Competing Proposal if:

- (vi) it was not solicited or otherwise brought about as a result of any breaches of the above exclusivity provisions;
- (vii) the Competing Proposal is reasonably likely to be a Superior Proposal (provided that the "matching right" procedure has been complied with); and
- (viii) the Villa World Board determines that not undertaking that act would be likely to constitute a breach of their fiduciary or statutory duties.

These exclusivity arrangements are set out in full in clause 9 of the Scheme Implementation Agreement.

(c) **Break Fee**

Villa World has agreed to pay AVID a break fee of A\$2,981,100 (**Break Fee**) if:

- (i) **(Change in recommendation)** during the Exclusivity Period any Villa World Director withdraws, changes or qualifies their voting intention or recommendation that Villa World Shareholders vote in favour of the Scheme Resolution, or recommends, supports or endorses a Competing Proposal, other than as a result of:
 - (A) the Independent Expert concluding that the Scheme is not in the best interests of Villa World Shareholders (except where that conclusion is, in whole or in part, the result of a Competing Proposal); or

- (B) material breach of the Scheme Implementation Agreement by AVID (and AVID fails to remedy such breach within the required period).
- (ii) **(Competing Proposal)** a Competing Proposal is announced or made by a third party during the Exclusivity Period and, within 12 months of the Competing Proposal being announced, any third party (or its Associate):
 - (A) completes the Competing Proposal; or
 - (B) acquires a Relevant Interest in more than 50% of Villa World Shares under an unconditional transaction, or otherwise comes to Control Villa World or acquires substantially all of Villa World's assets.
- (iii) **(Material Breach)** AVID terminates the Scheme Implementation Agreement due to a material breach by Villa World (and Villa World fails to remedy such breach within the required period), as described in Section 8.10(d) below.

However, the Break Fee is not payable in certain limited circumstances, including if the Scheme nevertheless becomes Effective.

For full details of the Break Fee, see clause 10 of the Scheme Implementation Agreement.

(d) Termination

The termination rights of Villa World and AVID are set out in clause 14 of the Scheme Implementation Agreement. In summary:

- (i) Either Villa World or AVID may terminate the Scheme Implementation Agreement at any time before 8.00am on the Second Court Date if:
 - (A) **(Failure of Conditions Precedent)** a Condition Precedent has not been satisfied or waived (where capable of waiver) by the required date and, in certain circumstances, Villa World and AVID are unable to agree on a course of action; or
 - (B) **(Material breach)** the other party commits a material breach of the Scheme Implementation Agreement which is not remedied within the required period.
- (ii) AVID may terminate the Scheme Implementation Agreement at any time before 8.00am on the Second Court Date if:
 - (A) **(Change of recommendation)** any Villa World Director withdraws, changes or qualifies their voting intention or recommendation that Villa World Shareholders vote in favour of the Scheme Resolution, or recommends, supports or endorses a Competing Proposal; or
 - (B) **(Competing Proposal)** Villa World enters into any agreement or arrangement in relation to the implementation of any Competing Proposal.
- (iii) Villa World may terminate the Scheme Implementation Agreement at any time before 8.00am on the Second Court Date if:
 - (A) **(Change of recommendation)** a majority of the Villa World Board withdraws, changes or qualifies their voting intention or recommendation that Villa World Shareholders vote in favour of the Scheme Resolution, or recommends, supports or endorses a Competing Proposal (where permitted to do so under the Scheme Implementation Agreement); or
 - (B) **(Independent Expert)** the Independent Expert concludes that the Scheme is not in the best interests of Villa World Shareholders, and does not change or withdraw those statements or recommendations once made.

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8. Additional information

8.11 Status of FIRB condition

As at the date of this Scheme Booklet, the Treasurer has not yet provided notice that there are no objections to the Scheme under the FATA.

An update on the status of the FIRB approval will be provided at or before the Scheme Meeting.

8.12 Villa World Performance Rights

(a) Villa World Performance Rights on issue

As detailed in Villa World's annual report for the year ended 30 June 2019, Villa World operates the Villa World LTIP under which Villa World Performance Rights are granted to senior executives to ensure alignment between the performance of eligible executives to the long-term overall performance of Villa World. As at the date of this Scheme Booklet, Villa World has 1,967,346 Villa World Performance Rights on issue.

As set out in Section 8.1, none of the Non-Executive Villa World Directors hold any Villa World Performance Rights.

Each Villa World Performance Right confers on its holder the entitlement to acquire one Villa World Share (or an equivalent cash amount) upon satisfaction of the vesting conditions, as determined by the Villa World Board at the end of the relevant performance period. No amount is payable by the holder of the Villa World Performance Right upon vesting.

Villa World does not have any options over any Villa World Shares on issue as at the date of this Scheme Booklet.

(b) Intended treatment of Villa World Performance Rights in connection with the Scheme

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

Under the terms of the Villa World LTIP, in the event of a proposed change of control of Villa World, the Villa World Board has discretion to determine the treatment of any unvested Villa World Performance Rights and the timing of such treatment. Consistent with the terms of the Villa World LTIP, the Villa World Board (excluding Mr Treasure)²⁴ has exercised its discretion and determined that all of the Villa World Performance Rights will, subject to the Scheme becoming Effective, vest and automatically convert into Villa World Shares on the Effective Date.

The Villa World Board (excluding Mr Treasure) made this determination having regard to a range of factors, including the contribution by management to the overall performance of Villa World, which the Villa World Board believes has been a key factor in making Villa World attractive to an acquirer such as AVID at the Scheme Consideration offered.

The Villa World Shares issued on conversion of the Villa World Performance Rights will be acquired by AVID under the Scheme on the Implementation Date and the holders of those Villa World Shares on both the Scheme Record Date and the Special Dividend Record Date will be entitled to receive the Scheme Consideration and the Special Dividend (if declared).

8.13 ASIC Relief

Pursuant to rule 5.1.01(1)(b) and clause 8302(h) of Schedule 8 of the Corporations Regulations, the Scheme Booklet must set out whether, within the knowledge of the Villa World Directors, the financial position of Villa World has materially changed since the date of the last balance sheet laid before Villa World in general meeting or sent to shareholders in accordance with sections 314 or 317 of the Corporations Act, being its financial statements for the financial year ended 30 June 2018, as well as the full particulars of the changes.

²⁴ The exercise of discretion by the Villa World Board was approved by the Independent Non-Executive Villa World Directors. Craig Treasure did not vote on the resolution given his interest in the subject matter of the resolution.

ASIC has granted Villa World relief from this requirement so that this Scheme Booklet only needs to set out, within the knowledge of the Villa World Directors, that the financial position of Villa World has not materially changed since 30 June 2019. A full copy of the Villa World financial statements for the financial year ended 30 June 2019 can be found on www.asx.com.au and a summary is also provided in Section 4.8. Villa World will give a copy of the financial statements for the financial year ended 30 June 2019 free of charge to anyone who requests a copy.

8.14 Consents and disclosures

The following parties have given, and have not withdrawn before the date of this Scheme Booklet, their consent to be named in this Scheme Booklet in the form and context in which they are named:

- Macquarie Capital (Australia) Limited as financial advisor to Villa World;
- Computershare as the manager of the Villa World Register; and
- Allens as legal advisor to Villa World in relation to the Scheme, and taxation advisor in relation to the Special Dividend.

The Independent Expert has given and has not withdrawn its consent to be named in this Scheme Booklet and to the inclusion of the Independent Expert's Report in Annexure A to this Scheme Booklet and to the references to the Independent Expert's Report in this Scheme Booklet being made in the form and context in which each such reference is included.

AVID has given, and has not withdrawn, its consent to be named in this Scheme Booklet and in relation to the inclusion of the AVID Information in this Scheme Booklet in the form and context in which that information is included.

Allens has given and has not withdrawn its consent to be named in this Scheme Booklet and to the inclusion of the taxation report in Section 7 of this Scheme Booklet.

Each person named in this Section 8.14:

- has not authorised or caused the issue of this Scheme Booklet;
- does not make, or purport to make, any statement in this Scheme Booklet or any statement on which a statement in this Scheme Booklet is based, other than as specified in this Section 8.14; and
- to the maximum extent permitted by law, expressly disclaims all liability in respect of, makes no representation regarding, and takes no responsibility for, any part of this Scheme Booklet, other than a reference to its name and the statement (if any) included in this Scheme Booklet with the consent of that party as specified in this Section 8.14.

8.15 No unacceptable circumstances

The Villa World Directors believe that the Scheme does not involve any circumstances in relation to the affairs of Villa World that could reasonably be characterised as constituting "unacceptable circumstances" for the purposes of section 657A of the Corporations Act.

8.16 Transaction costs

Villa World estimates that it will incur approximately A\$4.6 – 4.9 million (excluding GST and disbursements) in external transaction costs related to the Scheme, which includes advisory fees, legal fees, valuation fees, Court fees, and registry, printing and mailing costs. Of this, approximately A\$1.3 – 1.5 million will be incurred regardless of whether or not the Scheme becomes Effective, including Independent Expert's fees of A\$95,000 (excluding GST and disbursements), excluding any Break Fee that may be payable to AVID.

8.17 Change of control consequences under bonds issued by Villa World

As announced to ASX on 6 September 2019, subject to the Scheme becoming Effective, Villa World intends to redeem all Villa World Bonds on issue on the Implementation Date.

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8. Additional information

8.18 No other information material to the making of a decision in relation to the Scheme

Otherwise than as contained or referred to in this Scheme Booklet, including the Independent Expert's Report and the information that is contained in the annexures to this Scheme Booklet, there is no other information as at the date of this Scheme Booklet that is material to the making of a decision by a Villa World Shareholder whether or not to vote in favour of the Scheme Resolution to approve the Scheme, being information that is known to any Villa World Director and which has not previously been disclosed to Villa World Shareholders.

8.19 Supplementary information

Villa World will issue supplementary information to this Scheme Booklet if it becomes aware of any of the following between the date of this Scheme Booklet and the Effective Date:

- a material statement in this Scheme Booklet is or becomes false or misleading in a material respect;
- a material omission from this Scheme Booklet;
- a significant change affecting a matter included in this Scheme Booklet; or
- a significant new matter has arisen and it would have been required to be included in this Scheme Booklet if it had arisen before the date of this Scheme Booklet.

Depending on the nature and timing of the changed circumstances, and subject to consultation with AVID and obtaining any relevant approvals, Villa World may circulate and publish any supplementary document by:

- making an announcement to the ASX;
- placing an advertisement in a prominently published newspaper that is circulated generally throughout Australia;
- posting the supplementary document to Villa World Shareholders at their registered address as shown on the Villa World Register, or by email for Villa World Shareholders who have elected to receive communications electronically; or
- posting a statement on Villa World's website (www.villaworld.com.au/investor-centre), as Villa World, in its absolute discretion, considers appropriate.

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9

**Glossary and
interpretation**

9 Glossary and interpretation

9.1 Glossary

The meanings of the terms used in this Scheme Booklet are set out below:

Term	Meaning
1H19	the half-year ended 31 December 2018.
AASB 15	Australian Accounting Standard AASB 15 – Revenue from Contracts with Customers.
ANZ	Australia and New Zealand Banking Group Limited.
ASIC	Australian Securities and Investments Commission.
Associate	has the meaning set out in section 12 of the Corporations Act.
ASX	ASX Limited (ABN 98 008 624 691) and, where the context requires, the financial market that it operates.
ATO	Australian Taxation Office.
AVID	AVID Property Group Australia Pty Limited (ABN 76 608 061 874).
AVID Group	AVID and each of its Subsidiaries, and a reference to an AVID Group Member or a member of the AVID Group is to AVID or any of its Subsidiaries from time to time (excluding, at any time, Villa World and its Subsidiaries to the extent that Villa World and its Subsidiaries are subsidiaries of AVID at that time).
AVID Information	the information contained in: <ul style="list-style-type: none"> the answer to the question "Who is AVID?" in Section 2; and Section 5.
AVID Investors	has the meaning given in Section 5.4(c).
AVID Warranties	the warranties made by AVID set out in clause 12.1 of the Scheme Implementation Agreement.
Break Fee	A\$2,981,100, payable in the circumstances described in Section 8.10(c) of this Scheme Booklet.
Business Day	a day that is not a Saturday, Sunday or a public holiday or bank holiday in Sydney.
CBD	central business district.
CHESS	Clearing House Electronic Subregister System.
Competing Proposal	a proposed transaction or arrangement (whether by way of takeover, share acquisition, scheme of arrangement, reverse takeover, synthetic merger, capital reconstruction, acquisition of assets, dual listed structure, or otherwise) which, if implemented substantially in accordance with its terms, would result in a third party:

9. Glossary and interpretation

Term	Meaning
	<p>(a) directly or indirectly acquiring or having a right to acquire, or obtaining an economic interest in all or a substantial part of the business, assets or undertakings of the Villa World Group;</p> <p>(b) acquiring Control of Villa World or the Villa World Group;</p> <p>(c) acquiring a Relevant Interest in any Villa World Shares, as a result of which that third party will have Relevant Interests in 20% or more of Villa World Shares in aggregate; or</p> <p>(d) otherwise acquiring, or merging with, Villa World.</p>
Computershare	Computershare Investor Services Pty Limited (ABN 48 078 279 277).
Conditions Precedent	each of the conditions set out in clause 3.1 of the Scheme Implementation Agreement.
Control	has the meaning given in section 50AA of the Corporations Act.
Corporations Act	the <i>Corporations Act 2001</i> (Cth), as modified or varied by ASIC.
Court	the Supreme Court of New South Wales or such other court of competent jurisdiction as Villa World and AVID agree in writing.
Deed Poll	The deed poll dated 3 September 2019 executed by AVID in favour of Scheme Shareholders, in the form set out in Annexure C.
EBITDA	earnings before interest, tax, depreciation and amortisation.
Effective	means the coming into effect, pursuant to section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) of the Corporations Act approving the Scheme.
Effective Date	the date on which the Scheme becomes Effective, expected to be Wednesday, 16 October 2019.
Encumbrance	means a mortgage, charge, pledge, lien, encumbrance, security interest, title retention, preferential right, trust arrangement, contractual right of set-off, or any other security agreement or arrangement in favour of any person, whether registered or unregistered, including any security interest within the meaning of section 12 of the <i>Personal Property Securities Act 2009</i> (Cth).
End Date	5 January 2020, being the date six months after the date of the Scheme Implementation Agreement, or such other date as agreed in writing by Villa World and AVID (and, if required, as approved by the Court).
Equity Commitment	has the meaning given in Section 5.4(c).
Exclusivity Period	means the period from the date of the Scheme Implementation Agreement until the earlier of the End Date, the Implementation Date and the date the Scheme Implementation Agreement is terminated.
Facilities	has the meaning given in Section 5.4(b).
FATA	<i>Foreign Acquisitions and Takeovers Act 1975</i> (Cth).
FIRB	the Foreign Investment Review Board.

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Term	Meaning
FY2018	the financial year ended 30 June 2018.
FY2019	the financial year ended 30 June 2019.
Grant Thornton	Grant Thornton Corporate Finance Pty Limited (ABN 59 003 265 987).
Implementation Date	the date which is five Business Days after the Scheme Record Date, expected to be Wednesday, 30 October 2019, or such other date agreed to in writing between Villa World and AVID.
Independent Expert	Grant Thornton.
Independent Expert's Report	the report prepared by the Independent Expert dated 5 September 2019 set out in Annexure A.
Initial Proposal	the first non-binding indicative proposal from AVID announced to ASX on 14 March 2019.
Listing Rules	the official listing rules of ASX.
Material Adverse Change	has the meaning given to that term in clause 1.1 of the Scheme Implementation Agreement, a full copy of which is attached to Villa World's ASX Announcement on 8 July 2019, which can be obtained from www.asx.com.au or from www.villaworld.com.au/investor-centre/asx-announcements .
Notice of Meeting	the notice of meeting relating to the Scheme Meeting which is contained in Annexure D.
NPAT	net profit after tax.
NTA	net tangible asset value per Villa World Share.
Proprium	Proprium Capital Partners, L.P.
Proxy Form	the proxy form which accompanies this Scheme Booklet.
Related Bodies Corporate	has the meaning set out in section 50 of the Corporations Act.
Relevant Interest	has the meaning given in sections 608 and 609 of the Corporations Act.
Representatives	means all directors, officers, employees, professional advisors (including financiers, financial advisors, corporate advisors, legal advisors or technical or other expert advisors or consultants) and agents of a party or of its Related Bodies Corporate.
Requisite Majorities	means: <ul style="list-style-type: none"> (a) a majority in number (more than 50%) of Villa World Shareholders present and voting at the Scheme Meeting (whether in person or by proxy, corporate representative or attorney) (unless the Court orders otherwise); and (b) at least 75% of the total number of votes cast on the Scheme Resolution by Villa World Shareholders present and voting at the Scheme Meeting (whether in person or by proxy, corporate representative or attorney).

9. Glossary and interpretation

Term	Meaning
Revised Proposal	the second non-binding indicative proposal from AVID announced to ASX on 2 May 2019.
Scheme or Scheme of Arrangement	the scheme of arrangement under Part 5.1 of the Corporations Act between Villa World and the Scheme Shareholders, the form of which is attached in Annexure B, subject to any alterations or conditions made or required by the Court under subsection 411(6) of the Corporations Act and agreed to in writing by AVID and Villa World.
Scheme Booklet	this document.
Scheme Consideration	for each Villa World Share held by a Scheme Shareholder as at the Scheme Record Date: <ul style="list-style-type: none"> (a) if the Special Dividend is declared, A\$2.035 cash; or (b) if the Special Dividend is not declared, A\$2.345 cash.
Scheme Implementation Agreement	the scheme implementation agreement between Villa World and AVID dated 5 July 2019. A summary is set out in Section 8.10, and a full copy of which is attached to Villa World's ASX Announcement on 8 July 2019, which can be obtained from www.asx.com.au or from www.villaworld.com.au/investor-centre/asx-announcements .
Scheme Meeting	the meeting of Villa World Shareholders ordered by the Court to be convened under subsection 411(1) of the Corporations Act to consider and vote on the Scheme and includes any meeting convened following any adjournment or postponement of that meeting.
Scheme Record Date	7.00pm (Sydney time) on the date which is five Business Days after the Effective Date, expected to be Wednesday, 23 October 2019.
Scheme Resolution	a resolution of Villa World Shareholders to approve the Scheme, the form of which is set out in the Notice of Meeting in Annexure D of the Scheme Booklet.
Scheme Share	all Villa World Shares held by the Scheme Shareholders as at the Scheme Record Date.
Scheme Shareholder	a holder of Villa World Shares recorded in the Villa World Register as at the Scheme Record Date.
Second Court Date	the first day of hearing of an application made to the Court for an order pursuant to section 411(4)(b) of the Corporations Act approving the Scheme, expected to be Tuesday, 15 October 2019, or, if the hearing of such application is adjourned for any reason, means the first day of the adjourned hearing.
Second Court Hearing	the hearing of the application made to the Court for an order pursuant to section 411(4)(b) of the Corporations Act approving the Scheme.
Senior Leadership Team	means the members of senior management listed in Section 4.4(b).
Special Dividend	a fully franked dividend of A\$0.31 per Villa World Share which is intended to be declared by the Villa World Board and paid to Villa World Shareholders on the Special Dividend Payment Date.

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Term	Meaning
Special Dividend Payment Date	Expected to be Monday, 28 October 2019.
Special Dividend Record Date	Expected to be 7.00pm (Sydney time) on Friday, 18 October 2019.
Subsidiary	has the meaning given in Division 6 of Part 1.2 of the Corporations Act.
Superior Proposal	<p>a bona fide Competing Proposal, which in the determination of the Villa World Board (having regard to written advice from Villa World's financial advisors), acting in good faith and in order to satisfy what the Villa World Board reasonably considers, after having received written legal advice from external legal counsel, to be its fiduciary or statutory duties, would, if it is completed substantially in accordance with its terms, be more favourable to Villa World Shareholders (as a whole) than the Transaction, taking into account all aspects of the Competing Proposal, including but not limited to:</p> <ol style="list-style-type: none"> the value and type of the consideration payable to Villa World Shareholders under the Competing Proposal and the tax consequences related to payment of that consideration (as compared to the consideration available under the Transaction); the conditions of the Competing Proposal, the likelihood of those conditions being satisfied and the level of certainty in respect of the funding required for the Competing Proposal; and the likely timing required to implement or complete the Competing Proposal.
Tax Condition	means a condition in the form of the conditions set out in "Attachment B" to the Tax Conditions Guidance Note GN 47 published by the Foreign Investment Review Board dated 13 August 2018 (or any other replacement or substitute "standard" taxation conditions that may be issued by the Treasurer from time to time provided that these are not materially more onerous than those applying on the date of the Scheme Implementation Agreement).
Total Cash Consideration	<p>the total cash consideration of A\$2.345 per Villa World Share if the Scheme becomes Effective, comprising:</p> <ol style="list-style-type: none"> (if the Special Dividend is declared) (i) Scheme Consideration of A\$2.035 per Villa World Share held on the Scheme Record Date; and (ii) a Special Dividend of A\$0.31 per Villa World Share held on the Special Dividend Record Date; or (if the Special Dividend is not declared) Scheme Consideration of A\$2.345 per Villa World Share held on the Scheme Record Date.
Transaction	the acquisition of the Scheme Shares by AVID through implementation of the Scheme.
Treasurer	means the Treasurer of Australia (or his delegate).
Villa World	Villa World Limited (ABN 38 117 546 326).
Villa World Board or Board	the board of directors of Villa World.

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9. Glossary and interpretation

Term	Meaning
Villa World Director or Your Director	a member of the Villa World Board.
Villa World Group	Villa World and each of its Subsidiaries and a reference to a Villa World Group Member or a member of the Villa World Group is to Villa World or any of its Subsidiaries.
Villa World Information	the information contained in this Scheme Booklet, other than the AVID Information, the information contained in Annexure A and the information contained in Section 7.
Villa World LTIP	the Villa World Limited Executive Long Term Incentive Plan adopted by the Villa World Board on 30 September 2015.
Villa World Performance Rights	the performance rights issued under the Villa World LTIP, as set out in Section 8.12.
Villa World Prescribed Occurrence	has the meaning given to the term "Target Prescribed Occurrence" in clause 1.1 of the Scheme Implementation Agreement, a full copy of which is attached to Villa World's ASX Announcement on 8 July 2019, which can be obtained from www.asx.com.au or from www.villaworld.com.au/investor-centre/asx-announcements .
Villa World Register	the register of members of Villa World maintained in accordance with the Corporations Act.
Villa World Registry	Computershare.
Villa World Share	a fully paid ordinary share in the capital of Villa World.
Villa World Shareholder	each person who is registered as the holder of a Villa World Share in the Villa World Register.
Villa World Shareholder Information Line	1300 077 476 (within Australia) or +61 3 9415 4079 (outside Australia).
Villa World Warranties	means the warranties made by Villa World set out in clause 12.4 of the Scheme Implementation Agreement.
VWAP	volume weighted average price.

9.2 Interpretation

In this Scheme Booklet:

- (a) words of any gender include all genders;
- (b) words importing the singular include the plural and vice versa;
- (c) an expression importing a person includes any company, partnership, joint venture, association, corporation or other body corporate and vice versa;
- (d) a reference to a section or annexure, is a reference to a section of or annexure of, to this Scheme Booklet as relevant;
- (e) a reference to any legislation includes all delegated legislation made under it and amendments, consolidations, replacements or re-enactments of any of them;

- (f) headings and bold type are for convenience only and do not affect the interpretation of this Scheme Booklet;
- (g) a reference to time is a reference to Sydney, Australia time unless otherwise specified;
- (h) a reference to dollars and A\$ is to Australian currency;
- (i) an accounting term is a reference to that term as it is used in accounting standards under the Corporations Act, or, if not inconsistent with those standards, in accounting principles and practices generally accepted in Australia; and
- (j) the words "include", "including", "for example" or "such as" when introducing an example, do not limit the meaning of the words to which the example relates to that example or examples of a similar kind.

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Annexure





Grant Thornton

An instinct for growth™

Villa World Limited

Independent Expert's Report and Financial Services Guide

5 September 2019

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5 September 2019

Dear Sirs

INDEPENDENT EXPERT'S REPORT AND FINANCIAL SERVICES GUIDE

Introduction

Villa World Limited ("Villa World" or "the "Company") is an ASX listed residential property developer with a market capitalisation of approximately \$291.6¹ million as at the date of this Independent Expert's Report ("IER").

AVID Property Group Australia Pty Limited ("AVID" or the "Bidder") is a diversified Australian property development business with a large portfolio of broad acre and medium density residential and industrial projects.

We have set out below a brief background of the transaction:

- On 14 March 2019, Villa World announced that on 8 March 2019, it had received an unsolicited, indicative, conditional, incomplete and non-binding expression of interest from AVID to acquire all issued shares of the Company at an effective cash price of \$2.23 per share² to be implemented via a scheme of arrangement ("Initial Proposal").
- On 2 May 2019, Villa World announced that it had received a revised, indicative, conditional, incomplete and non-binding proposal from AVID to acquire all issued shares of the Company at a cash

¹ Calculated as 125.16 million shares outstanding multiplied by the share price of A\$2.34 per share as at 19 August 2019.

² The Initial Proposal contained a headline price of A\$2.31 per ordinary share which was expressed to be adjusted for the H1 FY19 dividend of 8 cents per ordinary share (the ex-dividend date of which was 12 March 2019).

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price of \$2.345³ per share to be implemented via a scheme of arrangement ("Revised Proposal"). The board of directors of Villa World ("Board") granted AVID exclusive due diligence on customary terms and announced that the directors ("Directors") intended to unanimously recommend that shareholders ("Villa World Shareholders") vote in favour of the Revised Proposal subject to the parties entering into a binding scheme implementation agreement on terms consistent with the Revised Proposal and other market standard terms, in the absence of a superior proposal and subject to an independent expert concluding (and continuing to conclude) that the Revised Proposal is in the best interests of Villa World Shareholders.

- On 8 July 2019, following completion of due diligence, Villa World announced that it had entered into a binding Scheme Implementation Agreement ("SIA") under which it is proposed that AVID will acquire all ordinary shares ("Villa World Shares") by way of scheme of arrangement ("Scheme") for a total cash consideration of \$2.345 per Villa World Share ("Total Cash Consideration").

Under the SIA, Villa World is permitted to pay a final dividend for FY19 and/or a special dividend up to an aggregate amount of 35 cents per Villa World Share on or prior to the implementation of the Scheme which amount will be deducted from the Total Cash Consideration (collectively "Scheme Consideration").

The Villa World Board intends to declare a fully franked special dividend of A\$0.31 ("Special Dividend") per Villa World Share subject to the Scheme being implemented. If the Scheme is approved and implemented, Villa World Shareholders will receive the Total Cash Consideration of A\$2.345 per Villa World Share comprising:

- If Special Dividend is declared – Scheme Consideration comprising cash of A\$2.035 per Villa World Share held by them on the Scheme Record Date⁴ and a Special Dividend of A\$0.31 per Villa World Share held by them on the Special Dividend Record Date⁵.
- If Special Dividend is not declared – Scheme Consideration of A\$2.345 per Villa World Share held by them on the Scheme Record Date.

We note that the Special Dividend is subject to approval of the Scheme, and the determination of Villa World Board. The value of the franking credits that may be available to Villa World Shareholders will depend on the receipt of a favourable tax ruling from the ATO.

The Scheme is subject to customary conditions precedent as set out in Section 1 of this IER including approvals from the Foreign Investment Review Board ("FIRB"), Villa World Shareholders and the Court.

The SIA contains customary exclusivity provisions including "no shop", "no talk" and no due diligence restrictions and a notification obligation, as well as a matching right for AVID in case Villa World receives a competing proposal that is a superior proposal to the Scheme. The "no talk" and no due diligence restrictions are subject to the customary fiduciary carve-outs. The SIA also details circumstances under which Villa World may be required to pay AVID a break fee of approximately A\$3 million.

³ Under the terms of the Scheme, the Total Cash Consideration will be reduced by the amount of any dividends or distributions paid by Villa World after 2 May 2019 but will not be reduced by the 1HFY19 dividend of 8 cents per ordinary share paid on 2 April 2019.

⁴ As defined in the Scheme Booklet.

⁵ Ibid.

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Subject to no superior proposal emerging and an independent expert concluding and continuing to conclude that the Scheme is in the best interests of Villa World Shareholders, the Directors have unanimously recommended that Villa World Shareholders vote in favour of the Scheme and have advised that all Directors intend to vote all Villa World Shares held or controlled by them or on their behalf in favour of the Scheme. Directors hold 1%⁷ of ordinary share capital.

Purpose of the report and approach

Whilst there is no legal requirement for the preparation of the IER in conjunction with the Scheme, the Directors have commissioned this IER to assist Villa World Shareholders in assessing the merits of the Scheme.

When preparing this IER, Grant Thornton Corporate Finance has had regard to the Australian Securities Investment Commission ("ASIC") Regulatory Guide 111 Contents of expert reports ("RG 111") and Regulatory Guide 112 Independence of experts ("RG 112"). The IER also includes other information and disclosures as required by ASIC.

Summary of opinion

Grant Thornton Corporate Finance has concluded that the Scheme is fair and reasonable and hence in the best interests of Villa World Shareholders.

Fairness of the Scheme

In the fairness assessment, Grant Thornton Corporate Finance has compared the value per Villa World Share before the Scheme on a control basis with the Total Cash Consideration of A\$2.345 per Villa World Share.

We note that if Villa World decides to pay the Special Dividend, the Total Cash Consideration of A\$2.345 per Villa World Share will be reduced on a A\$ for A\$ basis as regulated in the SIA. Given that the Board is yet to make a final decision on the Special Dividend, we have assessed the fairness of the Scheme assuming no Special Dividend payment. However, the outcome for Villa World Shareholders and our opinion will not change if the Board decides to pay before implementation of the Scheme the Special Dividend.

We note that in our valuation assessment, we have not grossed up the value of the Total Cash Consideration for the potential value of the franking credits attached to the Special Dividend nor have we considered in our valuation assessment of Villa World the value of the accumulated franking credits.

In our opinion, the benefit of the franking credits does not accrue to Villa World directly, rather they are valuable under certain circumstances to Australian resident shareholders who can claim an income tax offset. We have considered the potential value of the franking credits attached to the Special Dividend in our reasonableness considerations.

⁷ Based on the FY19 Investor Presentation.

The following table summarises our fairness assessment:

Fairness Assessment A\$/ Villa World Share unless stated otherwise	Reference	Low	High
GT assessed value per Villa World Share	Section 6	2.236	2.649
Scheme Consideration	Section 1	2.345	2.345
Premium / (Discount)		4.9%	(11.5%)
FAIRNESS ASSESSMENT		FAIR	

Source: GTCF calculations

Note 1 – Calculated as the average value per share of the DCF Method and Quoted Security Price Method.

The Scheme Consideration is within the assessed valuation range of a Villa World Share on a control basis. Accordingly, we conclude that the Scheme Consideration is fair to the Villa World Shareholders.

Villa World Shareholders should be aware that our assessment of the value per Villa World Share does not reflect the price at which Villa World Shares will trade if the Scheme is not implemented. The price at which Villa World Shares will ultimately trade depends on a range of factors including the liquidity of Villa World Shares, macro-economic conditions, the underlying performance of Villa World, and the supply and demand for Villa World Shares.

We have assessed the fair market value of Villa World Shares on a control basis adopting the DCF Method and the Quoted Security Price Method and we have cross checked our assessment based on the EBITDA⁸ Multiple and P/NTA⁹ Multiple as outlined below. The various methods adopted in the valuation assessment are defined and discussed in section 5 of the IER.

GT assessed value per share A\$/ Villa World Share unless stated otherwise	Section Reference	Low	High
DCF Method - Average	Section 6.1.7	2.228	2.539
Quoted security price method	Section 6.2	2.244	2.758
GT assessed value per share - Average		2.236	2.649

Source: GTCF Calculation

DCF Method

We have built a financial model projecting the post-tax free cash flows of Villa World ("GT Model") up to 30 June 2025 based on the internal management projections ("Internal Model"), historical financial performance, and industry benchmarks.

Villa World has a well-established track-record of completing profitable developments and it has historically demonstrated an ability to replenish over time its pipeline of projects as existing developments come to conclusion. We are of the opinion that a pool of potential purchasers will attribute a value to the Company over and above the net present value of the future cash flows from the existing projects to reflect the development platform. Accordingly, we have undertaken the valuation assessment based on the two scenarios below:

⁸ Earnings before interest, tax, depreciation and amortisation.

⁹ Market capitalisation divided by Net Tangible Assets ("NTA").



- **Run-off Scenario** – We have only considered the future cash flows arising from the development of the existing active projects. This represents the value that Villa World Shareholders may be able to crystallise in an orderly realisation of the current balance sheet. We have set out below some of the key assumptions:
 - Settlements peaking at circa 1,200 in FY20 and circa 1,400 in FY21 and then reducing in line with the run-off.
 - The value of the Donnybrook Project¹⁰ has been assessed based on the net present value of the future cash flows expected to be generated from the sale taking into account the risk and conditionality of the transaction.
 - Overheads have been adjusted to reflect the run-off scenario and to eliminate the listed entity cost (approximately A\$2.5 million) given that we are assessing the value on a 100% basis.
 - Land acquisition costs in line with the committed land acquisitions for existing projects on the balance sheet as at 30 June 2019.
 - Discount rate between 9.0% and 9.6%. Given that under the run-off scenario, most of the cash flows are realised over the first 3-5 year period, we have assessed a discount rate which reflects more short-term assumptions in relation to risk free rate and costs of debt.
- **Replenish Scenario** – We have assumed that the pipeline of opportunities will be replenished with new developments (“Unidentified Projects”) and the business will continue to produce a sustainable level of cash flows in perpetuity. Whilst we acknowledge that the assumptions in relation to future acquisitions are hypothetical at this point in time, we are of the opinion that the development platform of Villa World has value for a pool of potential purchasers which needs to be recognised in our fairness assessment.

The assumptions adopted under the Replenish Scenario are substantially consistent with the Run-off Scenario however settlements number is higher as we are assuming that new Unidentified Projects are developed which also increases the land acquisitions costs. In the terminal value calculation, we have adopted a normalised number of annual settlements of 1,050 based on historical averages and on-going land acquisition costs of approximately A\$80 million. We have also increased the discount rate to reflect the higher risk of the Unidentified Projects. The assessment of the cost of equity increases from between 10.0% and 10.6% under the Run-off Scenario to between 11.5% and 12.1% under the Replenish Scenario. We have set out below our overall assessment based on the DCF approach.

DCF Method (Average of both scenarios) - valuation summary A\$000 unless stated otherwise	Section Reference	Low	High
Total enterprise value of Villa World Limited	Sections 6.1.2 & 6.1.3	398,622	438,139
Less: Net debt as at 30 June 19	Section 6.1.5	(115,323)	(115,323)
Total equity value of Villa World Limited		283,299	322,816
Number of outstanding Villa World Shares ('000s) (fully diluted)	Section 6.1.6	127,127	127,127
Value/ Villa World Share (control basis) (A\$/ Villa World Share)		2.228	2.539

Source: GTCF Calculations

¹⁰ The Donnybrook Project is a 274.5 hectare of land that the Company is developing in a joint venture with CVC (51%/49%) (“Donnybrook JV”) which has been subdivided into 2 parts of 4 lots each. The Donnybrook Project has been conditionally sold to two parties at a total price (subject to meeting the conditions) of A\$134 million. The Donnybrook JV acquired the site for A\$22.8 million in December 2014.



The enterprise value under the DCF Method has been estimated as the average of the two scenarios. We are of the opinion that this is a reasonable approach due to the following:

- It strikes the right balance of the value that could be attributed to the development platform on top of the existing projects by a pool of potential purchasers. We are of the opinion that a pool of potential purchasers will attribute some value to the Company over and above the net present value of the future cash flows from the existing projects, however if the value expectations of the shareholders are too high, it may be easier and more cost effective for a purchaser to replicate the development platform.
- Under the Replenish Scenario, in the last year of the discrete period of the projections, the revenue from unidentified projects represent circa 87% of the total revenue, which increases close to 100% in the terminal value. We are of the opinion that a pool of potential purchasers will not be prepared to pay a value for Villa World assuming that the existing portfolio, which is mostly depleted by FY25, will be replenished in perpetuity. Given that the average life of a development project for the Company is between two and four years, the calculation of the terminal value under the Replenish Scenario assumes that the unidentified projects are replenished a number of times in the perpetuity calculation. In addition, the free cash flows generated during the discrete forecast period are limited due to the large land acquisition costs to replenish the portfolio. As a result, circa 90% of the value under the Replenish Scenario is generated from the free cash flow in the last year of the discrete forecast period and from the terminal value.
- The ability of Villa World to be able to replenish its portfolio in perpetuity is subject to the supply and demand dynamic of the residential market¹¹, availability of debt and ability to retain existing management team and establish an effective succession planning.
- The outcome of the DCF Method, which is based on the average of the two scenarios, is supported by the Quoted Security Price Method and the EBITDA Multiple Method.
- There is no evidence that would suggest that a different point from the average of the two scenarios should be adopted.

Quoted Security Price Method

We have assessed the fair market value of Villa World Shares based on the trading price up to 14 March 2019 between A\$1.95 to A\$2.05. We note that we consider appropriate to reduce our assessed price range by the interim dividend of 8 cents per share since the Total Cash Consideration of A\$2.345 cents is after accounting for the interim dividend of 8 cents per share. We note that the trading prices of Villa World started trading on an ex-dividend basis on 12 March 2019. Accordingly, our assessed fair market value of Villa World Shares based on the trading price before the 14 March 2019 is adjusted to between A\$1.87 to A\$1.97 on a minority basis.

We have set out below our valuation assessment based on the Quoted Security Price Method after the application of a premium for control between 20% and 40%.

¹¹ The residential market is currently volatile with oversupply in certain market segments and geographic locations.

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Valuation summary - Quoted Security Price Method	Section Reference	Low	High
A\$/ Villa World Share unless stated otherwise			
Value per Villa World Share cum-dividend (on a minority basis)	Section 6.2	1.950	2.050
Less: 1HFY19 Dividend ¹		(0.080)	(0.080)
Value per Villa World Share ex-dividend (on a minority basis)		1.870	1.970
Control premium (%)	Section 6.2	20.0%	40.0%
Value per Villa World Share ex-dividend (on a control basis)		2.244	2.758

Source: GTCF analysis

Note (1): The Company announced a 1HFY19 interim dividend of 8 cents per share and the shares began trading ex-dividend on 12 March 2019.

Multiple Method

To cross-check our valuation assessment, we have compared the multiple implied in our valuation assessment of Villa World to the multiples of broadly comparable listed companies. The following table sets out the EBITDA¹² and P/NTA multiples implied by our valuation assessment.

Implied EBITDA multiple	Section Reference	Low	High
A\$000 unless stated otherwise			
GT assessed enterprise value of Villa World		399,609	452,040
Value per Villa World Share (A\$/ Villa World Share)		2.236	2.649
EBITDA			
FY19 EBITDA		37,025	37,025
FY20 Consensus estimate		46,173	46,173
5-year average		49,631	49,631
EV/EBITDA (times)			
FY19 EBITDA		10.8x	12.2x
FY20 Consensus estimate		8.7x	9.8x
5-year average (FY15 to FY19)	Note 2	8.1x	9.1x
NTA (A\$/Villa World Share)			
30 June 2019	Section 4	2.28	2.28
31 December 2018 Adjusted	Note 1	2.23	2.23
P/NTA (times)			
30 June 2019		0.98x	1.16x
31 December 2018 Adjusted		1.00x	1.19x

Source: GTCF Analysis

Note (1): The NTA as at 31 December 2018 has been adjusted for the interim dividend of 8 cents per share.

Note (2): The EBITDA for prior years has been adjusted for the capitalised interest to ensure the 5-year average EBITDA is calculated on a consistent basis.

In our analysis, we have relied both on annual EBITDA and average EBITDA generated over longer periods of time to smooth the lumpiness of the cash flows typical of property developers and analysed the multiples through the cycle.

In our benchmarking, we have mainly relied on AVJennings Limited ("AVJ" or AVJennings"), Cedar Woods Properties Limited ("CWP" or "Cedar Woods") and Sunland Group Limited ("SDG" or "Sunland").

We consider the EBITDA Multiple and P/NTA Multiple implied in our valuation assessment reasonable based on the following:

¹² EBITDA for prior periods have been adjusted for the capitalised interest which was being accounted for under finance costs.



- We consider AVJ as the most comparable company. The implied P/NTA is at a significant premium to AVJ multiples on a minority basis, which is appropriate given that Villa World has historically been able to deliver superior financial returns both in terms of EBITDA margin and ROA. In addition, the lack of takeover contestability of AVJ, given that the major shareholder holds 54% of issued capital, usually adversely affects the valuation of the business and the trading prices.
- The multiples implied in our valuation on a control basis are at premium to the trading multiples of Sunland. We are of the opinion that this is reasonable given that the majority of Sunland's portfolio consists of multi-storey inner city residential apartments and these apartment projects have more lumpy cash flows, longer cash generation cycles and subject to greater market volatility. The financial performance generated by Sunland is substantially in line with Villa World.
- We consider appropriate for the multiples implied in our valuation on a control basis to be at a discount to the trading multiples of Cedar Woods as Villa World does not have a flagship project of the scale and size of Williams Landing which has historically allowed the company to generate superior returns but still offers a long-dated pipeline of opportunities. Further, the presence of commercial property on the balance sheet of Cedar Woods allows the company to gear stable rental income.

Reasonableness of the Scheme

For the purpose of assessing whether or not the Scheme is reasonable to the Villa World Shareholders, we have considered the following likely advantages, disadvantages and other factors associated with the Scheme. We note that in accordance with RG111, the Scheme is reasonable if it is fair.

Advantages

Premium for control

A premium for control is applicable when the acquisition of control of a company or business would give rise to benefits such as the ability to realise synergies, access cash flows, access tax benefits and control of the board of Directors of the company.

The Total Cash Consideration of A\$2.345 per Villa World Share represents a premium of:

- 17.8% to the closing price of Villa World Shares on 14 March 2019¹³ of A\$1.99.
- 17.2% to the 1 week VWAP of Villa World Shares up to and including 14 March 2019 of A\$2.002.
- 17.4% to the 1 month VWAP of Villa World Shares up to and including 14 March 2019 of A\$2.00.
- 25.1% to the 3 month VWAP of Villa World Shares up to and including 14 March 2019 of A\$1.88.

This premium for control is unlikely to be available to Villa World Shareholders in the absence of the Scheme or a superior proposal.

¹³ The last trading day prior to Villa World announcing it had received the Initial Proposal.



Ability for Scheme Shareholders to realise their investment in Villa World

The Scheme represents an opportunity for Villa World Shareholders to receive certain and immediate value for their investment in Villa World free of any realisation costs. Villa World Shareholders will no longer be exposed to the on-going risks associated with holding an investment in Villa World which include, but are not limited to:

- *Volatile cash flows* – The historical financial performance of Villa World has been volatile which is typical of a company whose performance is linked to the completion of development projects with inherently “lumpy” cash flows. Villa World’s revenues are closely tied to the future value of the residential lots which is affected by the performance of the overall property market. Whilst the property market is recovering from the trough in 2018, conditions are still volatile and subject to uncertainties.
- *Approvals risks* – The sale of lots in Villa World’s projects depend on obtaining planning and work approvals and in some cases rezoning approvals. For example, the sale of the Donnybrook Project, Villa World’s share of revenue from the sales will be recognised progressively in line with the staged settlements and is dependent on the outcome of the precinct structure plan¹⁴ (“PSP”) approval process. It is expected that revenue from the sale of contracts will begin to be recognised from 1HFY21, underpinning earnings through to FY24.
- *Population* - A key driver of the residential property market is the growth in population which is a combination of organic growth and immigration with the latter in particular affected by Government policies. Any changes in the social patterns or the immigration policies of the government can impact the population growth, thereby having a short or medium-term impact on one or more of the Company’s projects.
- *Availability of finance* – Villa World’s business is capital intensive and it relies on being able to raise funds for future refinancing, development and acquisitions. Villa World’s target gearing is between 15% and 30%. Also, Villa World’s customers are required to raise finance in order to settle the acquisition of the lots. If market conditions deteriorate, it may affect the availability of funding for both Villa World and future lot purchasers which may adversely affect the business.

Volatile market conditions

Market conditions on the global financial markets are extremely volatile and subject to considerable uncertainties due to the following, among other things:

- *Trade war* – The trade war between the US and China erupted circa 18 months ago and it has exacerbated in more recent times. As a result, the US has put import tariffs on US\$250 billion worth of Chinese goods and it has threatened tariffs on an additional US\$325 billion. As a countermeasure, China has imposed tariffs on US\$110 billion worth of US goods and Chinese companies have suspended purchasing US agricultural products. The trade war is affecting those economies which have a greater reliance on export and it is causing fears of global recession. China recently reported the worst manufacturing output in 17 years and Germany indicated that the economy shrank by 0.1% in the second quarter of the year.

¹⁴ The Precinct Structure Plans are project plans for development and investment that will occur in the future. They include specific details regarding roads, shopping centres, schools, parks, key transport connections and areas for housing and employment and may evolve or transform over time and become more integrated.

- Inverted yield curve and possible US recession** – On 14 August 2019, the US 10 year bond yield fell below the level of the US two year bond yield (i.e. inversion in the yield curve) which has caused significant uncertainty in the global markets as an inverted yield curve has been associated in the past with a looming US recession. We note that the inversion in the yield curve first occurred a few months ago, but recently it became more pronounced. On 14 August 2019, the 3-month US Treasury Bond was paying nearly 0.4% more than the 10 year US Treasury Bond. The inverted yield curve indicates that investors are so concerned about the short-term outlook that they are prepared to accept a lower return to buy safer long-term investments. When the economy fundamentals are sound, bond holders typically require a higher yield on long term bonds as they are required to lock their money up for a longer period of time (time value of money). The inversion in the yield curve is considered an alarming signal by investors given that the yield curve inverted before every US recession since 1955 although sometimes the time-lag between the inversion and the actual recession was longer than others.
- Brexit** – In the UK, GDP growth increased by only 0.2% in the second quarter of 2019 and substantial uncertainties in relation to outcome of Brexit. With substantial uncertainties around the terms of the UK's exit from the European Union, the country is expected to potentially fall into recession.

A global recession may adversely affect the business of Villa World in terms of availability of finance for the Company and purchasers of its lots, consumers' confidence and property price growth. In addition to the above risks, Villa World Shareholders should also consider the risks articulated in the Scheme Booklet.

Franking credits attached to the Special Dividend

If the Special Dividend is declared, those Villa World Shareholders who are entitled to the Special Dividend may be entitled to a franking credit of up to approximately A\$0.132 per Villa World Share. The Special Dividend component of the Total Cash Consideration, if declared, is expected to be fully franked. Under the current tax regime, Australian resident shareholders on a lower tax rate can claim an income tax offset and accordingly realise greater value compared with the Total Cash Consideration. These Villa World Shareholders are likely to be better off on a post-tax basis if the Special Dividend is paid compared with the scenario that 100% of the Total Cash Consideration is paid as capital gain (nil Special Dividend). The following table summarises the after-tax cash amount from the Special Dividend that certain Villa World Shareholders could realise depending on their tax position.

Special dividend - franking credits benefit	Reference	Australian resident			Corporate
		45%	30%	0%	30%
A\$/ Villa World Share unless stated otherwise		Marginal tax rate	Marginal tax rate	Marginal tax rate	
Special Dividend	[A]	0.31	0.31	0.31	0.31
Franking credits	[B]	0.13	0.13	0.13	0.13
Gross taxable income	[C] = [A] + [B]	0.44	0.44	0.44	0.44
Tax payable	[D] = [C] x MTR ⁽¹⁾	(0.20)	(0.13)	-	(0.13)
Tax credit	[B]	0.13	0.13	0.13	0.13
Net after tax Special Dividend	[A] + [B] + [D]	0.24	0.31	0.44	0.31

Source: GTCF analysis

Notes: (1) For the purpose of this calculation the Special Dividend has been assumed at 31 cents per share but Villa World can elect to pay a different amount up to 31 cents per share; (2) Ignores Medicare levy and other surcharges.

As outlined in the table above, the benefits of the Special Dividend are expected to accrue to Australian resident shareholders on lower tax rates.



We note that those Villa World Shareholders on a marginal tax rate who will realise a capital loss¹⁵ upon implementation of the Scheme may be better-off if Villa World does not declare a Special Dividend. However, we have not considered the individual circumstances of Villa World Shareholders in discussing the taxation consequences of the Special Dividend. Villa World Shareholders should read the overview of tax implications of the Scheme set out in the Scheme Booklet and also seek independent financial and tax advice.

No brokerage costs

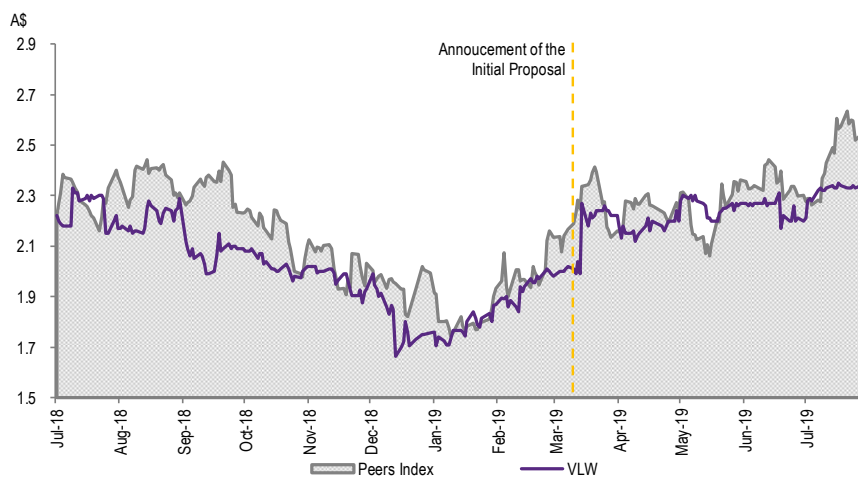
If the Scheme is implemented, Villa World Shareholders will be able to realise their investment in Villa World without incurring any brokerage costs.

Disadvantages

The timing of the Initial Proposal is opportunistic

We have set out below the share price performance of Villa World against an index of the listed peers ("Peers Index¹⁶") and the premium/discount to net tangible assets ("NTA") at which Villa World and its peers have historically traded.

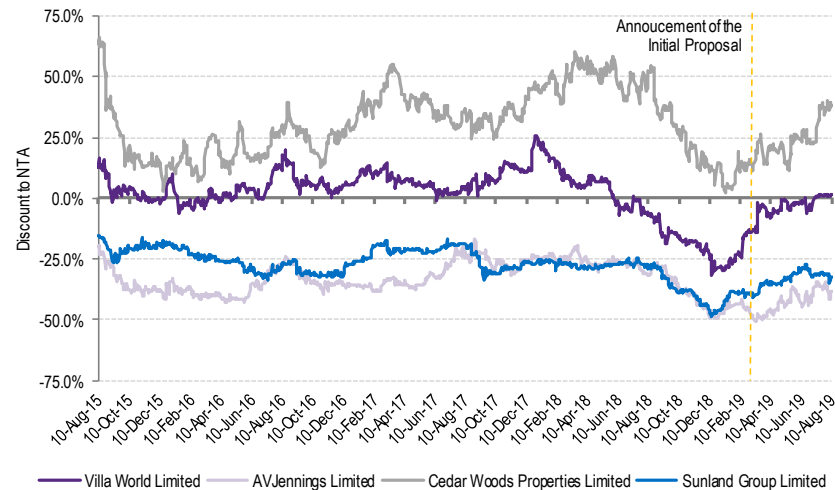
Villa World, Peers Index (rebased to Company's share price)



Sources: S&P Global, Australian Bureau Statistics, GTCF analysis
 Note: The RPP Index is kept constant after March 2019 as this constitutes ABS' most recent publication of residential property price indices.

¹⁵ A capital loss is realised if the capital proceeds from the disposal of Villa World Shares are less than the reduced cost base of the Villa World Shares. Refer to section 7.4 (a) of the Scheme Booklet for details.
¹⁶ It includes AVJ, Sunland and Cedar Woods.

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Premium/Discount to NTA of Villa World and key industry peers


We are of the opinion that the timing of the Initial Proposal was opportunistic due to the following:

- The share price of Villa World and the Peer Index trended downward in the period between July and December 2018 in conjunction with a reduction in the property prices and difficult market conditions. The decline in Villa World's share price was also exacerbated by company-specific announcements in relation to withdrawing market guidance for FY19. In the period from 1 January 2019 to the date of receiving the Initial Proposal, Villa World share price increase by 13.1% mainly benefiting from improved market conditions. We note that the Peer Index increased by 17.3% up to the date of the Initial Proposal and then by a further 12.1% between the Initial Proposal and 15 August 2019. In the period between the Initial Proposal and 15 August 2019, the trading prices of Villa World have traded in line with the Total Cash Consideration and has been supported by the Initial Proposal and the subsequent Scheme, however it is not unreasonable to assume that in the absence of the Initial Proposal, the trading prices of Villa World would have increased in line with the Peer Index during this period. On the flip side, we note that the trading prices did not adjust for the poor FY19 financial performance relative to prior periods announced by the Company on 20 August 2019 and the recent volatility in financial markets as they were supported by the Scheme.
- As set out in the graph above, the Initial Proposal was presented during a short window of time when Villa World Shares were trading at a discount to NTA. However, there is no guarantee that in the absence of the Initial Proposal Villa World will trade again in line with NTA at least in the short term. As illustrated in the graph above, AVJ and Sunland, which are reasonably comparable to Villa World, have been trading at a discount to NTA for a long period of time.



No participation in future potential upside of Villa World

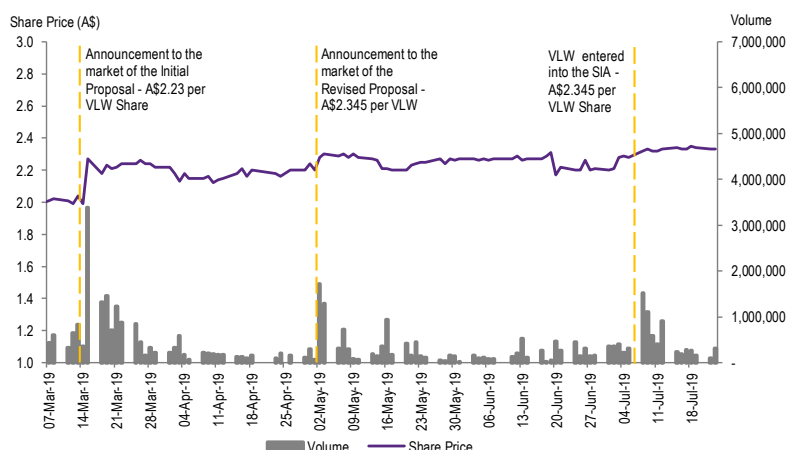
If the Scheme is implemented, Villa World Shareholders will give up the right to participate in the future potential upside and growth opportunities of Villa World. The track record of Villa World in delivering profitable growth through completion of their projects and the pipeline of future projects may generate continued and significant upside for Villa World Shareholders.

Other considerations

Share price after the announcement

As set out below, following the announcement of the Scheme, Villa World has traded substantially in line with or slightly below the Total Cash Consideration which seems to indicate good support from investors for the Total Cash Consideration¹⁷, perceived low risk of the Scheme not being implemented and limited expectations for a superior proposal.

Trading price between the announcement of the Scheme and 14 August 2019



Value of Villa World for AVID

If the Scheme is implemented, Villa World will apply to be delisted from the ASX and, assuming delisting occurs, AVID will realise cost savings on listing fees, ASX compliance costs and Directors' fees. These cost savings have been included into our valuation assessment of Villa World on a control basis based on the DCF Method.

AVID is a diversified Australian property development business with a \$3bn portfolio of broad acre and medium density residential and industrial projects headquartered in Sydney, Australia¹⁸. The business of Villa World is expected to be complementary to AVID's business as it has limited presence in the land and land and house developments.

¹⁷ The structure of the Total Cash Consideration with a Special Dividend of up to 31 cents per share is attractive to those Australian shareholders on a lower tax rate who can claim an income tax offset, and accordingly realise greater value compared with the A\$0.35 cents per Villa World Share as set out in the SIA or the A\$0.31 cents per Villa World Share intended to be approved by the Villa World Board.

¹⁸ AVID company website.

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Prospects of a superior offer

To date no superior proposal to the Scheme has emerged. Whilst Villa World has agreed not to solicit any competing proposals or, subject to a fiduciary exception, to participate in discussions or negotiations in relation to any competing proposals, there are no material impediments to an alternative proposal being submitted by potentially interested parties. The transaction process may act as a catalyst for other interested parties and it will provide significant additional information in the Scheme Booklet and Independent Expert's Report to enable such potential acquirers to assess the merits of potential alternative transactions. If a superior proposal emerges before Villa World Shareholders cast their vote on the Scheme, the Scheme meeting may be adjourned or Villa World Shareholders may vote against it¹⁹.

Implications if the Scheme is not implemented

If the Scheme is not implemented, it is the current Directors' intention to continue operating Villa World as a stand-alone entity listed on the ASX. However, in the absence of the Scheme or an alternative transaction, all other things being equal, it is likely that Villa World Shares will trade at prices below the Total Cash Consideration, at least in the short-term. However, we are of the opinion that they may not go back to the same level they were trading before the Initial Proposal as residential market conditions have improved since then.

Break fee

In the event that a competing proposal is announced and completed or the Directors withdraw, change or qualify their recommendation of the Scheme or their voting intention in relation to the Scheme, Villa World will pay, subject to certain exceptions, to AVID a break fee of approximately A\$3 million plus GST. The break fee may also become payable under other circumstances as set out in the SIA.

Tax implications

Implementation of the Scheme may crystallise a capital gains tax liability for Villa World Shareholders, however the taxation consequences for Villa World Shareholders will vary according to their individual circumstances and will be impacted by various factors. Villa World Shareholders should read the overview of tax implications of the Scheme set out in the Scheme Booklet and also seek independent financial and tax advice.

Directors' recommendations and intentions

As set out in the Scheme Booklet, as at the date of this Report, the Directors have recommended that Villa World Shareholders vote in favour of the Scheme in the absence of a superior proposal subject to the independent expert concluding and continuing to conclude that the Scheme is in the best interests of Villa World Shareholders. Subject to those same qualifications, the Directors also intend to vote the shares they hold or control in favour of the Scheme.

¹⁹ We noticed that if Directors withdraw their recommendation of the Scheme in the event of a superior proposal Villa World will be required to pay a break fee of approximately A\$3 million (excluding GST).

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Reasonableness conclusion

Based on the qualitative factors identified above, it is our opinion that the Scheme is **REASONABLE** to Villa World Shareholders.

Overall conclusion

After considering the abovementioned quantitative and qualitative factors, Grant Thornton Corporate Finance has concluded that the Scheme is **FAIR AND REASONABLE and hence in the BEST INTERESTS** of the Villa World Shareholders in the absence of a superior alternative proposal emerging.

Other matters

Grant Thornton Corporate Finance has prepared a Financial Services Guide in accordance with the Corporations Act. The Financial Services Guide is set out in the following section.

The decision of whether or not to vote in favour of the Scheme is a matter for each Villa World Share to decide based on their own views of value of Villa World and expectations about future market conditions, Villa World's performance, risk profile and investment strategy. If Villa World Shareholders are in doubt about the action they should take in relation to the Scheme, they should seek their own professional advice.

Yours faithfully
GRANT THORNTON CORPORATE FINANCE PTY LTD

ANDREA DE CIAN
Director

JANNAYA JAMES
Authorised Representative

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5 September 2019

Financial Services Guide

1 Grant Thornton Corporate Finance Pty Ltd

Grant Thornton Corporate Finance Pty Ltd ("Grant Thornton Corporate Finance") carries on a business, and has a registered office, at Level 17, 383 Kent Street, Sydney NSW 2000. Grant Thornton Corporate Finance holds Australian Financial Services Licence No 247140 authorising it to provide financial product advice in relation to securities and superannuation funds to wholesale and retail clients.

Grant Thornton Corporate Finance has been engaged by Villa World to provide general financial product advice in the form of an independent expert's report in relation to the Scheme. This report is included in the Company's Scheme Booklet.

2 Financial Services Guide

This Financial Services Guide ("FSG") has been prepared in accordance with the Corporations Act 2001 and provides important information to help retail clients make a decision as to their use of general financial product advice in a report, the services we offer, information about us, our dispute resolution process and how we are remunerated.

3 General financial product advice

In our report we provide general financial product advice. The advice in a report does not take into account your personal objectives, financial situation or needs.

Grant Thornton Corporate Finance does not accept instructions from retail clients. Grant Thornton Corporate Finance provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. Grant Thornton Corporate Finance does not provide any personal retail financial product advice directly to retail investors nor does it provide market-related advice directly to retail investors.

4 Remuneration

When providing the Report, Grant Thornton Corporate Finance's client is the Company. Grant Thornton Corporate Finance receives its remuneration from the Company. In respect of the Report, Grant Thornton Corporate Finance will receive from Villa World a fixed fee of approximately \$95,000 plus GST, which is based on commercial rate plus reimbursement of out-of-pocket expenses for the preparation of the report. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority.

Except for the fees referred to above, no related body corporate of Grant Thornton Corporate Finance, or any of the directors or employees of Grant Thornton Corporate Finance or any of those related bodies or any associate receives any other remuneration or other benefit attributable to the preparation of and provision of this report.

5 Independence

Grant Thornton Corporate Finance is required to be independent of Villa World in order to provide this report. The guidelines for independence in the preparation of independent expert's reports are set out in Regulatory Guide 112 *Independence of expert* issued by the Australian Securities and Investments Commission ("ASIC"). The following information in relation to the independence of Grant Thornton Corporate Finance is stated below.

"Grant Thornton Corporate Finance and its related entities do not have at the date of this report, and have not had within the previous two years, any shareholding in or other relationship with Villa World (and associated entities) that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Scheme.

Grant Thornton Corporate Finance has no involvement with, or interest in the outcome of the Scheme, other than the preparation of this report.

Grant Thornton Corporate Finance will receive a fee based on commercial rates for the preparation of this report. This fee is not contingent on the outcome of the transaction. Grant Thornton Corporate Finance's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Thornton Corporate Finance will receive no other benefit for the preparation of this report.

Grant Thornton Corporate Finance considers itself to be independent in terms of Regulatory Guide 112 "Independence of expert" issued by the ASIC."

6 Complaints process

Grant Thornton Corporate Finance has an internal complaint handling mechanism and is a member of the Financial Ombudsman Service (membership no. 11800). All complaints must be in writing and addressed to the Chief Executive Officer at Grant Thornton Corporate Finance. We will endeavour to resolve all complaints within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Ombudsman Service who can be contacted at:

PO Box 579 – Collins Street West
Melbourne, VIC 8007
Telephone: 1800 335 405

Grant Thornton Corporate Finance is only responsible for this report and FSG. Complaints or questions about the Shareholders Meetings should not be directed to Grant Thornton Corporate Finance. Grant Thornton Corporate Finance will not respond in any way that might involve any provision of financial product advice to any retail investor.

7 Compensation arrangements

Grant Thornton Corporate Finance has professional indemnity insurance cover under its professional indemnity insurance policy. This policy meets the compensation arrangement requirements of section 912B of the Corporations Act, 2001.

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1 Overview of the Scheme

1.1 Other terms of the Scheme

We have set out below some other key terms of the SIA:

- *Final Dividend/Special Dividend* – Based on the terms of the SIA, Villa World has the discretion to pay a final dividend and/or a Special Dividend up to a maximum of 35 cents per Villa World Share which amount will be deducted from the Total Cash Consideration payable by AVID. We understand that the Villa World Board intends to declare a Special Dividend of A\$0.31 per Villa World Share subject to the Scheme being implemented.
- *Performance Rights* – The Company currently has 1,967,346 performance rights on issue to executives under its long term incentive plan ("Performance Rights"). Each Performance Right confers on its holder the entitlement to acquire one Villa World Share without the payment of any consideration, upon satisfaction of the vesting conditions at the end of the relevant performance period. The Board (excluding Mr. Craig Treasure given he is the holder of some of the Performance Rights) has determined that all of the Performance Rights will vest upon the Scheme becoming effective. Under the terms of the SIA, the Villa World Shares issued on vesting of the Performance Rights will be acquired by AVID under the Scheme.
- *Conditions precedent* – the SIA includes the following conditions precedent (refer to section 3 of the SIA for full details):
 - Approval of the Scheme by Villa World Shareholders.
 - Approval of the Scheme by the Court in accordance with Section 411 of the Corporations Act.
 - FIRB approval.
 - The Performance Rights either vest or lapse before the Scheme Record Date.
 - Warranties given by AVID and Villa World remain true and correct.
 - No type of legal restraint preventing any transactions contemplated by the Scheme is issued by a relevant court or regulatory authority.
 - Other conditions precedent customary for a transaction of this type including no material adverse change and no prescribed occurrences. We note that a material adverse change will occur, among other things, if the Company's net debt three business days before the Second Court Date exceeds A\$160 million.
- *Break Fee* – a break fee of circa A\$3 million plus GST may become payable by Villa World to AVID if during the exclusivity period:
 - Any of the Directors withdraws, changes or in any way qualifies their voting intention or recommendation to vote in favour of the Scheme, except in limited circumstances set out in the SIA.

- A competing proposal is announced by a third party and within twelve months from its announcement, the competing proposal completes or the third party acquires a relevant interest in more than 50% of Villa World Shares under a transaction that is or has become wholly unconditional or otherwise comes to control Villa World or acquires substantially all of the assets of Villa World.
- AVID terminates the SIA due to a material breach by Villa World of the terms of the SIA.
- *Others* – other terms common for a transaction of this nature, including customary exclusivity arrangements such as “no shop”, “no talk”, and “no due diligence” and a right for AVID to be notified of and to match any competing proposals.

2 Purpose and scope of the report

2.1 Purpose

Section 411 of the *Corporations Act 2001 (Cth)* regulates schemes of arrangement between companies and their members. Part 3 of Schedule 8 of the *Corporations Regulations 2001 (Cth)* prescribes information to be sent to shareholders and creditors in relation to members' and creditors' schemes of arrangement pursuant to Section 411 of the Corporations Act.

Part 3 of Schedule 8 (s640) of the Corporations Regulations requires an independent expert's report in relation to a scheme to be prepared when a party to that scheme has a shareholding greater than 30% in the company subject to the scheme, or where any of its directors are also directors of the company subject to the scheme. In those circumstances, the independent expert's report must state whether a scheme is in the best interests of shareholders and state reasons for that opinion. Even where there is no requirement for an independent expert's report, documentation for a scheme of arrangement typically includes an independent expert's report.

While there is no legal requirement for an independent expert's report to be prepared in respect of the Scheme, the Directors have requested that Grant Thornton Corporate Finance prepare an independent expert's report to express an opinion as to whether the Scheme is in the best interests of Villa World Shareholders.

2.2 Basis of assessment

In determining whether the Scheme is in the best interests of the Villa World Shareholders, Grant Thornton Corporate Finance has had regard to relevant Regulatory Guides issued by the ASIC, including RG 111, Regulatory Guide 60 Scheme of arrangement ("RG 60") and RG 112. The IER will also include other information and disclosures as required by ASIC. We note that neither the Corporations Act nor the Corporations Regulations define the term "in the best interests of members".

RG 111 establishes certain guidelines in respect of independent expert's reports prepared for the purposes of the Corporations Act. RG 111 is framed largely in relation to reports prepared pursuant to Section 640 of the Corporations Act and comments on the meaning of "fair and reasonable" in the context of a takeover offer. RG 111 requires an independent expert report prepared for a change of control transaction implemented by way of scheme of arrangement to undertake an analysis substantially the same as for a takeover bid. However, the opinion of the expert should be whether or not the proposed scheme is "in the best interests of the members of the company". If an expert were to conclude that a proposal was "fair and reasonable" if it was in the form of a takeover bid, it will also conclude that the proposed scheme is "in the best interests of the members of the company".

Pursuant to RG111, an offer is "fair" if the value of the offer price or consideration is equal to or greater than the value of the securities that are subject of the offer. A comparison must be made assuming 100% ownership of the target company.

RG111 considers an offer to be "reasonable" if it is fair. An offer may also be reasonable if, despite not being "fair" but after considering other significant factors, shareholders should accept the offer in the absence of any higher bid before the close of the offer.

In our opinion, the most appropriate way to evaluate the fairness of the Scheme is to compare the fair market value of Villa World on a 100% and control basis with the Total Cash Consideration.

In considering whether the Scheme is in the best interests of the Villa World Shareholders, we have considered a number of factors, including:

- Whether the Scheme is fair.
- The terms and conditions relating to the Scheme.
- The implications to Villa World and the Villa World Shareholders if the Scheme is not approved.
- Other likely advantages and disadvantages associated with the Scheme.
- Other costs and risks associated with the Scheme that could potentially affect Villa World Shareholders.

2.3 Independence

Prior to accepting this engagement, Grant Thornton Corporate Finance considered its independence with respect to the Scheme with reference to RG 112.

Grant Thornton Corporate Finance has no involvement with, or interest in, the outcome of the approval of the Scheme other than that of an independent expert. Grant Thornton Corporate Finance is entitled to receive a fee based on commercial rates and including reimbursement of out-of-pocket expenses for the preparation of this report.

Except for these fees, Grant Thornton Corporate Finance will not be entitled to any other pecuniary or other benefit, whether direct or indirect, in connection with the issuing of this report. The payment of this fee is in no way contingent upon the success or failure of the Scheme.

2.4 Consent and other matters

Our report is to be read in conjunction with the Scheme Booklet dated on or around 5 September 2019 in which this report is included, and is prepared for the exclusive purpose of assisting the Villa World Shareholders in their consideration of the Scheme. This report should not be used for any other purpose.

Grant Thornton Corporate Finance consents to the issue of this report in its form and context and consents to its inclusion in the Scheme Booklet.

This report constitutes general financial product advice only and in undertaking our assessment, we have considered the likely impact of the Scheme on the Villa World Shareholders as a whole. We have not considered the potential impact of the Scheme on individual Villa World Shareholders. Individual shareholders have different financial circumstances and it is neither practicable nor possible to consider the implications of the Scheme on individual shareholders.

The decision of whether or not to approve the Scheme is a matter for each Villa World Shareholder based on their own views of value of Villa World and expectations about future market conditions, Villa World's performance, risk profile and investment strategy. If Villa World Shareholders are in doubt about the action they should take in relation to the Scheme, they should seek their own professional advice.



2.5 Compliance with APES 225 Valuation Services

This report has been prepared in accordance with the requirements of the professional standard APES 225 Valuation Services ("APES 225") as issued by the Accounting Professional & Ethical Standards Board. In accordance with the requirements of APES 225, we advise that this assignment is a Valuation Engagement as defined by that standard as follows:

"An Engagement or Assignment to perform a Valuation and provide a Valuation Report where the Member is free to employ the Valuation Approaches, Valuation Methods, and Valuation Procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the Engagement or Assignment available to the Member at that time."

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3 Profile of the industry

Villa World operates in the Australian residential property industry, developing houses, townhouses and land on the Eastern Seaboard of Australia. More specifically, the Company has ongoing projects predominantly in South-East Queensland²⁰, Victoria and New South Wales.

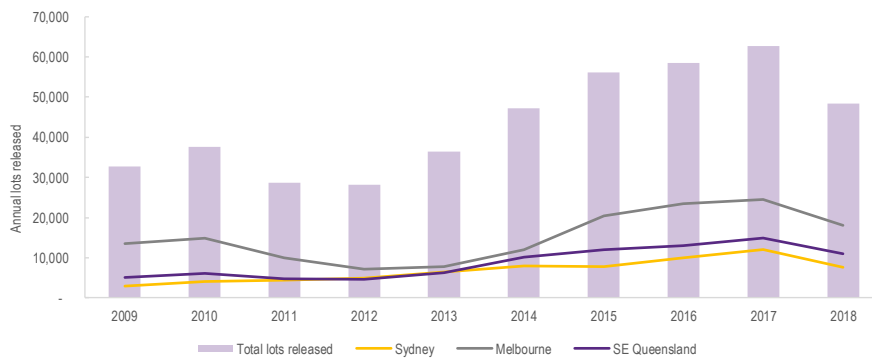
3.1 Land development and Sub-division Industry

The Land Development and Sub-division²¹ ("Land Industry") industry comprises companies engaged in subdividing land into lots and readying them for sale via civil and other works²².

Relative to 2017, lot supply for housing development had declined in 2018 whilst median lot prices had increased. Collectively, this had negatively impacted the Land Industry's performance in 2018 as the rise in lot prices has not offset the reduction in supply.

The following graph sets out the total lots production nationally and in South-East Queensland, Sydney and Melbourne, key growth corridors for Villa World.

National and regional lots production from 2009 to 2018



Source: UDIA Land Report 2019

Note (1): Total lots comprises the lot production from the following regions – Sydney, Melbourne, South-East Queensland, Adelaide, Perth and Canberra.

Note (2): The lot numbers are approximations and therefore rounding differences may exist.

Total lot production has increased significantly nationally from 2012 to 2017. Strong growth has been experienced across all regions in particular in Melbourne and South-East Queensland. Perth saw the number of lots released to sharply increase up to 2014, but they have been decreasing since.

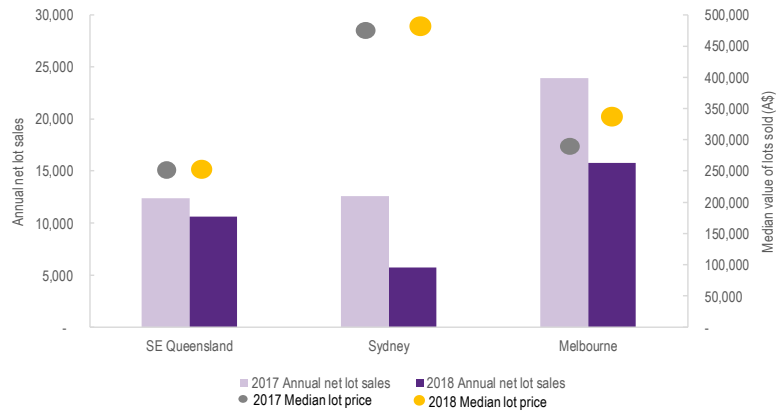
In 2018, all regions have suffered from a significant reduction in the number of lots released driven by oversupply and challenging market conditions, however the median lot prices have increased or remained stable in the regions where the Company operates as set out in the following graph.

²⁰ For the purpose of this report, South-East Queensland comprises the following regions – Sunshine Coast, Moreton Bay, Brisbane, Ipswich, Logan, Gold Coast and Redland. More specifically, the Company has two projects in regional Queensland – Augustus and Little Creek.

²¹ The IBISWorld Report includes land which is developed and transacted for residential and non-residential purposes. We have included a discussion in relation to land being used for residential purposes since it contributes majority (c. 73.1%) of the total revenue of the Land Industry.

²² Excavation for the construction of roads, kerbs, footpaths and installation of utility lines etc.

Annual net lot sales and Median lot prices in 2017 and 2018

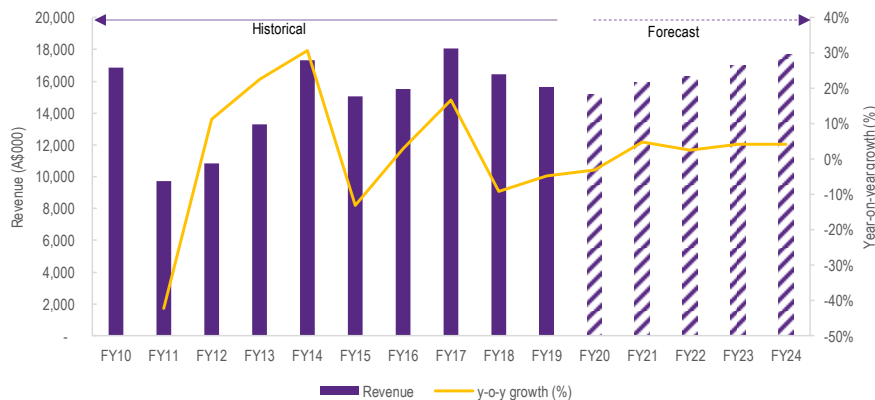


Source: UDIA Land Report 2019

The Land Industry is fragmented with a low market share concentration. Large industry participants include state government land organisations which implement state-level urban planning initiatives and residential property developers such as Villa World, AVJennings and AVID.

Going forward, from FY19 to FY24, the Land Industry is forecast to grow at 2.5%²³ per annum, even if it is expected to continue facing volatile market conditions.

Historical and forecast revenue and growth in the Land Industry



Source: IBISWorld Land Industry Report 2019

3.2 House Construction Industry

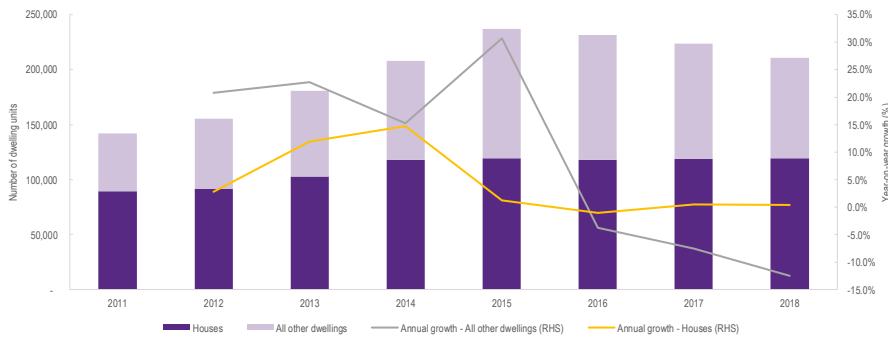
The participants in the House Construction industry (“House Industry”) construct new detached dwellings or renovate and repair existing homes. An increase in the general property prices over the past five years have resulted in home buyers opting for higher density dwellings, such as apartments and townhouses

²³ Based on the IBISWorld Land Industry Report 2019.

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which has impacted the demand for the House Industry. A forward-looking indicator of the growth in the House Industry revenue is the level of building approvals received, which is shown in the graph below.

Historical growth in residential property approvals by type



Source: ABS 8731.0 Building Approvals

Note (1): All other dwellings comprise the following – Semi-detached dwellings, row or terrace houses and flat units or apartments

The decline in building approvals for the all other dwellings category was largely driven by decline in the approvals for medium and high-density residential properties such as apartments amid concerns about oversupply in that segment of the market. For the avoidance of doubt, we note that Villa World does not operate in the apartment segment of the residential property market and whilst the Company offers townhouses in some of its projects, the proportion of this product relative to all the other products is small. With the exception of 2016, approvals for houses have remained flat or have increased. During 2017 and 2018, the approvals for houses showed a modest growth of 0.4% and 0.5% respectively.

The House Industry is fragmented and has a low level of concentration. A key driver of competitiveness is product differentiation based on quality, design, efficiency and timeliness of project completion. In addition to this, price differentiation has also become an important factor with companies offering various incentives including but not limited to discounts to home and land package owners, assistance with mortgage payments, gift cards and rebates.

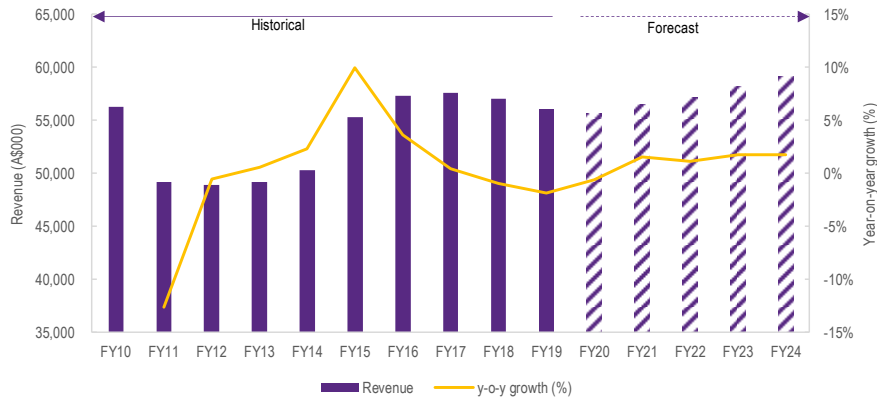
The House Industry revenue grew at a compound annual growth rate ("CAGR") of c. 2.1% from FY11 to FY18²⁴, supported by population growth, increasing number of households and declining interest rates.

From FY19 to FY24, the House Industry is projected to grow at 1.1% as set out in the graph below. The House Industry's performance is expected to improve moderately from FY21 due to rising housing demand driven by economic and population growth. The moderate growth is expected to be a combination of new single-unit housing and marginal growth in new dwelling commencements.

²⁴ According to IBISWorld House Industry Report 2019.

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Historical and forecast revenue and growth in the House Industry



Source: IBISWorld House Industry Report 2019

A number of measures are available to gauge the sentiment of the housing market. The NAB Residential Property Survey Q2 2019 ("The NAB Survey") is a summary of responses from property professionals on various aspects of the housing market. The NAB Residential Property Price Index ("the NAB Index") improved from minus 11 in Q1 2019 to minus 8 in Q2 2019. Whilst this remains well below the overall average of +11, the Index has dramatically improved over the last 1 year from minus 20, suggesting that housing market confidence has also improved. Going forward, the NAB Index is expected to improve by c. 27% in the next 12 months, with more property professionals expecting both residential property prices and rent to grow. Further, longer term confidence levels have also improved, with the index expected to improve by a cumulative c. 45% over the two year period.

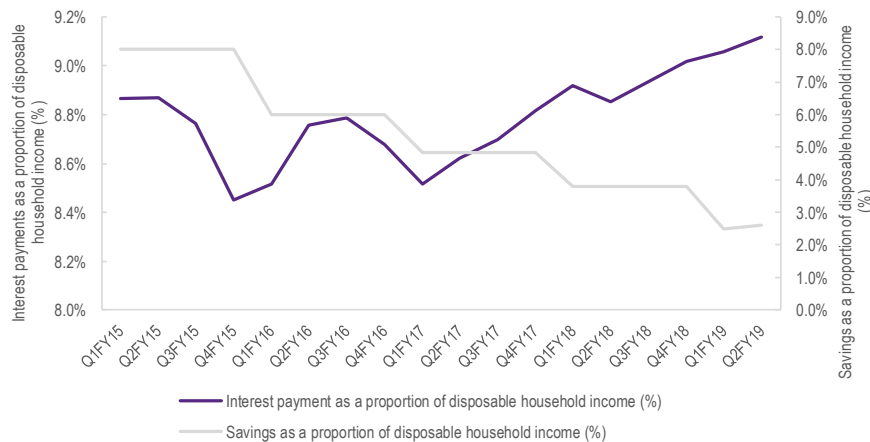
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3.3 Key demand drivers

3.3.1 Mortgage affordability

Mortgage affordability represents the cost of mortgage payments relative to a household's income and is one of the parameters of gauging the housing affordability. The following graph sets out the interest payments and savings as a proportion of disposable household income.

Household savings and interest payments as a proportion of disposable household income



Source: RBA 3.4 Household Debt and Savings Ratio

Based on the above, mortgage affordability has deteriorated significantly in the last five years. We note that Villa World products are affordable and are likely to be attractive in an environment where mortgage affordability is declining.

3.3.2 Interest rates and property prices

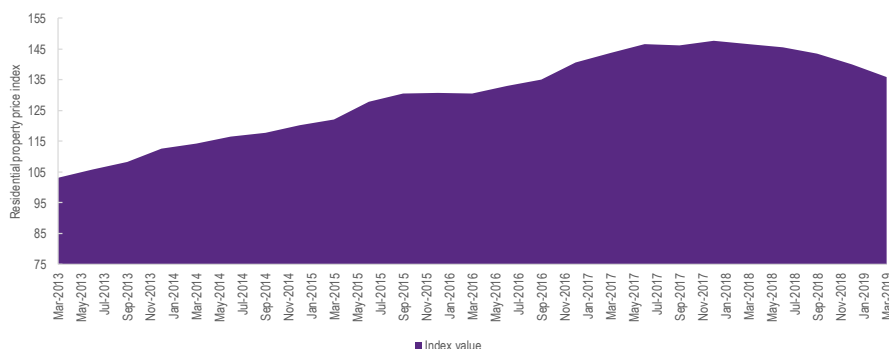
Since the Global Financial Crisis ("GFC"), the Reserve Bank of Australia ("RBA") has supported low interest rates in the belief that the increased liquidity will help the economy to recover and increase the real GDP growth rate. While Australia did witness growth in real gross domestic product ("GDP"), the high level of liquidity in the system benefitted the residential housing market as evidenced by the increase in the residential property price index²⁵ ("RPP Index") published by the Australian Bureau of Statistics ("ABS") which is set out in the graph below.

²⁵ The Residential Property Price Index set out in the graph below is the Index calculated as the weighted average of the median prices in the eight capital cities of Australia – Sydney, Melbourne, Brisbane, Perth, Cairns, Hobart, Canberra, Adelaide.

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Movement in the RPP Index from March 2013 to March 2019²⁶



Source: ABS 6416.0 Residential Property Price Indices

During this period, the cash rate has declined from 2.75%²⁷ to 1%²⁸ as the RPP Index increased from approximately 105 in March 2013 to approximately 130 in March 2019. More recently, the RPP Index declined in conjunction with a reduction in the house prices across the country particularly in the Sydney and Melbourne markets.

Market conditions have improved recently following the Federal Election in May 2019, RBA's two consecutive interest rate cuts in June and July 2019 and APRA reducing the mortgage interest rate serviceability threshold in July 2019. In particular we note that Sydney and Melbourne markets have both recorded higher auction clearance rates in recent months and the first rises in median house prices since July 2017²⁹ were recorded in June 2019. Improved real estate market conditions are likely to lead to an improved outlook for the industry.

3.3.3 Population growth

Australian population growth has a direct correlation to the long-term demand for residential properties. According to the ABS³⁰, Australia's population is expected to increase from 25 million in FY17 to 30 million by FY31³¹ which has been set out in the graph below. The age distribution of the population and the resultant household formation patterns influence long-term demand for residential construction.

²⁶ The RPP Index is published on a quarterly basis. Information for the June 2019 quarter is not yet available.

²⁷ A2 Reserve Bank of Australia – Monetary Policy Changes.

²⁸ Ibid.

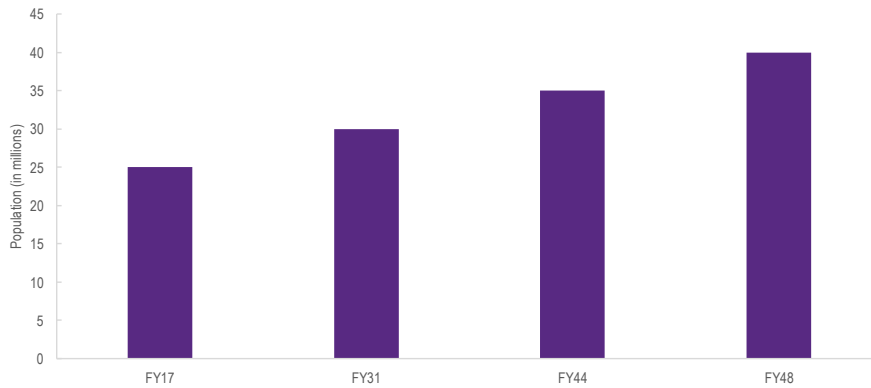
²⁹ Based on information release by CoreLogic.

³⁰ Based on the media release published by the ABS on 22 November 2018.

³¹ Based on moderate assumptions around fertility, life expectancy and overseas migration flows.

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Projected population at different points in the future



Source: ABS 3222.0 Population Projections

Based on the above, the population is projected to grow at a CAGR of c. 1.6% until FY48 which is one of the fastest rates in the developed countries. This is expected to contribute to the long-term demand for housing, positively impacting the business of Villa World.

3.3.4 Government and regulators initiatives and intervention

A number of initiatives are in place to assist home buyers which are outlined below:

- A first home owner grant scheme (“FHOG”) was first introduced on 1 July 2000 to offset the effect of GST on home ownership. It is a national scheme funded by the states and territories and is administered under their own legislation. To give effect to the scheme, a one-off grant is payable to first home owners, subject to appropriate eligibility criteria³². This scheme is relevant for Villa World given its value proposition in the affordable sector of the market which appeals to first home buyers.
- Housing affordability remains an area of focus for the Australian Government. In September 2018, a submission³³ was made to the Australian Parliament in relation to housing affordability. The recommendations resulting from the submission reverted around monitoring and enhancing more affordable quality housing striking the right balance between investors and home buyers.

As discussed above, as a result of the rapid increase in property prices and the reduction of housing affordability, the regulators such as Australian Prudential Regulatory Authority (“APRA”), Australian Securities and Investments Commission (“ASIC”) and the RBA put in place or lobbied a number of measures to soften the growth rates in the real estate market. In particular, the growth in the multi-dwelling residential markets was mainly driven from investors from Asia seeking to invest money in safe jurisdictions³⁴. We note in particular the following:

³² The amount of the payment (A\$15,000 in QLD and A\$10,000 in NSW and VIC) and the eligibility criteria vary according to each state. Broadly, the criteria relates to the applicant’s age, the value of the property, characteristics of the underlying property and others.

³³ Australian Parliament website.

³⁴ According to the Foreign Investment Review Board’s Annual Reports, the total value of FIRB approvals for residential real estate investment increased from A\$17.2 billion in FY13 to A\$72.4 billion in FY16 before declining significantly to A\$12.5 billion in FY18. This was a result of the combined impact of restrictions imposed by the Chinese Government on outbound foreign remittances and the stricter screening regulations imposed by Australian banks.



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- Under pressure from APRA, ASIC and the RBA, in late 2015 the big four Australian banks³⁵ and other large financial institutions announced that they will tighten lending criteria to purchasers of residential property, which impacted consumer sentiment in the housing market.
- Major Australian banks have also tightened lending to non-resident purchasers. For instance, in April 2016, Australia and New Zealand Banking Group, Commonwealth Bank of Australia and Westpac Banking Corporation announced new lending requirements that apply to non-residents purchasing residential properties. Westpac announced that it will no longer lend to offshore customers who are not citizens or residents of Australia with an eligible visa.
- In 2017, the New South Wales government doubled the stamp duty and surcharge tax payable by foreign purchasers from 4% to 8%. Further, it also increased the annual land tax surcharge on foreign home owners to 2% from the existing 0.75%. Both these measures have also been introduced in Victoria. We note that Queensland also introduced in 2016 an additional foreign acquirer duty of 7%.

We note that the interventions described above had limited direct impact on Villa World's business due to its value proposition which has been discussed in the previous section.

On the flip side, we note that historically APRA had required lenders to assess all borrowers against their capacity to repay the loan at an interest rate of 7%. However, in a letter to Australian Deposit-taking Institutions ("ADIs") issued at the beginning of July 2019, APRA confirmed its updated guidance on residential mortgage lending will no longer expect them to assess home loan applications using a minimum interest rate of 7%. Instead, ADIs will be able to review and set their own minimum interest rate floor for use in serviceability assessments and utilise a revised interest rate buffer of at least 2.5% over the loan's interest rate.

³⁵ ANZ Banking Group, Commonwealth Bank of Australia, National Australian Bank and Westpac Banking Corporation are informally known as the 'Big Four Australian Banks'

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4 Profile of Villa World

4.1 Business model

Villa World is an ASX-listed property developer that acquires, develops and markets residential land and houses in greenfield growth corridors³⁶ on the Eastern seaboard of Australia.

The houses built by Villa World are turnkey homes wherein the customers do not have the ability to customise their homes and this allows for better control over costs thereby reducing the risk associated with the cash flows. The mix between house and land and land only is usually driven by market conditions and macroeconomic trends. If the residential market is strong, buyers have a greater degree of confidence and they tend to prefer land only in order to undertake a greater customisation of their homes. From a cash flow perspective, the house and land product is typically structured using a 10/90 model wherein 10%³⁷ is typically received at the time of contracting and the balance 90% is received at the time of settlement, with a reasonably limited time between sale and settlement.

Villa World sometimes adopts a Put-Call structure in order to minimise its capital outlay. Under the Put-Call structure, Villa World enters into an agreement with the existing owners to construct and sell houses. However, the settlement payment of the land is only triggered when proceeds from the sale of the land to the end customers are received. This minimises the time between cash outflows and the cash inflows, reducing the requirement for the Company to deploy its own funds. Similarly, the Company often acquires land under a Put-Call method³⁸ structure, which reduces the upfront cash payment required. All else equal, the Put-Call structure is likely to have a relatively low time frame for realising the cash with relatively low upfront capital investment.

Typically, Villa World acquires land parcel that has an existing residential zoning, however the Company has a flexible approach to potential opportunities as demonstrated with the Donnybrook Project. The project comprises 2 parcels of land with a collective area of 274.5 hectare that the Company intends to subdivide into 4 lots each. The Company has conditionally sold the 2 parcels of land to separate parties. The sale and sub-division of the land is contingent on the receiving PSP approval. Refer to section 4.1.2 for details.

The Company delivers its house and land products through its internal home building division which works on projects wherein the land is wholly-owned by Villa World or as part of a joint venture. In case of projects which are delivered through the 'capital-lite' model³⁹, the internal home building division constructs houses on land owned by third-parties. Villa World's home building business does not actively contract build for other developers.

Villa World targets a diversified geographic footprint to adapt to different regional cycles, markets changes and opportunities. Its strategy in each state is determined having regard to capital requirements, local market conditions and its long-term goals. For instance, in Queensland, which has been the largest contributor of revenue over the last 5 years, the Company has been acquiring land banks in urban growth corridors of major capital cities. In New South Wales, where lot prices tend to be materially higher than

³⁶ These are local government areas identified by the State Government for urban town planning purposes.

³⁷ This is not always the case – the Company may consider accepting a lower level of deposit in some instances.

³⁸ Contracts with a put and call option are unconditional contracts, a proportion of the total purchase price is paid upfront whilst the balance is paid at a future date to be agreed between the vendor and the acquirer. To reduce the counter-party risk to each party, the vendor and the acquirer have a put and call option which will trigger an immediate obligation to sell or buy the land for the other party.

³⁹ Depending on the market opportunity, the Company also delivers projects under the Capital-lite model, which comprise the use of development agreements ("DA") and Put-Call structure ("Put-Call"). These have been discussed later in this section.

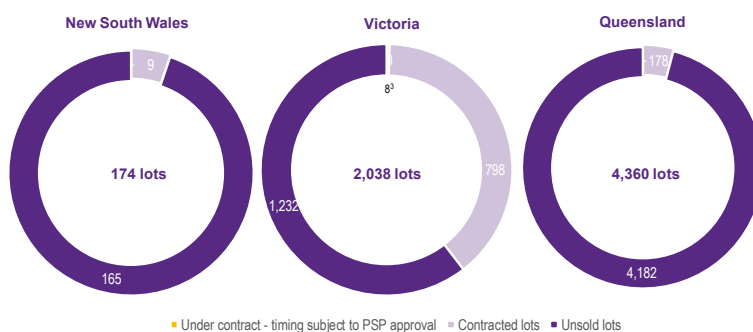
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Queensland and Melbourne⁴⁰ the Company has recently entered into development agreements⁴¹ at The Chase (Oran Park⁴²) or delivered projects under the Put-Call structure such as Concourse (Oran Park). The Company's projects are located at Box Hill⁴³ (which has undergone gentrification recently) and Oran Park that represent areas of interest to prospective buyers.

The Company currently has 26 active⁴⁴ projects. Most of these are wholly owned but there are some large projects developed in joint venture with other market participants with Villa World acting as joint venture manager. The following graphs set out the geographic mix of the active projects based on lots ("Portfolio") that as at 30 June 2019 are not settled and the key projects locations.

Geographic mix of lots in the portfolio as at 30 June 2019



Source: FY19 Investor Presentation

Note (1) The above lots include the lots that are part of the joint ventures and are based on the new statistical reporting wherein the joint venture lots are reported on a 100% basis

Note (2): The 8 lots that are under contract in Victoria refer to the Donnybrook Project which has been extensively discussed later in this section

Note (3): Contract lots refer to lots that have been sold but yet to settle

⁴⁰ These have been extensively discussed in section 3 of the Independent Expert's Report.

⁴¹ A development agreement is wherein Villa World agrees to develop land owned by third parties for which it receives a fixed fee. The fee is usually a percentage of gross revenue and so in a market where prices are rising, the income received by Villa World would be higher than in a market with declining property prices.

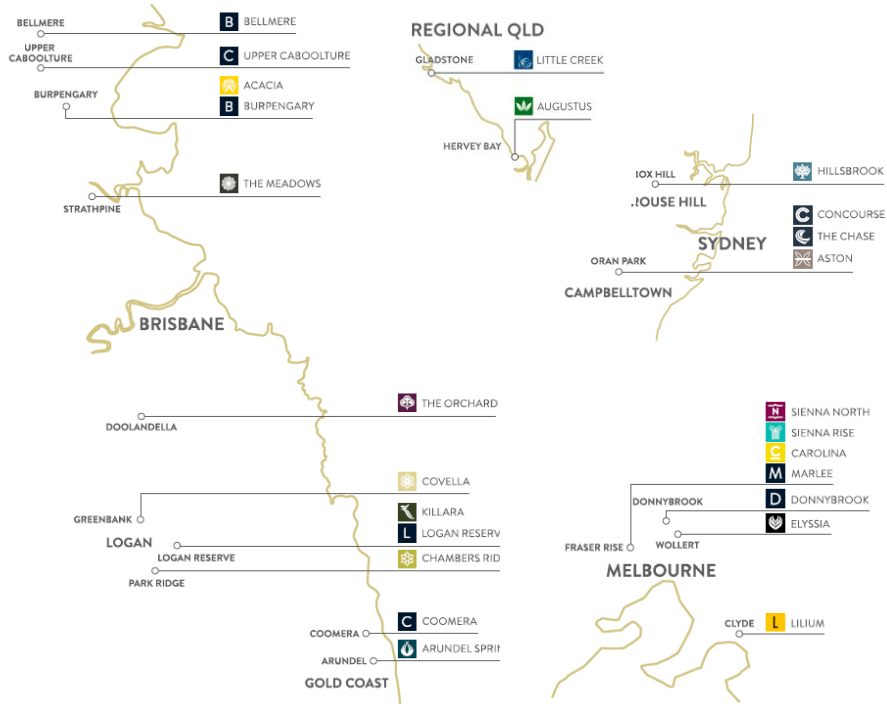
⁴² Located in South-west Sydney.

⁴³ Located in North-west Sydney. Box Hill is in proximity to Schofields, which has received a strong interest in recent years on account of gentrification.

⁴⁴ The Company also has other projects such as Allure, Cascades and others on which a small number of lots are not settled. Based on the FY19 Investor Presentation, the collective number of lots on these projects is 15 and has not been discussed in the report.

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Active Villa World Projects



Source: Villa World 1HFY19 Investor Presentation

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4.2 Current projects

We have set out below a brief snapshot of the active projects as at 30 June 2019. We note that for the projects developed in a joint venture structure, the information is reported on a 100% basis.

Summary of Portfolio											
	VLW Interest	Product	Features	Status	Year of acquisition	Yield	Unsettled Lots	Contracted Lots	Unsold Lots	Average starting price (A\$000)	
										H&L	LO
Queensland											
Covella	50%	LO	Joint Venture	Construction	2016	1,502	1,391	43	1,348		208
[Bellmere]	100%	LO	Put-Call Acquisition ³	Planning	2017	450	450	-	450		180
Little Creek	100%	LO	VLW Development	Construction	2007	688	388	2	386		90
Killara	100%	LO	VLW Development	Construction	2016	714	376	30	346		190
[Caboolture]	100%	LO & H&L	Capital-lite (Put-Call)	Planning	2016	291	291	-	291	400	179
Meadows	100%	H&L	VLW Development	Construction	2015	426	301	12	289	H&L - 440; TH - 373	
Augustus	100%	H&L	VLW Development	Construction	2005	731	270	-	270		355
[Logan Reserve]	100%	H&L	VLW Development	Construction	2018	250	250	-	250		439
Chambers Ridge	100%	H&L	VLW Development	Construction	2016	300	239	12	227		431
Arundel Springs	100%	LO & TH	VLW Development	Construction	2015	393	152	34	118		495
Acacia	100%	H&L	VLW Development	Construction	2018	88	88	-	88		375
[Burpengary]	100%	H&L	Capital-lite (Put-Call)	Construction	2019	70	70	-	70		454
Coomera	100%	H&L	Capital-lite (Put-Call)	Construction	2019	35	35	-	35		499
The Orchard	100%	LO & TH	VLW Development	Construction	2017	149	59	45	14		380
Total - QLD						6,087	4,360	178	4,182		
Victoria											
Marlee	100%	H&L	VLW Development	Planning	2017	471	471	-	471	527	
Carolina	100%	LO	Capital-lite (DA)	Planning	2018	322	322	27	295		280
Sienna Rise + Sienna North	100%	LO	VLW Development	P&C	2014	610	610	444	166		270
Elyssia	51%	LO	Joint Venture	Planning	2016	303	303	142	161		295
Lilium	100%	LO	VLW Development	Construction	2017	412	324	185	139		255
960 Donnybrook Rd ²	51%	LO	Joint Venture	Planning (PSP)	2015	4	4	4	-		
1030 Donnybrook Rd ²	51%	LO	Joint Venture	Planning (PSP)	2015	4	4	4	-		
Total - VIC						2,126	2,038	806	1,232		
New South Wales											
The Chase	100%	H&L	Capital-lite (DA)	Construction	2016	93	91	2	89	305	
Hillsbrook	100%	H&L LO	VLW Development	Planning	2017	34	34	-	34	700	450
Aston	100%	H&L	VLW Development	Construction	2018	33	32	5	27	635	
Concourse	100%	H&L	Capital-lite (Put-Call)	Construction	2016	61	17	2	15	668	
Total - NSW						221	174	9	165		
Sold out / near sold out											
Cascades	100%	H&L LO	VLW Development	Construction	2006	1,138	15	-	15		450
Allure	100%	H&L	VLW Development	Construction	2015	50	4	2	2	735	
Others	Various	Various	Various	Construction	Various	1,479	5	5	-		
Total - Sold out / near sold out						2,667	24	7	17		
Total (all categories)						11,101	6,596	1,000	5,596		

Source: FY19 Investor presentation

H&L = House & land; LO = Land only; LO & TH = Townhouses; P&C = Planning and Construction

Note (1): Projects whose names are in square brackets are those where the Company has not assigned a name to the development

Note (2): The Donnybrook Projects are conditional sales which have been discussed in section 4.1.2

Note (3): The Put-Call option Bellmere is different to the typical capital-lite Put-Call discussed in the foregoing sections. The Bellmere Put-Call has been discussed below the table

Given the Company operates a large number of projects, we have discussed below a few key projects that provide an insight into the Company's business:

- **Covella (Joint Venture), QLD** – This project is being developed as part of a joint venture, wherein Greenfields Development Corporation⁴⁵ is the joint venture partner and Villa World's interest in the project is 50%. The project was purchased for A\$50 million (100% basis) and it had existing

⁴⁵ Greenfields Development Corporation is a property developer headed by Tony Perich. The Company has previously worked with Greenfield Development Corporation on some of its developments in Oran Park, Sydney.

approvals over part of the land for approximately 1,000 lots. The joint venture successfully achieved an increase in the yield to 1,502 lots (land only product).

- *Bellmere, QLD* – This project is a 34.57 hectare of land in Bellmere, located west of existing residential development on the edge of Caboolture. The total purchase price of the land was A\$10 million. As at the date of this Report, A\$1.1 million⁴⁶ has been paid on acquisition and the balance of A\$9 million is expected to be paid upfront in FY21. This project is different to the typical Capital-lite (Put-Call) structure wherein the land would be paid out of third party proceeds. This Put-Call option is an option to buy the land if the development application is approved, serving as a risk mitigation strategy.
- *Killara, QLD* – The project is a typical Villa World development comprising family-sized blocks in 5 boutique neighbourhoods. The project has 714 lots and the product being offered is land-only. Out of the total lots, 346 lots remain unsold as at 30 June 2019 whilst 30 lots have been contracted but are yet to settle.
- *Donnybrook Project / Shenstone Park, VIC* – This project comprises 2 parcels of land with a combined area of 274.5 hectares that is part of the Shenstone Park precinct and it is being developed in a joint venture with CVC Limited. Villa World has a 51% interest in the joint venture and acts as the manager. Presently, the land does not have residential zoning. According to the Victorian Planning Authority website, the Shenstone Park precinct is intended to be developed as a mix of residential, recreation, community and employment and will be integrated with the neighbouring Wollert precinct, whose own precinct structure plan was approved in June 2017. Residential development projects in the surrounding region include Cloverton by Stockland and Olivine by Mirvac. The Donnybrook JV acquired the Donnybrook site for A\$22.8 million in December 2014. In respect of the 2 parcels, we note the following:
 - 960 Donnybrook Road - On 20 December 2017, the Company announced that it had sold 1 part (960 Donnybrook Road) to Blueways Pty Ltd ("Blueways") which is a Chinese property developer for a total consideration of \$100 million⁴⁷ (subject to PSP outcome). The settlement is expected to occur in stages over a period of 40 months after PSP approval is obtained. As part of the conditional sale of the 960 Donnybrook Road, the Company has received payments of A\$10 million from Blueways as at the date of this report.
 - 1030 Donnybrook Road - The other parcel (1030 Donnybrook Road) was conditionally sold to Satterley Property Group, which is reputable residential land developer in Australia for A\$34 million in 2016. The settlement of the contract is contingent on obtaining approval for the PSP and is expected to be completed in stages over a period of 40 months.
- *Oran Park-based projects, NSW* – This project is a master planned town with single and double storey 2, 3 and 4 bedroom houses, some of which include terrace homes. At Oran Park, Villa World has three projects – Concourse, Aston and The Chase. Concourse is a 61 lots house and land project that is being developed under a capital-lite (Put-Call) model.

⁴⁶ Includes agency cost of A\$0.1 million incurred to acquire the land.

⁴⁷ The value of the Donnybrook project is contingent on the outcome of the PSP approval process.

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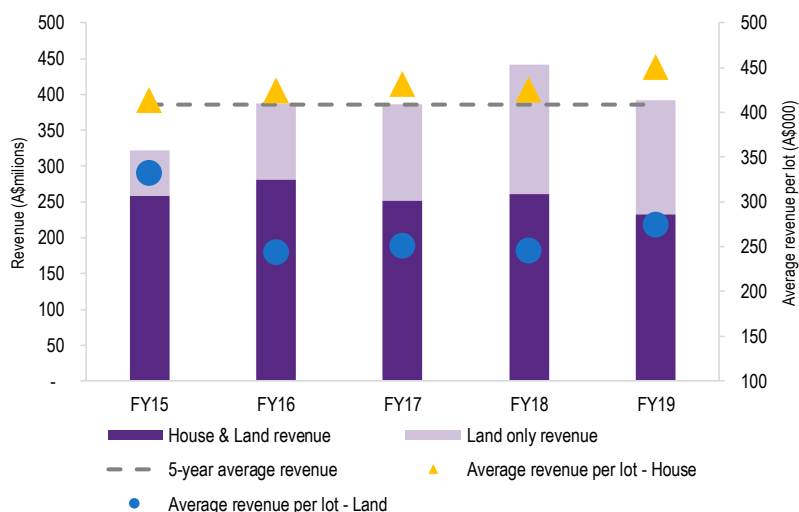


The Chase is a 93 lots house and land project that is being developed pursuant to a development agreement, wherein Villa World develops the project on third-party owned land. This approach requires lesser investment of the Company's own equity.

4.2.1 Key performance indicators

As set out in the graph below, Villa World has benefited from significant revenue growth between FY15 and FY18 which was driven by a relatively strong property market, low interest rates and stable political climate. FY19 revenue reduced by approximately 11% compared to FY18 however it remained in line with average revenue over the last five years. We note that the proportion of revenue derived from sales of land only has reduced in the last two years in conjunction with a softening in the property market.

Revenue mix by product⁴⁸, average revenue per lot⁴⁹



Source: Villa World Investor Presentations

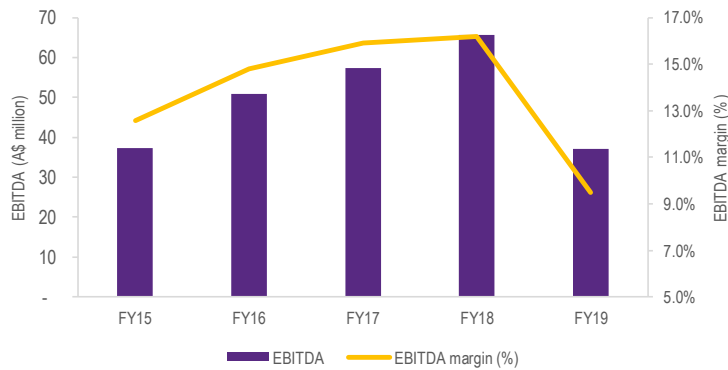
The trend in EBITDA has followed a similar pattern to revenue, however we note that Villa World experienced a sharp reduction in FY19 EBITDA mainly driven by a slowdown in sales volume to 870 for FY19 compared with 1,788 in FY18 and approximately 1,200 in both FY16 and FY17 as set out in the graph below.

Whilst the annual sales volumes have reduced, there has been a significant level of carried forward sales (which have been discussed later in this section) which has helped maintain the annual revenue around the A\$400 million range as set out in the graph above.

⁴⁸ The revenue mix by product excludes the income from the joint ventures.
⁴⁹ The average revenue per lot includes the average revenue per lot from the joint ventures.

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EBITDA and EBITDA margin

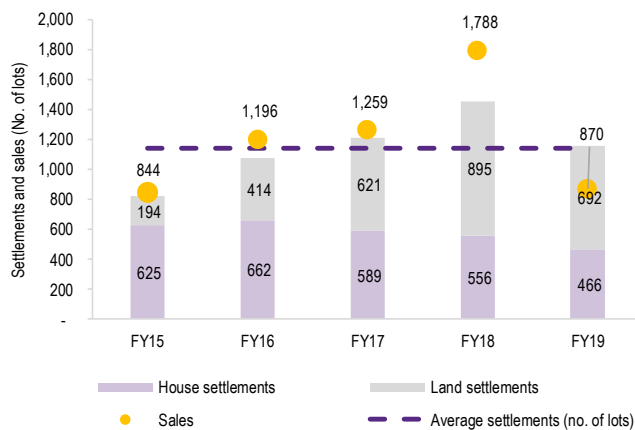


Source: Villa World Investor presentations

Note (1): FY15, FY16 and FY17 EBITDA has been adjusted for the capitalised interest unwound through the finance cost (below EBITDA). No adjustment has been made for FY18 and FY19 given the unwound capitalised is being made through EBITDA.

We note that notwithstanding the low level of FY19 sales, FY19 settlements of 1,158 were not inconsistent with FY17 settlement of 1,154 and FY16 settlements of 1,073, however the EBITDA was significantly lower, due to relatively lower volume of sales. Typically, the costs (including overheads) are largely incurred from the time of production to the time of sale and whilst a relatively large number of lots were produced, the relatively weak level of annual sales (870 in FY19) impacted the EBITDA for FY19. The sales and settlements are discussed below.

Sales and settlements



Source: FY19 Investor presentation

Note (1): Statistics for sales and settlements changed for joint ventures and split contracts from 1 July 2018. Previously they were recorded in line with Villa World's ownership interest or as part of a whole transaction (i.e. 0.5), they are now recorded as one single transaction. FY15 to FY18 statistics have been restated to reflect the change

The difference between settlements and sales results in carried forward sales⁵⁰ and is impacted by contract fallover⁵¹ rates. Sales are binding contracts but include an element of risk as the customers may

⁵⁰ These represent contracts that were sold in the current financial year but they are expected to settle in the following financial year.

⁵¹ Contract fallover is said to have taken place when the sale is completed by the settlement cannot be completed. One of the recurring reasons recently for contract fallovers is the difficulty in obtaining finance due to which settlement cannot be completed.

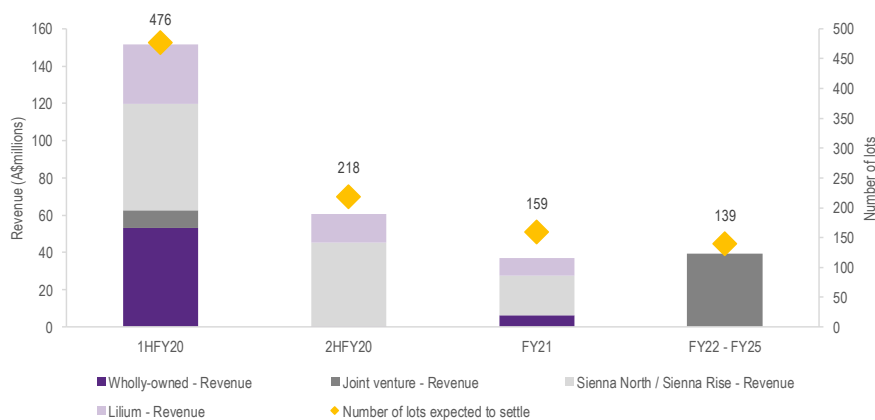
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not settle the property in which case Villa World will retain the deposit if it has been paid from the customer⁵².

As at 30 June 2019, carried forward sales increased from 871 as at 30 June 2018 to 992. The Company has indicated that market conditions remain challenging due to low consumer confidence which has been lowest since August 2017. As set out in the graph below, most of the carried forward sales settle in H1 FY20, H2FY20 and FY21 are expected to be derived from Sienna North, Sienna Rise and Liliium projects which are Victoria-based projects.

FY19 Carried forward settlements by revenue and no. of lots



Source: FY19 Investor Presentation

Note (1): The number of lots have been calculated as the percentage of the total carried forward sales that are expected to settle based on information disclosed in the FY19 Investor Presentation

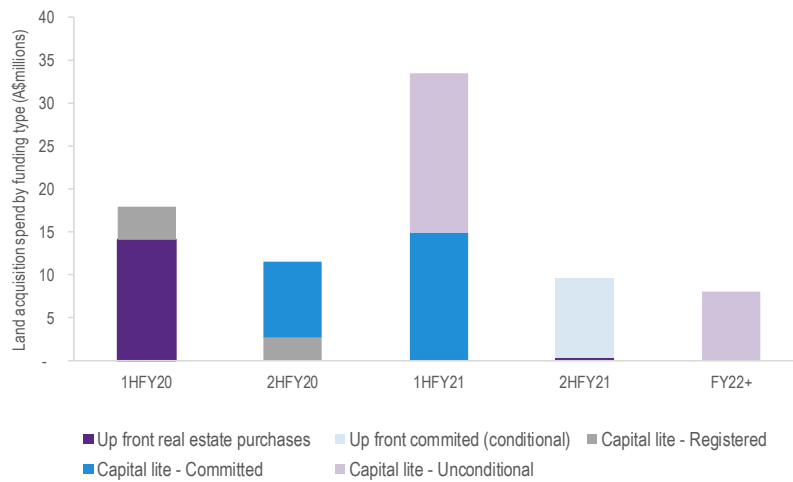
Note (2): Total sales value (including GST) for conditional and unconditional contracts not yet recognised as revenue and inclusive of 185 joint venture lots recorded at 100%

Over the last 2-3 years, the Company has maintained an inventory equivalent to annual settlements from 5 years to 7 years. Having regard to the settlement levels of the FY19 carried forward sales and the sales in FY20, the Company can undertake additional investment to replenish its inventory with the significant cash expected to be received. The Company has an internal land acquisition team that is responsible for sourcing and replenishing the Company's landbank.

The following chart sets out the committed land acquisition costs to be settled in the short and medium term.

⁵² Typically, for the Company's Queensland-based projects, the Company does not insist on receiving the stipulated 10% deposits as it has historically experienced a relatively low fallover rate. However, on the Company's Victorian projects it insisted on receiving deposits which were forfeited when there were contract fallovers. The Company would typically delay production if market conditions softened and would increase marketing costs (through additional selling efforts, special offers and other incentives) to sell out its existing stock.

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Future committed land acquisition costs as at 30 June 2019


Source: FY19 Investor Presentation

4.3 Financial information

4.3.1 Consolidated statement of comprehensive income

The audited consolidated statements of comprehensive income of Villa World for the years ending 30 June 2017 ("FY17"), 30 June 2018 ("FY18") and 30 June 2019 ("FY19") are set out in the table below. The financial performance for FY19 has been prepared under the new accounting standards of which AASB 15 has the most significant impact. The Company has elected not to re-state prior periods and has given effect to the new standards by doing a one-off reduction to the opening balance of approximately A\$20.6 million to the retained earnings. Any comparison with prior period should therefore be considered with caution.

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Consolidated statements of comprehensive income	FY17	FY18	FY19
A\$000 unless stated otherwise	Audited	Audited	Audited
Revenue from land development, residential building and construction contracts	386,790	441,573	391,609
Cost of land development, residential building and construction contracts ¹	(286,376)	(330,132)	(298,603)
Gross profit	100,414	111,441	93,006
Revenue from development and project management fees	2,427	11,134	1,266
Other income	754	1,049	1,114
Share of profit / (loss) from associates and joint ventures	3,010	6,374	2,089
Reversal of impairment of investment equity accounted investment	627	-	-
Total overheads			
Property sales and marketing expenses	(21,730)	(25,509)	(22,745)
Land holding costs	(4,086)	(4,559)	(6,340)
Legal and professional costs	(1,693)	(2,515)	(2,051)
Employee benefits	(20,630)	(25,037)	(23,111)
Administration cost and other expenses	(4,826)	(6,772)	(6,266)
Other expenses	-	-	-
Total overheads	(52,965)	(64,392)	(60,513)
EBITDA	54,267	65,606	36,962
Depreciation and amortisation expense	(577)	(710)	(777)
EBIT	53,690	64,896	36,185
Finance costs	(2,735)	(2,914)	(3,837)
Profit before income tax	50,955	61,982	32,348
Income tax expense	(16,151)	(18,348)	(9,396)
Profit after tax	34,804	43,634	22,952
Change in the fair value of cash flows hedges	1,561	1,803	(143)
Income tax relating to these items	(468)	(541)	43
Other comprehensive income for the period, net of tax	1,093	1,262	(100)
Total comprehensive income of the period, net of tax	35,897	44,896	22,852
Key operational metrics:			
Gross margin (%)	26.0%	25.2%	23.7%
EBITDA margin (%)	14.0%	14.9%	9.4%
EBIT margin (%)	13.9%	14.7%	9.2%
NPAT margin (%)	9.0%	9.9%	5.9%
Overheads as % of revenue (%)	13.7%	14.6%	15.5%
Interest coverage ratio (times) ²	NM	6.8x	4.3x

Source: Company annual reports

Note (1): For FY19, cost of land development, residential building and construction contracts includes A\$7.5 million of capitalised interest and net impairments. The corresponding value for the FY18 was c. A\$6.6 million

Note (2): Interest coverage ratio is calculated as Adjusted EBITDA / net cash interest and is based on information reported in the Company's investor presentation for each of the financial years. FY17 values not reported due to differences in reporting resulting in the values not being comparable.

In relation to the financial performance over the last three years, we note the following:

- **Revenue** – The revenue has historically varied in a narrow range of c. A\$400 million, due to relatively strong lot sales and low levels of contract fallovers (FY17 – 1,259 lots; FY18 – 1,788 lots; FY19 – 870⁵³)

⁵³ For FY17 and FY18, revenue is recognised when the risks and rewards of ownership and effective control have passed to the buyer which requires judgement. In Queensland and Victoria an unconditional sales contract and registration of the land and / or certification of building completion was required for revenue to be recognised. In essence, cash settlement was therefore not required in Queensland and Victoria to recognise revenue for land only and house and land packages. However, cash settlement is required in New South Wales due to certain provisions of the Conveyancing Act 1919 which specifies that risk does not pass to the purchaser until the completion of the sale or possession of

lots). Revenue per lot has also remained broadly consistent (3-year average House & land – c. A\$436,000⁵⁴ / lot; 3-year average Land only – c. A\$257,000⁵⁵ / lot).

- *Joint venture share of profit and other income* – Other income comprises the bank interests and fallover revenue⁵⁶. The FY18 joint venture share of profit was materially higher due to the profit contributed by the Rochedale joint venture (A\$5.2 million). During FY19, all the remaining lots in relation to this joint venture were settled.
- *Revenue from development and project management fees* – This income relates to the income received by Villa World as manager of the joint ventures. The increase in FY18 was driven by the land opportunity fee of c. A\$7 million representing 49% of the opportunity fee received by Villa World from the joint venture for the right to develop the land.
- *Gross margin* – The FY19 gross margin of 23.7% is in line with the Company's guidance of 23% to 25% which is expected to be maintained going forward.
- *Overheads* – The overheads comprise the property sales and marketing expenses, land holding costs, legal and professional expenses, employee benefits expenses and administration costs. The overheads in FY19 were lower than FY18 overheads by c. A\$3.8 million. However, the reduction in the overheads took place in February 2019 and the realignment of the reduction in the overheads is expected to impact FY20.
- *Finance costs* – The Company operates a club debt facility and has an interest rate swap in place which caps the base interest rate to 3%⁵⁷ until FY22.

4.3.2 Statement of financial position

The consolidated statements of financial position of Villa World as at 30 June 2018 and 30 June 2019 are set out in the table below:

the land. For FY19, revenue is recognised on a cash settlement basis and the Company settled 1,049 lots. Going forward, revenue will be recognised on a cash settlement basis.

⁵⁴ Calculated as the simple average of the following – FY17 – A\$432,100 / lot; FY18 – A\$425,400 / lot; FY19 – A\$450,900 / lot.

⁵⁵ Calculated as the simple average of the following – FY17 – A\$250,800 / lot; FY18 – A\$245,600 / lot; FY19 – A\$274,400 / lot.

⁵⁶ This comprises the deposits that are forfeited by Villa World when the contract does not settle.

⁵⁷ The Company entered into an interest rate swap with a forward start date on 2 July 2018. The interest cap contracts will cap the Company's floating interest rate at a maximum of 3% on A\$50 million out of the total outstanding debt until 2 July 2020 and on A\$25 million out of the total outstanding debt from 3 July 2020 to 4 July 2022.

Consolidated statement of financial position	FY18	FY19
A\$000 unless stated otherwise	Audited	Audited
Assets		
Cash and cash equivalents	12,645	6,569
Trade and other receivables	130,206	2,436
Inventories	167,590	182,981
Contract assets	-	122
Other current assets	4,187	4,184
Total current assets	314,628	196,292
Inventories	233,967	242,054
Property, plant and equipment	2,063	1,965
Investment accounted for using equity method	27,260	31,709
Deferred tax assets	-	561
Contract assets	-	1,978
Other non-current assets	10,000	10,004
Total non-current assets	273,290	288,271
Total assets	587,918	484,563
Liabilities		
Trade and other payables	(64,474)	(46,827)
Current tax liabilities	(2,353)	(1,022)
Deferred income	(42)	-
Employee benefits	(1,298)	(1,172)
Service contracts	(4,266)	(3,644)
Total current liabilities	(72,433)	(52,665)
Trade and other payables	(13,547)	(24,053)
Interest-bearing liabilities	(183,786)	(121,892)
Deferred tax liability	(7,979)	-
Employee benefits	(453)	(479)
Total non-current liabilities	(205,765)	(146,424)
Total liabilities	(278,198)	(199,089)
Net assets / Net tangible assets	309,720	285,474
Key operational metrics:		
NTA per Villa World Share (A\$/Share)	2.44	2.28
Inventory turnover ¹ (times)	0.75	0.72
Gearing ² (%)	29.7%	24.1%

Source: Company annual reports, Scheme Booklet

Note (1) Inventory turnover is calculated as cost of land development, residential building and construction contracts (including capitalised interest and net impairments) divided by the average inventory.

Note (2): Gearing is based on the information included in the annual report and is calculated as $Gearing = \frac{\text{Interest bearing liabilities} - \text{cash}}{\text{total assets} - \text{cash}}$.

In relation to the financial position outlined above, we note the following:

- **Receivables** – Historically, this amount included the sales yet to be settled. Following the implementation of AASB 15 effective 1 January 2018⁵⁸, the revenue in relation to land only and house and land contracts will be recognised on a cash basis which accordingly has reduced the receivables. The Company has adopted a modified retrospective application of the new accounting

⁵⁸ Whilst the accounting standard is effective from 1 January 2018, it is required to be adopted in the first financial year-end covering a 12 month period, which is FY19 for Villa World.

standard where prior years have not been restated and a one-off adjustment to the opening balance of the retained earnings of A\$20.6 million was made.

- **Inventories** – The inventories comprise acquisition cost of land held for development and resale, development costs, capitalised interest and impairment of development land which are stated in the financial accounts at the lower of cost and net realisable value. The inventories increased in FY19 on account of work progressed at the Company's existing projects. As at 30 June 2019, the value of the inventory has been cumulatively reduced by the impairment charge of c. A\$8.1 million⁵⁹ primarily in relation to the Little Creek and Augustus projects in regional Queensland.
- **Trade and other payables (current and non-current)** – They mainly include amounts payable by the Company for unconditional land acquisitions and accrued expenses.
- **Borrowings** – The Company has announced to the market that it has a target gearing of 15% to 30%. The gearing ratio over the last two years has been broadly consistent – FY18 – 29.7% and FY19 – 24.1%. The Company operates a club debt facility and has also issued unsecured bonds. The details in relation to the Company's borrowings are set out in the table below:

Summary of borrowings					
A\$000 unless stated otherwise	Facility amount	Utilised amount ¹	Bank guarantees utilised	Available amount	Unhedged effective interest rate
Bank loans - secured	190,000	72,797	14,357	102,846	5.7%
Villa World Bonds - unsecured	50,000	49,095	-	-	7.4%
Total	240,000	121,892	14,357	102,846	

Source: FY19 financial statements

Note (1): The utilised amount is presented net of transaction costs and amortisation

4.4 Capital structure

As at the date of this report, Villa World has the following securities on issue:

- 125,159,925 Villa World Shares; and
- 1,967,346 Performance Rights.

4.4.1 Villa World Shares

The top 10 shareholders of Villa World as at 9 August 2019 are set out below:

⁵⁹ Comprising A\$1.2 million reported under current assets and A\$6.8 million reported under non-current assets. For the avoidance of doubt, this represents the closing balance of the impairment provision recognised as at 30 June 2019. The net impairment charge recognised during FY19 was c. A\$0.9 million. This net impairment charge comprises the following – Little Creek (A\$1.8 million impairment); Augustus (A\$1 million impairment reversal) and Oran Park (A\$0.1 million)

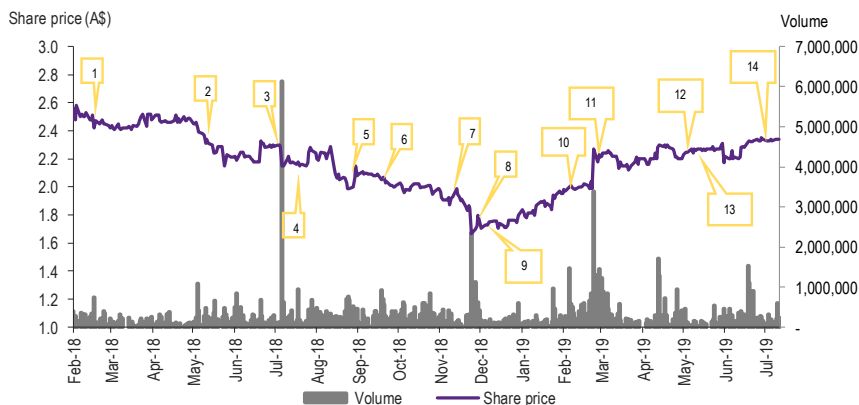


Number of ordinary shares as at 9 August 2019	Proportionate Shareholding	Number of shares
HSBC Custody Nominees (Australia) Limited	20.1%	25,128,172
JP Morgan Nominees Australia Pty Limited	12.9%	16,133,732
Citicorp Nominees Pty Limited	12.4%	15,468,589
National Nominees Limited	4.7%	5,833,606
Comsec Nominees Pty Limited	2.4%	2,965,457
Brazil Farming Pty Ltd	1.7%	2,121,958
Mr. Malcolm John Ross + Mrs June Ross	1.1%	1,319,413
Cooltrac Pty Ltd	1.0%	1,228,788
HSBC Custody Nominees (Australia) Limited - AC 2	0.9%	1,120,340
Tobaka Pty Ltd (Tobaka Employees S/F A/C)	0.8%	1,022,675
Top 10 shareholders	57.8%	72,342,730
Other shareholders	42.2%	52,817,195
Total number of ordinary outstanding shares	100.0%	125,159,925

Source: FY19 Annual Report

Based on the above, we are of the opinion that the shares of the Company are not closely held.

The daily movements in Villa World's Shares and volumes traded for the period from 1 February 2018 to 31 July 2019 is set out below:



Source: S&P Global, ASX

The following table summarises key events that may have had a bearing on the share price history:

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	Date	Comments
1	14-Feb-18	<p>The Company announced the half-year results the highlights of which are as follows:</p> <ul style="list-style-type: none"> Gross margin – A\$49.6 million or 24.5%. Statutory net profit after tax – A\$17.3 million. Total dividend of 18.5 cents per share. Net tangible asset of A\$2.31/share Staged sale of Company's Donnybrook parcels (51% joint venture) still conditionally underpins forecast earnings from FY20 – FY23.
2	17-May-18	<p>The Company provided an operational update in relation to its three major markets – Victoria, Queensland and New South Wales.</p> <ul style="list-style-type: none"> Victoria – There were strong pre-sales at Liliium (412 lots) and Sienna Rise (555 lots). Further, the Company announced that it had received Precinct Structural Plan ("PSP") approval at the suburb of Plumpton and therefore construction on the project would commence once the relevant planning approvals were received. Queensland – At the Killara project, 5 stages were nearly sold out. Covella, the Orchard, Arundel Springs and Silvan Rise recorded strong sales. The Company's projects on Brisbane's south-side region, Rochedale Grand and Seascape are close to selling out. New South Wales – Planning regulations delayed the start of construction at Allure, the Concourse. However, the Company expected the sales in this market to be impacted by softening market conditions.
3	9-Jul-18	<p>The Company provided the following update on FY18 guidance:</p> <ul style="list-style-type: none"> NPAT – A\$42 million to A\$44 million (previously A\$41.6 million). Dividend – 18.5 cents per share (unchanged from previous guidance).
4	26-Jul-18	<p>The Company announced to the market that FY19 NPAT guidance would be A\$40 million. This was impacted by the delay in settlements in Victoria due to difficulties in obtaining planning approvals. This did not impact the expected settlement of two parcels of Donnybrook / Shenstone Park to two separate purchasers, the revenue from which was expected to be realised in FY20.</p>
5	15-Aug-18	<p>The Company announced full-year results, the highlights of which are as follows:</p> <ul style="list-style-type: none"> Revenue – A\$441.6 million Gross margin – 26.6% ahead of previous guidance of 24% to 26%. NPAT – A\$43.6 million at the top end of previous guidance of A\$42 million to A\$44 million. NTA – A\$2.44/share Dividend – 18.5 cents per share in line with previous guidance of 18.5 cents per share.
6	19-Sep-18	<p>The Company announced a share buy-back program since the shares were trading below NTA and the Company noted that it did not believe that the shares trading below NTA reflected the underlying value of the current inventory. The NTA calculation did not take into account the benefits gained from favourable market conditions since the time of the acquisition, value added from development progress and the Company's proven profitable construction model.</p>
7	13-Nov-18	<p>The Company provided an investor update which stated that economic fundamentals remain positive due to low interest rates, strong population growth, steady employment, residential market conditions continue to moderate. The buyers remain challenged by tightening by financial institutions and delays in finance approvals. The Company's affordable price point and the strategic development locations continue to generate sales interest. FY19 is likely to be characterised by a strong delivery focus, notably land only projects in Victoria and continuing delivery of housing construction in New South Wales and Queensland.</p>
8	14-Dec-18	<p>The Company announced to the market that for the four months ended October 2019, 392 lots were sold, although the Company was still targeting guidance of A\$40 million. However, due to deteriorating residential housing market conditions and customer sentiment, the Company reported a material reduction in sales primarily due to availability of finance. The Company therefore announced that it would not achieve its FY19 NPAT guidance of A\$40 million and further stated that no guidance for FY19 at this time would be provided. The Company stated that it would update the market.</p>



	Date	Comments
9	20-Dec-18	The Company announced to the market that it had received a payment of A\$5.5 million from the purchaser 960 Blueways Pty Ltd, a reputed property developer in Victoria as required under the contract for the sale of 960 Donnybrook Road, Victoria. Together with the sale of 1030 Donnybrook Road to Satterley Property Group Pty Ltd, the sales remain conditional on approval of the Shenstone Park PSP which continues to progress.
10	13-Feb-19	The Company announced half-year results the highlights of which are as follows: <ul style="list-style-type: none"> • Gross margin – 24.6% which is in line with gross margin guidance of 23% to 25%. • Statutory NPAT – A\$17.6 million. • Dividend – 8 cents per share. • Sales – 517 lots which were materially lower than 1HFY18 742 lots. • NTA – A\$2.31/share.
11	14-Mar-19	The Company announced to the market that it received an unsolicited takeover offer from AVID Property group Australia Pty Ltd ("AVID") to acquire all the shares in Villa World by way of a scheme of arrangement ("Prior Offer"). The effective offer price was A\$2.23 ⁶⁰ per share. The deal was subject to due diligence and other typical terms and conditions.
12	2-May-19	The Company announced to the market that it had received a revised non-binding cash offer ("Revised Offer") from AVID for A\$2.345/share. The Revised Offer was at a 5.2% premium to the pro-forma 31 December 2018 NTA of A\$2.23/share and the Prior Offer. The Revised Offer is subject to the parties entering into a binding scheme implementation agreement on terms consistent with the Revised Offer and other market standard terms, in the absence of a superior proposal and subject to an independent expert concluding (and continuing to conclude) that the Revised Proposal is in the best interests of Villa World shareholders.
13	15-May-19	The Company announced that the Australian residential housing market conditions and customer sentiment declined in late 2018 and continued to remain subdued to date in 2019. The Company reported 783 sales for the financial year to the end of April 2018. In relation to each of its markets. <ul style="list-style-type: none"> • Victoria – The Company was carrying a high-level of significant unconditional sales across Liliun and Sienna North. • Queensland – Improvements in settlements in recent months across several projects. • New South Wales – Sales improved at Allure whilst sales remain challenging in South-West Sydney. <p>The Company maintained its gross margin guidance of 23% to 25%. The Company continued to focus on its sales strategy to highlight its value across the affordable housing sector. The Company also reconsidered its business cost structure in light of soft market conditions with the impact likely to be realised in FY20.</p>
14	8-Jul-19	The Company announced to the market that it had signed the Scheme Implementation Agreement with AVID.

Source: ASX Announcements

Set out below we have outlined the historical liquidity in Villa World Shares.

⁶⁰ Calculated as the reported NTA of A\$2.31/share less interim dividend of A\$0.08/share.

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Villa World Limited	Share Price			Average weekly volume 000'
	High \$	Low \$	Close \$	
Month ended¹				
Jun 2018	2.350	2.145	2.220	1,474
Jul 2018	2.360	2.050	2.220	2,515
Aug 2018	2.330	2.140	2.290	1,608
Sep 2018	2.180	1.980	2.090	1,738
Oct 2018	2.110	1.945	2.010	1,914
Nov 2018	2.040	1.860	1.930	1,745
Dec 2018	1.995	1.550	1.755	1,736
Jan 2019	1.890	1.680	1.865	875
Feb 2019	2.050	1.785	1.990	1,631
Mar 2019	2.290	1.920	2.220	3,697
Apr 2019	2.250	2.120	2.240	852
May 2019	2.310	2.190	2.270	1,751
Jun 2019	2.315	2.160	2.210	950
Week ended²				
12 Apr 2019	2.160	2.120	2.150	965
19 Apr 2019	2.210	2.130	2.200	522
26 Apr 2019	2.210	2.140	2.200	460
3 May 2019	2.310	2.180	2.300	3,495
10 May 2019	2.300	2.280	2.280	1,475
17 May 2019	2.285	2.190	2.200	1,813
24 May 2019	2.270	2.200	2.250	1,282
31 May 2019	2.270	2.240	2.270	410
7 Jun 2019	2.290	2.250	2.270	542
14 Jun 2019	2.315	2.260	2.270	975
21 Jun 2019	2.310	2.160	2.220	1,086
28 Jun 2019	2.260	2.185	2.210	1,197
5 Jul 2019	2.310	2.180	2.280	1,652
12 Jul 2019	2.335	2.310	2.330	4,527
19 Jul 2019	2.350	2.310	2.340	1,148
26 Jul 2019	2.350	2.320	2.330	874

Source: S&P Capital IQ, IRESS and GTCF calculations

Note (1): The average weekly volumes for the months ended from June 2018 to June 2019 are calculated as the daily average volume for that month multiplied by 5

Note (2): The average weekly volumes for the weeks ended are calculated as the simple average of the market volumes observed over the 5-day trading week

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4.4.2 Dividend policy

The Company has a target payout ratio of 50% to 75%. The following table sets out the annual dividend and the payout ratio for the last 5 years.

Dividend policy	FY15	FY16	FY17	FY18	FY19
Dividend on ordinary shares (A\$/Share)	0.160	0.180	0.185	0.185	0.080
Payout ratio	69%	60%	59%	54%	44%

Source: Company annual report

Note (1): The dividend per ordinary share for FY19 comprises an interim dividend of 8 cents. The Villa World Board is considering a Special Dividend of 31 cents which is subject to approval.

4.4.3 Performance Rights

As stated earlier, as at the date of this Report, there are 1.9 million Performance Rights on issue. Under the terms of the Villa World LTIP, in the event of a change of control of Villa World, the Board has discretion to determine the treatment of any unvested Performance Rights. The Board of Directors (excluding Craig Treasure) have exercised its discretion and determined that all of the Performance Rights will vest and convert into Villa World Shares when the Scheme becomes effective and accordingly we have included them in the shares outstanding.

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5 Valuation methodology

5.1 Introduction

Neither the Regulatory Guide nor the Corporations Act defines the term “in the best interest of members”. However, RG 111 sets out the principles to be considered in assessing whether a transaction is in the best interest of shareholders. In order to assess whether the Scheme is in the best interests of the Villa World Shareholders, we have applied the principles set out in RG 111 and tested the fairness and reasonableness of the Scheme.

Pursuant to RG 111, a proposal is “fair” if the value of the offer price or consideration is equal to or greater than the value of the securities that are subject of the offer. A comparison must be made assuming 100% ownership of the target company i.e. on a control basis.

Grant Thornton Corporate Finance has assessed the value of Villa World using the concept of fair market value. Fair market value is commonly defined as:

“the price that would be negotiated in an open and unrestricted market between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller acting at arm’s length.”

Fair market value excludes any special value. Special value is the value that may accrue to a particular purchaser. In a competitive bidding situation, potential purchasers may be prepared to pay part, or all, of the special value that they expect to realise from the acquisition to the seller.

5.2 Valuation methodologies

RG 111 outlines the appropriate methodologies that a valuer should generally consider when valuing assets or securities for the purposes of, amongst other things, share buy-backs, selective capital reductions, schemes of arrangement, takeovers, and prospectuses. These include:

- Discounted cash flow (“DCF”) method and the estimated realisable value of any surplus assets;
- Application of earnings multiples to the estimated future maintainable earnings or cash flows of the entity, added to the estimated realisable value of any surplus assets;
- Amount available for distribution to security holders on an orderly realisation of assets;
- Quoted price for listed securities, when there is a liquid and active market; and
- Any recent genuine offers received by the target for any business units or assets as a basis for valuation of those business units or assets.

Further details on these methodologies are set out in Appendix A to this report. Each of these methodologies is appropriate in certain circumstances.

RG111 does not prescribe the above methodologies as the method(s) that an expert should use in preparing their report. The decision as to which methodology to use lies with the expert based on the expert’s skill and judgement and after considering the unique circumstances of the entity or asset being

valued. In general, an expert would have regard to valuation theory, the accepted and most common market practice in valuing the entity or asset in question and the availability of relevant information.

5.3 Selected methodologies

In our assessment of the fair market value of Villa World, Grant Thornton Corporate Finance has relied on a number of valuation methodologies as outlined below:

- DCF Method – We believe the DCF Method is an appropriate valuation methodology due to the following:
 - Villa World has a long history of profitability and it has prepared feasibility studies with cash flows projections for the existing portfolio.
 - The DCF Method can more easily reflect the cyclical nature of the business.
 - The DCF Method is one of the most commonly used methodologies for the valuation of property developers.
- *Quoted Security Price method* – the Quoted Security Price Method is based on the Efficient Market Hypothesis which assumes that the share price at any point in time reflects all publicly available information and will change when new information becomes available. We note that in the absence of the Scheme or alternative transaction, the trading share price represents the value at which minority shareholders could realise their portfolio investment.

We have cross-checked the results of our valuation assessment by considering the EBITDA Multiple and the P/NTA Multiple.

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6 Valuation assessment of Villa World

6.1 DCF Method

6.1.1 Introduction and the GT Model

For the purpose of our valuation assessment of Villa World utilising the DCF Method, Grant Thornton Corporate Finance has built the GT Model based on post-tax free cash flows of Villa World up to 30 June 2025 based on a critical review and consideration of the following:

- Historical financial performance of Villa World, including the recently released FY19 accounts.
- Management projections for the period up to 30 June 2025 included in the Internal Model which is based on detailed feasibility studies for the existing projects and pipeline of opportunities plus additional unidentified projects.
- Market updates from various investment analysts who provide coverage of Villa World's historical and expected performance and of the industry as a whole.
- Key industry risks, growth prospects and general economic outlook.

Whilst Grant Thornton Corporate Finance believes that the assumptions underlying the GT Model are reasonable and appropriate to be adopted for the purpose of our valuation, we have not disclosed them in our IER as they contain commercially sensitive information and they do not meet the requirements for presentation of prospective financial information as set out in ASIC Regulatory Guide 170 "Prospective Financial Information".

In accordance with the requirement of RG 111, we have undertaken a critical analysis of the Internal Model before integrating it into the GT Model and relying on it for the purpose of our valuation assessment. Specifically, we have performed the following analysis:

- Conducted high level checks, including limited procedures in relation to the mathematical accuracy.
- Performed a broad review, critical analysis and benchmarking with the historical performance of Villa World and current trends in the industry.
- Held discussions and interviews with Management of the Company in relation to the key underlying assumptions.

The assumptions adopted by Grant Thornton Corporate Finance do not represent projections by Grant Thornton Corporate Finance but are intended to reflect the assumptions that could reasonably be adopted by industry participants in their pricing of similar businesses. We note that the assumptions are inherently subject to considerable uncertainty and there is significant scope for differences of opinion. It should be noted that the value of Villa World could vary materially based on changes to certain key assumptions.

Villa World has a well-established track-record of completing profitable developments and it has historically demonstrated an ability to replenish over time the depleting pipeline of projects as existing developments come to conclusion. Villa World also has a team focussed on originating, filtering and executing new

development opportunities, which together with other intangible assets such as software, relationships, policies and procedures, represent the development platform of the Company.

We are of the opinion that a pool of potential purchasers will attribute a value to the Company over and above the net present value of the future cash flows from the existing projects to reflect the development platform. However, there is a fine equilibrium between the price that potential purchasers may be prepared to pay and the value that the current shareholders may attribute to it. If the value expectations of the latter are too high, it may be easier and more cost effective for a purchaser to replicate the development platform.

Based on the discussion above, we have undertaken the valuation assessment based on the two scenarios below:

- *Run-off Scenario* – Under this scenario, we have only considered the future cash flows arising from the development of the existing active projects and land-bank after having adjusted the cost structure to strip-out those costs in relation to sourcing and executing new development opportunities. This is an important value reference point for Villa World Shareholders as it represents an alternative to the Scheme and the value that they may be able to crystallise in an orderly realisation of the current balance sheet.
- *Replenish Scenario* – We have assumed that the pipeline of opportunities will be replenished and the business will continue to produce a sustainable level of cash flows in perpetuity. The assumptions in relation to the potential future developments are based on discussions with Management, a review of the mock feasibility studies, the current pipeline of opportunities and the historical developments completed by the Company. Whilst we acknowledge that the assumptions in relation to future acquisitions are hypothetical at this point in time, we are of the opinion that the development platform of Villa World has value for a pool of potential purchasers which needs to be recognised in our fairness assessment.

6.1.2 Valuation assessment of the enterprise value of Villa World under the Run-off Scenario

As discussed above, we have relied on the net present value of the cash flows expected to be derived from the existing projects under this scenario which are mainly based on the cash flows arising from the feasibility studies.

As part of our procedures, we have obtained an understanding from Management of the process typically followed to develop the feasibilities, the rigour involved in developing the underlying assumptions, the review and the subsequent monitoring process of the projects and the frequency of updating the feasibilities. We note that all feasibilities are prepared by the project manager responsible for the project and are approved by the Chief Operating Officer (“COO”) of the Company, before being signed off by an internal transactions committee. On a quarterly basis, the feasibilities are reviewed to reflect current market conditions and if necessary amended and approved by the COO.

We note that the project feasibilities are prepared using a reasonably conservative funding assumption of 50% debt and 50% equity and they include no-price escalation. Availability of debt funding is monitored at

the corporate level. As discussed in section 4 of the report, the Company has club debt facilities and has a target gearing⁶¹ ratio between 15% and 30%.

The operating assumptions that are included in the cash flows under the Run-off Scenario are consistent with those included in the underlying feasibility studies and we have included a snapshot below:

- *Settlements* – The settlements over the forecast period average 868, which is lower than the historically observed settlements of approximately 1,050 given completed projects are not replenished. We note that the large number of settlements in FY20 and FY21 is a reflection of the significant FY19 carried forward sales and several projects in Melbourne coming to market at the end of FY19/beginning of FY20. The overall average is impacted by the lower number of settlements in the outer years and as the Company sells out the remaining lots on its existing projects.
- *Donnybrook Project* – As discussed in section 4.1.2, the Donnybrook JV has entered into two separate contracts for the sale of 960 Donnybrook Road and 1030 Donnybrook Road for a total price of A\$134 million⁶² payable in stages over a period of 40 months after PSP approval. Whilst the counterparties are different, the settlements of the two contracts are interdependent between each other and conditional on obtaining PSP approval. The PSP needs to be approved prior to 30 June 2022 for 960 Donnybrook Road and prior to 30 June 2021 for 1030 Donnybrook Road, failing which both vendors have a right to terminate the contract.

Whilst settlements of these contracts is contingent on the approval of the PSP, we note the following risk mitigating factors in relation to the Donnybrook Project.

- The Donnybrook Project is surrounded by areas that have recently undergone change in their respective precinct structure plan approval process. These suburbs include Wollert and the Donnybrook PSP.
- The surrounding area has existing residential developments by Mirvac, Lendlease and other property developers.
- As at the date of this report, according to the Victorian Planning Authority website, the Shenstone Park PSP within which the Company's Donnybrook Project is located, is expected to be a mix of residential, recreational, community and employment and will be integrated with the neighbouring Wollert and Donnybrook PSP's commercial use.

In our valuation assessment of the Donnybrook Project, we have net present valued the future payments based on the contract terms on a post-tax basis. We have increased our discount rate (discussed below) by a specific risk premium of 2% to take into account the conditionality of the sale and the risk in meeting the conditions precedent. We note that the Donnybrook Project was independently valued in April 2017 at A\$80 million on an "as-in" basis. This is the price that could be realised by the Donnybrook JV if it disposes of this asset today and accordingly, it materially de-risk the valuation assessment of this project based on the net present value of the future cash flows which is only marginally higher.

⁶¹ Calculated as interest bearing liabilities less cash and cash equivalents divided by total assets less cash and cash equivalents.

⁶² The Donnybrook Project is sold in two separate transactions – 960 Donnybrook Road which has been sold to Satterley Group Pty Ltd for A\$34 million. 1030 Donnybrook Road which has been sold to Blueways Pty Ltd for A\$100 million. Both transactions are interdependent and subject to the receiving the PSP. Refer to section 4.1.2 for details.

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- **Other joint ventures** – During the forecast period, no new joint ventures are forecast to be established. As part of the cash flow forecasts, the net income from the joint ventures is primarily from Elyssia (303⁶³ lots) and Covella (1,391⁶⁴ lots).
- **Overheads** – Until FY22, we have considered a normalised level of overheads adjusted for the costs savings if Villa World operates as a private enterprise given that we are undertaking our valuation on a 100% basis. These costs include compliance costs, listing fees, Directors costs and others. Further, we have also removed from the cost structure those expenses that are inherently related to growing the business. Beyond FY22, the overheads reduce in line with revenue and stock production.
- **Tax rate** – In line with the corporate tax rate of 30%.
- **Land acquisition** – It comprises committed land acquisitions for existing projects on the balance sheet as at 30 June 2019 which is summarised in the table below.

Summary of land acquisition costs by project					
A\$000 unless stated otherwise	State	FY20	FY21	FY22	FY23
Carolina	VIC		(18,553)	(1,908)	(5,872)
Concourse	NSW	(6,571)			
Marlee	VIC	(14,108)			

Source: GT Model

- **Other projects** – The other projects relate to certain acquisitions which are expected to settle over the next 12 months. In relation to these projects, we have assumed that Villa World will be able to recover the costs incurred to date as the contracts for these acquisitions have not gone unconditional and accordingly, we have not included them in our valuation assessment based on the net present value of the future cash flows. These projects include Harvest at Byron Bay.
- **Working capital** – We have assumed that the existing level of working capital on the balance sheet as at 30 June 2019 unravelled over the forecast period. Going forward, under AASB 15, the revenue will be recognised on a cash basis and therefore the working capital movement in debtors is unlikely to be significant. In relation to the inventory, Villa World typically only produces lots that it believes can be sold on the market, reducing the accumulated inventory on the balance sheet.
- **Service warranty provision** – Based on the FY19 financial statements, the Company has a service warranty provision of A\$3.6 million which we have considered in our assessment of the enterprise value.
- **Discount rate** – We have assessed the discount rate between 9.0% and 9.6% based on the WACC which is built on the Capital Asset Pricing Model. Given that under the run-off scenario, most of the cash flows are realised over the first 3-5 year period, we have assessed a discount rate which reflects more short-term assumptions in relation to risk free rate and costs of debt. In our assessment of the cost of equity, we have adopted a specific risk premium of 1% which has been assessed by weighting the specific risks attributed to each project (between 0% and 2%) by the net present value of the revenue expected to be generated over the projection period. In order to support our assessment of the discount rate, we have also performed an analysis of the Villa World and the S&P ASX 200 accumulation index⁶⁵ over different periods of time and compared this to our adopted cost of equity.

⁶³ Represents 100% of the lots not settled as at 30 June 2019.

⁶⁴ Ibid.

⁶⁵ It measures total returns generated by the ASX 200 companies.

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The TSR⁶⁶ of Villa World over the last 5 years was c. 9.7% and 9.6% for S&P ASX 200 accumulation index from 2011 to 2019. The analysis provides support to our assessment of the discount rate. Refer to Appendix D for details.

6.1.3 Valuation assessment of the enterprise value of Villa World under the Replenish Scenario

Under this scenario, we have assumed that Management will replenish the existing Portfolio with new projects yet to be identified in order to generate a maintainable level of earnings. Management has identified regional areas that are likely to be part of the Company's future portfolio which are mainly in proximity to existing projects (in most instances in the same suburb or region). The Unidentified Projects also include projects for which land has been identified but the property has not yet settled such as Harvest at Byron Bay.

The Unidentified Projects are supported by mock feasibility studies to ensure they are consistent with Villa World's internal procedures and comply with the requirements of debt financing⁶⁷, required rates of return including but not limited to development return on cost, project internal rate of return ("IRR"), equity IRR and others.

Whilst risks remain in relation to the Unidentified Projects and the related cash flows are based on hypothetical assumptions, Grant Thornton is of the opinion that given the Company's relatively long operating history, the robustness of its internal procedures, its existing relationships with councils and its prudent capital management practices help to mitigate these risks.

The assumptions that are included in the cash flows under the Replenish Scenario are outlined below:

- **Settlements** – They include settlements under the Run-off Scenario for the existing projects plus settlements for the Unidentified Projects. The average annual settlements over the projections period is circa 1,250 which is not inconsistent with the average over the last three years.
- **Gross margin** – The gross margin is within the 23% to 25% band targeted by Management. We note that the development margin of the Unidentified Projects ranges between 18% and 20% for most of them which is reasonable compared with the historical performance of the business.
- **Overheads** – We have obtained a detailed breakdown of the corporate overheads and we have excluded those expenses that are in relation to operating the Company as a listed entity (total savings of A\$1.3 million).
- **Tax rate** – In line with the corporate tax rate of 30%.
- **Land acquisition** – It comprises committed land acquisitions for existing projects on the balance sheet as at 30 June 2019 plus acquisition cost for Unidentified Projects.
- **Discount rate** – Assessed on the same basis of the Run-off Scenario, however, we have adopted longer term assumptions for the risk free rate and cost of debt and applied a higher specific risk premium of 3% to 4% to the Unidentified Projects (weighted by the revenue contribution), which resulted in an overall discount rate between 9.3% and 10.7%.

⁶⁶ Calculated as the Compound annual growth rate of dividend and capital appreciation.

⁶⁷ These tests are designed to ensure the debt covenants have sufficient headroom, the gearing is within the target gearing levels and interest coverage ratios are maintained.



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- *Other assumptions* – All other assumptions have remained substantially the same of the Run-off Scenario.
- *Terminal value* – In the calculation of the terminal value, we have estimated a normalised level of cash-flows which, in our opinion, the Company is able to maintain in perpetuity having regards to the following assumptions:
 - *Lot settlements* – We have considered the average lot settlements over the last 5 and 7 year periods and we have assessed a maintainable lots settlements level at 1,050 lots per annum which we are of the opinion is maintainable through the cycle.
 - *Revenue per lot* – We have considered an average revenue per land only and an average revenue per house and land over the last 5 and 7 year periods to determine a maintainable level of revenue for the products. Based on our analysis, we have determined a maintainable revenue per land only lot of A\$250,000 and house and land lot of A\$420,000.
 - *Sales-mix* – Estimated at 35% land only and 65% House & Land.
 - *EBITDA margin* – We have assessed EBITDA margin based on the cash EBITDA generated by the Company over the last 5 years.
 - *Land acquisition cost* – We have estimated the annual land acquisition cost in perpetuity at circa A\$80 million based on the assumptions that the Company will need to replenish 1,050 lots per annum. We have determined the land acquisition based on the average land and other acquisition costs as a proportion of the net revenues of the historical projects completed by Villa World.
 - *Perpetual growth rate* – The terminal value growth rate expected to be realised by the Company into perpetuity is largely impacted by the residential property market and land prices within Australia. Further, given the cyclical nature of the industry, considering growth rates over a longer period is critical to capture the peaks and troughs within the industry. We have considered various sources in determining the terminal growth rate which are set out below:

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Source	Percentage growth	Basis
Residential Property Price Index ; Sydney ;	3.9%	Nominal
Residential Property Price Index ; Melbourne ;	5.5%	Nominal
Residential Property Price Index ; Brisbane ;	4.2%	Nominal
Residential Property Price Index ; Weighted average of eight capital cities ;	4.5%	Nominal
Established House Price Index ; Sydney ;	4.0%	Nominal
Established House Price Index ; Melbourne ;	6.0%	Nominal
Established House Price Index ; Brisbane ;	4.3%	Nominal
Established House Price Index ; Weighted average of eight capital cities ;	4.7%	Nominal
Historical 3-year average as at March 2019 - RPP Index (Weighted average of eight capital cities)	0.4%	Nominal
Historical 5-year average as at March 2019 - RPP Index (Weighted average of eight capital cities)	0.9%	Nominal
Historical 8-year average as at March 2019 - RPP Index (Weighted average of eight capital cities)	0.9%	Nominal
Historical 3-year average as at March 2019 - House Price Index (Weighted average of eight capital cities)	0.4%	Nominal
Historical 5-year average as at March 2019 - House Price Index (Weighted average of eight capital cities)	1.0%	Nominal
Historical 8-year average as at March 2019 - House Price Index (Weighted average of eight capital cities)	1.0%	Nominal
IBISWorld Land Development and Sub-division Industry growth rate - 5-year forecast	1.1%	Real
Villa World Land only average revenue per lot growth rate - FY14 to FY19	0.3%	Nominal
Villa World House and Land average revenue per lot growth rate - FY14 to FY19	2.2%	Nominal
Villa World weighted average revenue per lot growth rate - FY14 to FY19	1.5%	Nominal
Selected growth rate	2.0%	

Source: IBISWorld, ABS, GTCF analysis

Note (1): The weighted average revenue per lot has been determined by applying a weight of 65% to the House & Land average revenue growth rate and a 35% weight to the land only revenue growth rate, which is consistent with the terminal value sales mix.

6.1.4 Overall conclusion on the assessed enterprise value

We have set out below our overall assessment of the enterprise value of Villa World under the two scenarios.

Average enterprise value under two scenarios	Section Reference	Low	High
A\$000 unless stated otherwise			
DCF Method - Run-off Scenario	Section 6.1.2	372,911	377,944
DCF Method - Replenish Scenario	Section 6.1.3	424,333	498,334
Average		398,622	438,139

Source: GT Model

Note (1): The values represent the simple average under the two scenarios

We are of the opinion that the average between the two scenarios strikes the right balance of the value that could be attributed to the development platform on top of the existing projects by a pool of potential purchasers.

We note that the enterprise value of Villa World is sensitive to small changes in some of the key underlying assumptions, accordingly, we have set out below a sensitivity analysis.

Sensitivity analysis			Percentage change (%)	
A\$000 unless stated otherwise	Low	High	Low	High
GT assessed enterprise value of Villa World based on the DCF	398,622	438,139	100.0%	100.0%
<u>Delay in the settlement of the Donnybrook project (both scenarios)</u>				
1 year	395,410	434,934	(0.8%)	(0.7%)
-20% decline in returns	392,882	432,156	(1.5%)	(1.4%)
-40% decline in returns	387,141	426,173	(3.0%)	(2.8%)
<u>Change in discount rate (both scenarios)</u>				
+1%	379,593	413,709	(5.0%)	(5.9%)
-1%	421,093	468,229	5.3%	6.4%
<u>Change in terminal growth rate (Perpetuity scenario only)</u>				
+1%	413,415	459,929	3.6%	4.7%
-1%	386,893	421,593	(3.0%)	(3.9%)
<u>Decline in net revenue (both scenarios)</u>				
-1%	382,344	420,806	(4.3%)	(4.1%)
-2%	366,065	403,474	(8.9%)	(8.6%)

Source: GTCF Calculations

The sensitivities do not represent Grant Thornton's assessment of the likely range of fair market value of Villa World Shares and have been included for representation purposes only.

6.1.5 Net debt

We have set out below the net debt of Villa World as at 30 June 2019.

Net debt	
A\$000 unless stated otherwise	
Bank loans - secured	72,797
Villa World Bonds - unsecured	49,095
Cash and cash equivalents as at 30 June 2019	(6,569)
Net debt as at 30 June 2019	115,323

Source: Scheme Booklet

Villa World bonds are recorded on the balance sheet at its fair value of A\$102.7 per bond as at 30 June 2019.

6.1.6 Number of shares outstanding

As stated in section 4.3.3 of the Report, c. 1.9 million performance rights are outstanding and they will vest if the Scheme is approved and accordingly we have included them in the shares outstanding.



Number of shares outstanding on a fully diluted basis In 000s	
Number of shares outstanding	125,160
Performance rights on issue that will vest following approval of the Proposed Scheme	1,967
Number of shares outstanding on a fully diluted basis	127,127

Source: Scheme Booklet

6.1.7 Value per share based on the DCF approach

We have set out below our overall assessment based on the DCF approach.

DCF Method (Average of both scenarios) - valuation summary A\$000 unless stated otherwise	Section Reference	Low	High
Total enterprise value of Villa World Limited	Sections 6.1.2 & 6.1.3	398,622	438,139
Less: Net debt as at 30 June 19	Section 6.1.5	(115,323)	(115,323)
Total equity value of Villa World Limited		283,299	322,816
Number of outstanding Villa World Shares ('000s) (fully diluted)	Section 6.1.6	127,127	127,127
Value/ Villa World Share (control basis) (A\$/ Villa World Share)		2.228	2.539

Source: GTCF Calculations

As set out above, we have assessed the fair market value based on the DCF between A\$2.228 per share to A\$2.539 per share.

6.2 Quoted Security Price Method

In our assessment of the fair market value of Villa World Shares, we have also had regard to the trading price of the listed securities on the ASX in the period prior to 14 March 2019 when the Company announced to the market that it had received the Initial Proposal.

The assessed value of each share based on the trading price is an exercise of professional judgement that takes into consideration the depth in the market for listed securities, the volatility of the trading price, and whether or not the trading prices are likely to represent the underlying value of Villa World. The following sections detail the analysis undertaken in selecting the share price range.

6.2.1 Liquidity analysis

In accordance with the requirements of RG111, we have analysed the liquidity of Villa World Shares before relying on them for the purpose of our valuation assessment. The following table sets out the monthly trading volume of Villa World Shares since March 2018 as a percentage of the total shares outstanding as well as free float shares outstanding.

Month end	VLW - Liquidity analysis			Cumulative		Cumulative	
	Volume traded ('000)	Monthly VWAP (\$)	Total value of shares traded (\$'000)	Volume traded as % of total shares	Volume traded as % of total shares	Volume traded as % of free float shares	Volume traded as % of free float shares
Mar 2018	5,008	2.4554	12,298	3.9%	3.9%	4.8%	4.8%
Apr 2018	2,948	2.4807	7,314	2.3%	6.3%	2.8%	7.6%
May 2018	4,900	2.4305	11,909	3.9%	10.1%	4.7%	12.2%
Jun 2018	6,192	2.2320	13,821	4.9%	15.0%	5.9%	18.1%
Jul 2018	11,065	2.1939	24,276	8.7%	23.7%	10.5%	28.7%
Aug 2018	7,399	2.2200	16,426	5.8%	29.6%	7.0%	35.7%
Sep 2018	6,952	2.0621	14,337	5.5%	35.0%	6.6%	42.3%
Oct 2018	8,805	2.0300	17,874	6.9%	42.0%	8.4%	50.7%
Nov 2018	7,678	1.9757	15,170	6.1%	48.0%	7.3%	58.0%
Dec 2018	7,290	1.7162	12,511	5.8%	53.8%	7.0%	65.0%
Jan 2019	3,848	1.7647	6,791	3.1%	56.9%	3.7%	68.7%
Feb 2019	6,523	1.9518	12,732	5.2%	62.1%	6.3%	75.0%
Min				2.32%		2.81%	
Average				5.17%		6.25%	
Median				5.34%		6.45%	
Max				8.72%		10.54%	

Source: S&P Global, GTCF analysis

Note: The analysis is based on the period prior to 14 March 2019, when the Company announced it had received the Initial Proposal.

With regard to the above analysis, we note that:

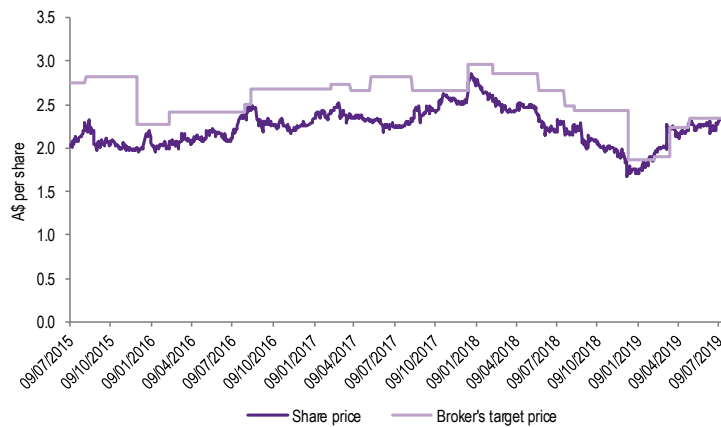
- The level of the free float of Villa World Shares is c. 82.7%⁶⁸. From March 2018 to February 2019, c. 75% of the free float shares were traded with an average monthly volume of circa 6.5% of the total free float shares. This indicates that the stock is liquid, and is well traded by large segments of the market. The Company is recognised as a key player in the industry and forms part of the S&P/ASX 300 Index, S&P/ASX Small Ordinaries Index and S&P/ASX Emerging Companies Index.
- A relatively higher level of trading can be noticed in July 2018. This high volume can be attributed to the following:
 - On 9 July 2018, the Company announced an increase in the net profit after tax ("NPAT") guidance for FY18 from A\$41.6 million to a range between A\$42 million and A\$44 million.
 - On 26 July 2018, the Company provided FY19 reported NPAT guidance of c. A\$40 million.
- On 19 September 2018, Villa World announced to the market that it would undertake a share buy-back program of up to 5% of the share capital commencing from October 2018 for a period of up to 12 months. This is likely to have contributed to the sustained level of monthly trading volumes from October 2018 to December 2018.
- In the absence of a takeover or alternative transactions, the trading price represents the value at which minority shareholders could realise their portfolio investment.

⁶⁸ This comprises of the total shares outstanding 125,159,925 less the shares held by company employees and strategic corporate investors.



- Villa World complies with the full disclosure regime required by the ASX. As a result, the market is fully informed about the performance of Villa World.
- Villa World's stock is covered by 3 investment analysts who provide updates to the market on a regular basis. The graph below illustrates the close alignment between the Company's share price and the broker's target price over time.

Villa World's share price and average broker's target price over time



Source: S&P Global, GTCF Analysis

Notes: Broker's target price based on the median of the broker's target prices as of each respective date.

As part of the liquidity analysis, we have also compared below the free float of Villa World Shares with listed peers and noticed that Villa World's free float and average monthly volume traded as a percentage of free float shares⁶⁹ is higher than all listed comparable companies.

⁶⁹ Based on the past 12 months.

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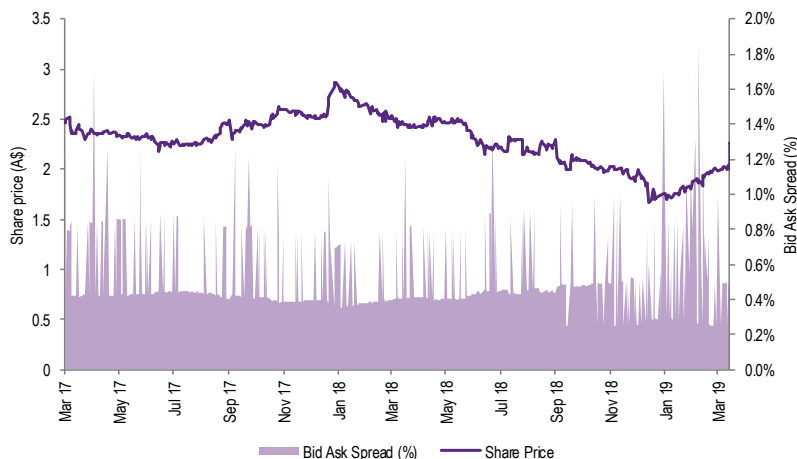


Peers' Liquidity analysis			Average	Average	Cumulative	Cumulative
Company	Country	Free float (%)	volume traded	volume traded	volume traded	volume traded
			as a % of total shares	as a % of free float shares	as a % of total shares	as a % of free float shares
Villa World Limited	Australia	82.7%	5.2%	6.3%	62.1%	75.0%
Peet Limited	Australia	69.1%	1.9%	2.8%	22.9%	33.2%
Cedar Woods Properties Limited	Australia	66.6%	1.8%	2.6%	21.1%	31.7%
AVJennings Limited	Australia	36.3%	0.6%	1.6%	6.8%	18.7%
Finbar Group Limited	Australia	38.0%	0.3%	0.8%	3.7%	9.8%
Sunland Group Limited	Australia	45.8%	1.2%	2.7%	14.8%	32.3%
Desane Group Holdings Limited	Australia	25.4%	0.2%	0.7%	2.3%	8.9%
Tian An Australia Limited	Australia	8.6%	0.0%	0.4%	0.4%	5.1%
Devine Limited	Australia	37.1%	0.3%	0.8%	3.7%	10.0%
Low		8.6%	0.0%	0.4%	0.4%	5.1%
Average		45.5%	1.3%	2.1%	15.3%	25.0%
Median		38.0%	0.6%	1.6%	6.8%	18.7%
High		82.7%	5.2%	6.3%	62.1%	75.0%

Source: S&P Global, GTCF analysis
 Note: (1) Liquidity analysis as at 10 August 2019, with the exception of Villa World which is based on the 12 months prior to 14 March 2019 when the Company announced to have received the Initial Proposal from AVID.

In addition to the above, where a company's stock is not heavily traded or relatively illiquid, the market typically observes a difference between the 'bid' and 'ask' price for the stock as there may be a difference in opinion between the buyer and seller on the value of the stock. As set out in the graph below, we note that the historical average bid-ask spread has been minimal (0.5%) in the 24 month period before receiving the Initial Proposal.

Villa World: Spread between Bid and Ask Price



Source: S&P Global, GTCF analysis.

Based on the analysis above, we have concluded that there is sufficient liquidity in Villa World Shares and accordingly, we consider the trading prices for the purpose of our valuation assessment.

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6.2.2 Valuation assessment of Villa World based on the trading prices

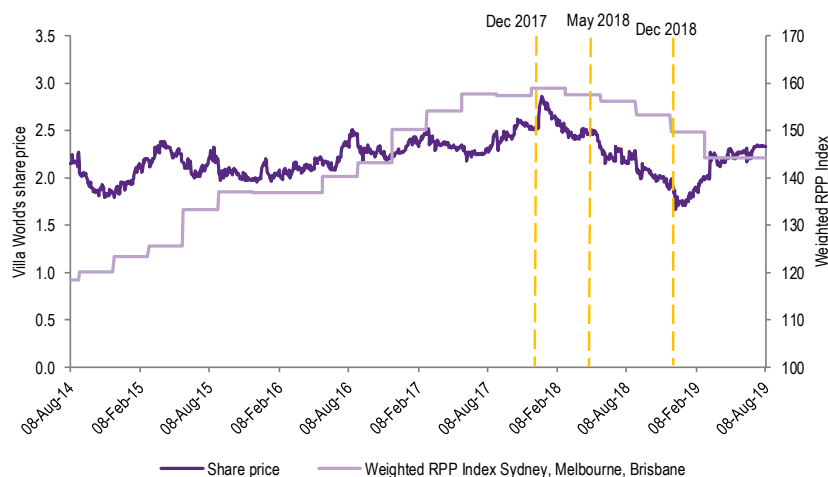
In order to assess the market value of Villa World based on the trading prices, and given the volatility and lumpiness of financial performance that can affect property developers, we have analysed the trading prices of Villa World over a longer period of time to assess the performance of the business across cycles.

As set out in the graph below, in the period relatively closer to the Initial Proposal, the trading prices of Villa World have traded between a maximum of A\$2.86 on 29 December 2017 and a minimum of A\$1.67 on 14 December 2018 and then they recovered up to around A\$2.00 per share. We have analysed below this reduction from the peak in the trading prices to seek to understand if it was driven by Company's specific factors or broader macroeconomic trends by undertaking the following benchmark analysis:

- Comparing the trend in Villa World's trading price with the movement in residential property price index for Sydney, Melbourne and Brisbane ("Adjusted RPP Index").
- Comparing the trend in Villa World's trading prices with the movements in the peer index ("Peers Index") comprising the trading prices of AV Jennings, Cedar Woods and Sunland rebased to the trading price of Villa World Shares.

The following graph illustrates the historical trading price of Villa World, and the quarterly movements in the Adjusted RPP Index.

Villa World historical share trading prices and Adjusted RPP¹ Index



Source: S&P Global, GTCF analysis.

Note 1: Residential property price index values are reported on a quarterly basis by the Australian Bureau of Statistics. We have created a separate index having regards to only the index values of the property markets of Sydney, Melbourne and Brisbane (Adjusted RPP Index).

In relation to the chart above we make the following observation:

- Since 2014, Villa World's share price movements have been broadly trending consistently with movements in the Adjusted RPP Index, even if with a lower volatility. For instance, during December 2017, Villa World Shares traded at A\$2.86 which represented a 5-year high trading price for the



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Company and the Adjusted RPP Index traded at a high of circa 160⁷⁰ which is the maximum since the index was established in 2003.

- In addition to the rising property market, the increase in Villa World trading prices in the second half of 2017 was also impacted by the following specific market announcements.
 - On 16 August 2017, Villa World increased the guidance for 1HFY18 net profit after tax from a range of A\$10 million to A\$12 million to a range of A\$17 million of A\$18 million.
 - On 20 December 2017, the Donnybrook JV entered into a conditional contract to sell the property at 960 Donnybrook Rd for a total consideration, including the previous conditional contract for the adjoining site at 1030 Donnybrook Rd, of A\$134 million payable in 4 tranches over a three year period commencing six months after approval of the PSP⁷¹. Villa World announced that this transaction was expected to provide to the Donnybrook JV partners with more than A\$100 million profit before tax over four years. The share price of Villa World peaked on 29 December 2017 shortly after the release of this announcement.
- The share price trended downward in the subsequent period from January 2018 to December 2018 in line with Adjusted RPP Index. The decline in Villa World's share price was also exacerbated by company-specific announcements primarily driven by market factors:
 - On 17 May 2018, Villa World announced that settlements were being delayed due to tighter lending constraints.
 - On 14 December 2018, Villa World's share price declined by 10% following the Company announcement that it would not achieve the previously reported FY19⁷² NPAT guidance of A\$40 million and the Company withdrew market guidance due to difficult trading conditions. In particular, we note that Villa World completed an average of 86 sales per month in H1FY19 compared with 124 per month in the pcp. The last two months of the 2018 calendar year resulted to be particularly challenging for Villa World with lots sales per month of only 62.5.

⁷⁰ The residential property price index started in September 2003 with an index value of circa 70.

⁷¹ A\$5million paid at the date of announcement with a further A\$5 million on 20 December 2018.

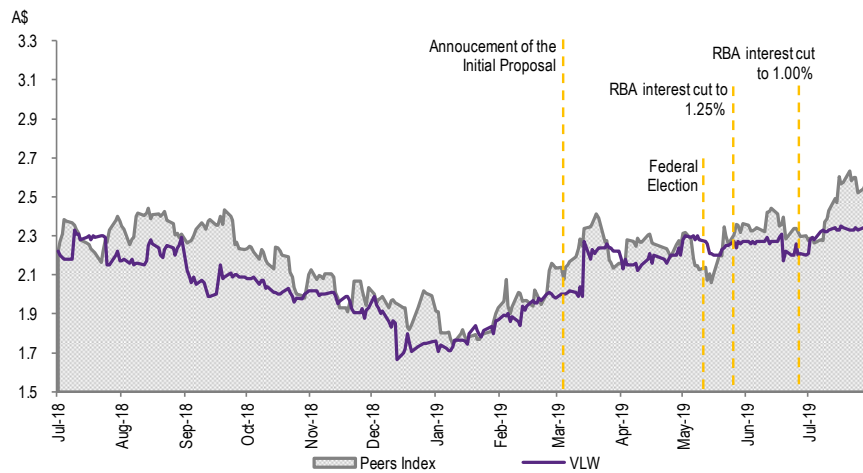
⁷² The FY19 NPAT guidance of A\$40 million had been previously confirmed by Villa World at the annual general meeting held on 16 November 2018.

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As set out in the graph below, the downward trend on Villa World's share price up to December 2018 and the subsequent recovery in 2019 was consistent with the Peers Index.

Villa World, Peers Index (rebased to Company's share price)



Sources: S&P Global, Australian Bureau Statistics, GTCF analysis

Note: The RPP Index is kept constant after March 2019 as this constitutes ABS' most recent publication of residential property price indices.

In the period from 1 January 2019 to the date of receiving the Initial Proposal, Villa World share price increase by 13.1% mainly benefiting from improved market conditions. We note that the Peer Index increased by 17.3% up to the date of the Initial Proposal and then by a further 12.1% between the Initial Proposal and 15 August 2019. This increase was mainly driven by external market factors such as the outcome of the Federal Election, RBA's two consecutive rate cuts in June 2019 and July 2019 and APRA reducing the mortgage interest rate serviceability threshold in July 2019. We also note that Sydney and Melbourne markets both recorded higher auction clearance rates in recent months and the first rises in median house prices since July 2017⁷³ were recorded in June 2019.

In the period between the Initial Proposal and 15 August 2019, the trading prices of Villa World Shares have traded in line with the Total Cash Consideration and have been supported by the Initial Proposal and the subsequent Scheme, however it is not unreasonable to assume that in the absence of the Initial Proposal, the trading prices of Villa World Shares would have increased in line with the Peer Index during this period.

On the flip side, we note that Villa World withdrew market guidance in December 2018 and the Company did not provide any disclosure in relation to expected performance for the full FY19. As discussed in section 4, the FY19 EBITDA reduced to A\$37 million from A\$65.6 million in FY18 (or 44%) and the FY19 NPAT reduced to A\$23 million from A\$43.6 million (or 47%). We note that the FY19 consensus forecast EBITDA was A\$43.8 million⁷⁴ after the release of the H1FY19 results in February. It is reasonable to assume that AVID had visibility of FY19 performance during the due diligence period and it has factored it in the pricing of the Scheme. All other things being the same, the trading prices of Villa World Shares, in

⁷³ Based on information released by CoreLogic.

⁷⁴ Calculated as the simple average of the FY19 EBITDA guidance published by three investment analysts based on the EBITDA guidance published at February 2019.

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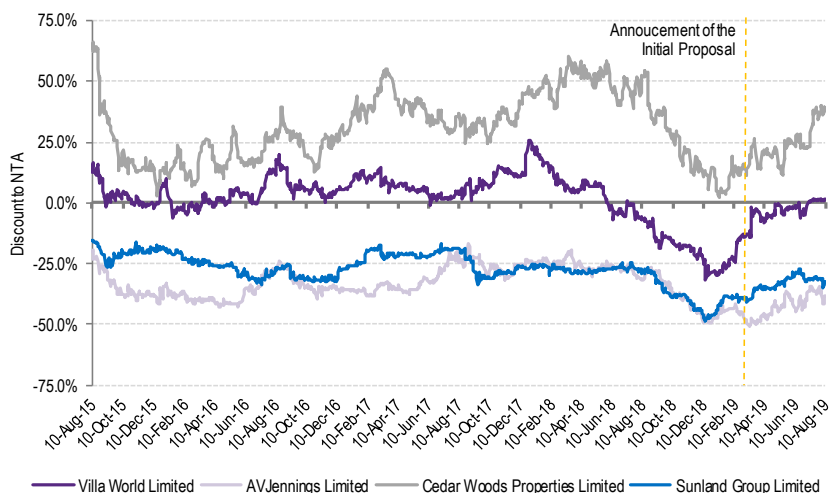


the absence of the Scheme, would have likely decreased upon announcement of the FY19 results on 20 August 2019. In support of this statement, we note that on 2 August 2019, AVJ announced that it anticipated the profit before tax for FY19 to be approximately A\$23.0 million compared with A\$45.0 million in FY18 with the financial performance impacted by deterioration in market conditions, particularly in Melbourne and Sydney but the company expected an improved result for FY20. AVJ share price reduced by circa 10% after the announcement, but it has partially recovered since mainly driven by the concurrent announcement that AVJ entered into binding heads of agreements to develop a large parcel of greenfield land in South East Queensland which will yield approximately 3,500 lots in the initial development.

Having considered the above analysis, we are of the opinion that the decline in the share price of Villa World in 2018 was largely driven by broader macroeconomic trends, however the timing of the Initial Proposal was opportunistic as it occurred before certain positive market catalyst events which may have lifted the trading prices of Villa World Shares in line with the Peers.

As part of our analysis, we have also had regard below to the premium/discount to net tangible assets ("NTA") at which Villa World and its peers have historically traded.

Premium/Discount to NTA of Villa World and key industry peers



Sources: Company financial reports and ASX announcement, S&P Global, GTCF Analysis

We note the following in relation to the graph above:

- Before July 2018, most of the time Villa World Shares traded in line or at a premium to NTA. From July 2018 to February 2019, in conjunction with a more sharp and consistent reduction of the RPP Index, all listed peers experienced challenging market conditions with trading prices reducing. Notwithstanding that Villa World Shares traded at a discount to NTA after July 2018, the relative valuation premium to AVJ and valuation discount to Cedar Woods were preserved which seems to indicate rationale behaviours by the market and challenges across the industry as a whole.
- We note that the ROA generated by Villa World in FY19 was 5.2% which is significantly lower than the average ROA of 12.1% generated over the last three year period when the stock was trading at a

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premium to NTA. The trading prices and the discount to NTA seem to reflect the poor financial performance delivered in FY19.

- The discount to NTA persisted for several months up to including the Initial Proposal, however in 2019, market conditions improved and all the listed peers benefited from a re-rating.
- As discussed in the executive summary, we are of the opinion that AVJ is a good comparable company for Villa World. As set out above, AVJ has been trading at a significant discount to NTA for a sustained period of time. Whilst Villa World has historically been able to generate a superior EBITDA margin and ROA, the magnitude of the premium of Villa World P/NTA compared with AVJ P/NTA is difficult to understand.

We are of the opinion that we cannot draw conclusive evidence from the analysis above and the P/NTA benchmarking undertaken should be taken with caution given that the balance sheet is not expressed at fair value.

However, we are of the opinion that the analysis undertaken confirms that the timing of the Initial Proposal was opportunistic as it occurred during a short window of time when Villa World Shares were trading at a discount to NTA. On the flip side, Villa World Shareholders should know that there is no guarantee that in the absence of the Initial Proposal, Villa World Shares will trade in line with NTA at least in the short term. As noted above, AVJ and Sunland, which are reasonably comparable to Villa World, have been trading at a discount to NTA for a long period of time.

6.2.3 Conclusion on the selected valuation range

Set out below is a summary of the VWAP of Villa World Shares before the announcement of the Initial Proposal on 14 March 2019.

VWAP	Low	High	VWAP
Up to 14 March 2019 being the last day before the Initial Proposal was announced			
1 day	1.950	2.055	2.005
5 day	1.920	2.055	2.004
10 day	1.920	2.055	2.003
1 month	1.905	2.055	1.995
2 month	1.730	2.055	1.938
3 month	1.550	2.055	1.850
4 month	1.550	2.055	1.865
5 month	1.550	2.070	1.900
6 month	1.550	2.180	1.930
9 month	1.550	2.360	2.026

Source: S&P Global, GTCF analysis

Note: We note that whilst the Initial Proposal was received by Villa World on the 8 March 2019, the Company announced it on the 14 March 2019 after the markets had closed and we have therefore considered the VWAP analysis from 14 March 2019.

Based on the analysis undertaken in Sections 6.2.3 and 6.2.4, we have assessed the fair market value of Villa World Shares based on the trading price before 14 March 2019 between A\$1.95 and A\$2.05. We note that we consider appropriate to reduce our assessed price range by the interim dividend of 8 cents per share since the Scheme Consideration of A\$2.345 cents is after accounting for the interim dividend of



8 cents per share. We note that the trading prices of Villa World Shares started trading on an ex-dividend basis on 12 March 2019.

Accordingly, our assessed fair market value of Villa World Shares based on the trading price before the 14 March 2019 is adjusted to between A\$1.87 and A\$1.97 on a minority basis.

Evidence from studies suggests that successful takeovers in Australia have completed based on the premium for control in the range of 20% to 40% (see Appendix B).

In addition, we have considered the premium for control paid by acquirers in the property development sector as set out below. The analysis below indicates a control premium paid around 30%.

Indicative control premium assessment				Premia to trading price ¹	
Date	Target	Buyer	Stake %	5-day	1-month
13-Jun-18	Gateway Lifestyle Group	Hometown America Corporation	81.8%	28%	31%
24-Jul-17	Tian An Australia Limited	Oasis Star Limited	52.2%	33%	25%
1-Jul-16	Payce Consolidated Limited	Bellawest Pty Limited	50.1%	80%	80%
10-Nov-15	Devine Limited	CIMIC Group Limited	49.4%	34%	40%
10-Apr-13	CIC Australia Limited	Peet Limited	86.8%	0%	2%
Median premium				33%	31%

Source: GTCF analysis

Notes: (1) The control premium have been calculated based on the share price of the target before market speculation of a potential transaction; (2) Both Payce Consolidated Limited and CIC Australia Limited presented a significant limited liquidity at the time of their transactions, therefore the control premium over the trading share prices could have been distorted. Accordingly, we have put a limited reliance on them

Accordingly, in our valuation assessment, we have applied a control premium between 20% and 40%.

We have set out in the table below a summary of our valuation assessment based on the trading prices.

Valuation summary - Quoted Security Price Method A\$/ Villa World Share unless stated otherwise	Section	Low	High
	Reference		
Value per Villa World Share cum-dividend (on a minority basis)	Section 6.2.3	1.950	2.050
Less: 1HFY19 Dividend ¹		(0.080)	(0.080)
Value per Villa World Share ex-dividend (on a minority basis)		1.870	1.970
Control premium (%)	Appendix B	20.0%	40.0%
Value per Villa World Share ex-dividend (on a control basis)		2.244	2.758

Source: GTCF Calculations

Note (1): The Company announced a 1HFY19 interim dividend of 8 cents per share and the shares began trading ex-dividend on 12 March 2019

6.3 Valuation cross check

To cross-check our valuation assessment, we have compared the multiple implied in our valuation assessment of Villa World to the multiples of broadly comparable listed companies. The following table sets out the EBITDA and P/NTA multiples implied by our valuation assessment.

Implied EBITDA multiple A\$000 unless stated otherwise	Section Reference	Low	High
GT assessed enterprise value of Villa World		399,609	452,040
Value per Villa World Share (A\$/ Villa World Share)		2.236	2.649
EBITDA			
FY19 EBITDA		37,025	37,025
FY20 Consensus estimate		46,173	46,173
5-year average		49,631	49,631
EV/EBITDA (times)			
FY19 EBITDA		10.8x	12.2x
FY20 Consensus estimate		8.7x	9.8x
5-year average (FY15 to FY19)	Note 2	8.1x	9.1x
NTA (A\$/Villa World Share)			
30 June 2019	Section 4	2.28	2.28
31 December 2018 Adjusted	Note 1	2.23	2.23
P/NTA (times)			
30 June 2019		0.98x	1.16x
31 December 2018 Adjusted		1.00x	1.19x

Source: GTCF Analysis

Note (1): The NTA as at 31 December 2018 has been adjusted for the interim dividend of 8 cents per share.

Note (2): The FY15, FY16 and FY17 EBITDA have been reduced by the amount of the capitalised interest costs since the capitalised interest cost was being reported below the EBITDA line and this presentation was changed subsequently.

Note (3): The average enterprise value has been calculated based on the equity value assessed by GT plus the net debt as at 30 June 2019.

In our analysis, we have mainly relied on the trading multiples of comparable companies ("Trading Multiples"). Whilst we have considered recent acquisitions of property developers, we are of the opinion that the level of comparability is limited and accordingly, we have not relied on them. Refer to Appendix C for details.

The selection of an appropriate multiple to apply is a matter of professional judgement and involves consideration of a number of factors including the stability and quality of earnings, the nature of the business, the financial structure of the company and gearing levels, future prospects of the business and the cyclical nature of the industry.

Summarised below are the multiples of EBITDA and NTA for the relevant comparable companies over various period of time. We note that we have also considered other listed companies in our analysis but we have not presented them below as we consider the comparability limited.

EVEBITDA multiples				EVEBITDA (times)								
A\$ millions	Market cap	Net debt	Enterprise value	FY18	FY19	FY20	FY21	FY14-FY21	6-yr average	5-yr average	3-yr average	
Villa World Limited	252	115	367	5.6x	9.9x	7.9x	6.7x	7.7x	7.9x	7.6x	6.3x	
AVJennings Limited	238	197	434	9.5x	17.7x	12.2x	10.9x	10.4x	10.1x	9.3x	8.3x	
Sunland Group Limited	228	86	314	7.0x	6.0x	6.3x	6.6x	6.8x	7.0x	7.2x	6.6x	
Cedar Woods Properties Limited	518	138	656	9.8x	8.4x	8.4x	NA	9.6x	9.8x	10.2x	9.7x	
Low				5.6x	6.0x	6.3x	6.6x		6.8x	7.0x	6.3x	
Average				8.0x	10.5x	8.7x	8.1x	8.6x	8.7x	8.6x	7.7x	
Median				8.3x	9.2x	8.2x	6.7x	8.7x	8.9x	8.4x	7.5x	
Max				9.8x	17.7x	12.2x	10.9x	10.4x	10.1x	10.2x	9.7x	
P/NTA multiples				P/NTA (times)								
A\$ millions	Market cap	Net debt	Enterprise value	FY18	FY19	FY20	FY21					
Villa World Limited	252	115	367	0.9x	0.9x	0.8x	0.8x					
AVJennings Limited	238	197	434	0.6x	0.6x	0.6x	0.6x					
Sunland Group Limited	228	86	314	0.7x	0.7x	0.6x	0.6x					
Cedar Woods Properties Limited	518	138	656	1.5x	1.4x	1.3x	1.2x					
Low				0.6x	0.6x	0.6x	0.6x					
Average				0.9x	0.9x	0.8x	0.8x					
Median				0.8x	0.8x	0.7x	0.7x					
Max				1.5x	1.4x	1.3x	1.2x					

Source: S&P Capital IQ, GTCF Analysis

Note: (1) Trading multiples are calculated based on market capitalisation as at 12 August 2019, except in case of Villa World wherein the market capitalisation is as at 14 March 2019

Note (2): Enterprise Value (EV) includes net debt (interest-bearing liabilities less non-restricted cash).

Note (3) Historical P/NTA multiples is calculated as current share price divided by FY18 NTA. Forward P/NTA multiples are based on the current share price divided by the net tangible asset value ("NTA") per share based on broker consensus estimates.

Note (4) FY18 EV/EBITDA multiples are based on the enterprise value as at 12 August 2018 by the FY18 EBITDA. Historical EBITDA is derived from full-year investor presentations, annual reports or independently assessed by GTCF. Forward EBITDA is based on the current enterprise value divided by forecast EBITDA based on broker consensus estimates.

Note (5): The multiples stated above are on a minority basis.

We have also set out in the table a more comprehensive benchmark between Villa World and AVJ, Sunland and Cedar Woods which we consider relevant for the purpose of our valuation assessment.

Peer analysis	5YR		3YR		5YR		5YR		5YR		Historical average		Geographic mix (%)			
	Average TSR ¹	Average ROA ²	Average EBITDA %	Average Dividend ³ %	Average Gearing ⁴	Average Portfolio ⁶	Average Contract Value ⁷ A\$K	QLD	VIC	NSW	WA	SA	NS			
Villa World	8.9%	12.1%	14.6%	6.9%	28.5%	6,956	364	66%	31%	3%	0%	0%	0%			
AVJennings	6.5%	7.3%	13.1%	6.4%	35.5%	9,852	285	22%	27%	22%	2%	19%	7%			
Sunland	8.2%	8.7%	15.3%	4.7%	35.2%	4,421	712	87%	5%	8%	0%	0%	0%			
Cedar Woods ⁵	15.0%	12.2%	31.8%	5.0%	15.1%	9,703	444	10%	15%	0%	60%	16%	0%			

Source: S&P Global, company's investor presentations and annual reports, GTCF Analysis

Note (1): Dividend yield is calculated as the dividend for the financial year divided by the average share price during the financial year. The capital appreciation is calculated as the growth in the share price at the beginning of the financial year and the share price on the last day of the financial year.

Note (2): Return on assets is calculated as Post-tax EBIT divided by the average (net assets + net debt) of the prior year and the current year.

Note (3): The average dividend yield is calculated as the simple average of the dividend yield based on methodology discussed above.

Note (4): The average gearing level is calculated as the average net debt over the financial year divided by the average market capitalisation over the financial year.

Note (5): The TSR for Cedar Woods represents the 3-year TSR since the FY15 and FY16 capital appreciation is impacted by the downturn in the commodities market.

Note (6): Current land bank is based on each company's portfolio consisting of the lots that are planned, under construction or near settlement.

Note (7): The average contract value for all companies except Cedar Woods is based on the average contract value reported in the financial statements over the last 4 reporting periods (FY16, FY17, FY18 and 1HFY19). For Cedar Woods, the average contract value is based on the weighted average contract value of the current inventory levels where the total yield of the project are used as weights and the price is calculated as the mid-point of the range of contract values reported for the projects in the financial statements.

In relation to Trading Multiples and benchmark undertaken, we note the following:

- The Trading Multiples presented above reflect the value of companies on a minority basis and do not include a premium for control.

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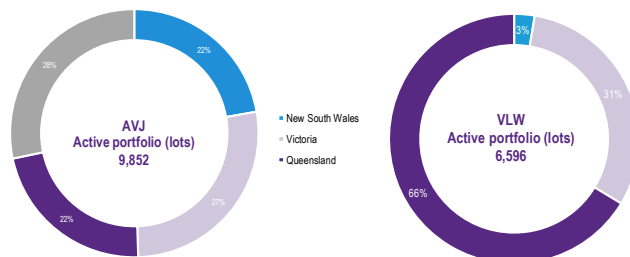
- The accounting policies adopted by the listed peers are similar including revenue recognition in accordance with AASB15 and the inventory being carried at the lower of cost or net realisable value.
- The comparable companies listed above are residential property developers that mainly operate in Australia, and to lesser extent in New Zealand⁷⁵.

We consider AVJennings to be most comparable company out of the three listed peers and have therefore undertaken a more in-depth benchmarking below.

AVJennings Limited

AVJ is a Victoria-based residential land and home developer operating in Australia and New Zealand with circa 9,852⁷⁶ lots as at 31 December 2018, of which 2,241 lots are currently work in progress. The company purchases residential land, sub-divides, and/or sells a mix of housing options including detached houses, townhouses and low-rise medium density multi-storey apartments, although the proportion of multi-storey apartments is relatively low. Most of AVJ's projects are located in designated urban growth areas, typically on the suburban fringe of major cities in Australia. The remainder of AVJ's projects are urban infill⁷⁷, located in areas close to the urban centre and surrounded by built-up suburbs. In the following charts, we have compared the geographic mix, the average contract value, the EBITDA margin, ROA and dividend yield for AVJ and Villa World and note that they are broadly comparable although Villa World has been generating superior financial performance in terms of the EBITDA margins and ROA.

Geographic mix of on-going projects of Villa World as at 30 June 2019 and AVJ as at December 2018



Source: GTCF Analysis

Note (1): The "Others" category of AVJ comprises lots in South Australia (19%), New Zealand (7%) and Western Australia (2%).

Note (2): Active portfolio relates to the company's remaining lots to be sold.

⁷⁵ AVJ currently has circa 738 lots in Auckland (New Zealand) comprising c. 7% of its total portfolio.

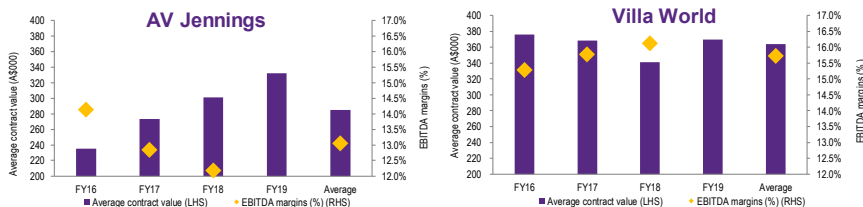
⁷⁶ This excludes the contracted and conditional future acquisition of Memda near Lyndarum North (c. 230 lots) as well as the recently announced intention to develop 3,500 lots into the south-east Queensland corridor. Source: AVJ's FY19H1 Investor Presentation.

⁷⁷ Urban infill refers to the utilisation of open land in existing urban areas for residential development

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Average contract value^{78 79} and EBITDA margin over the last 3 years of Villa World and AVJ

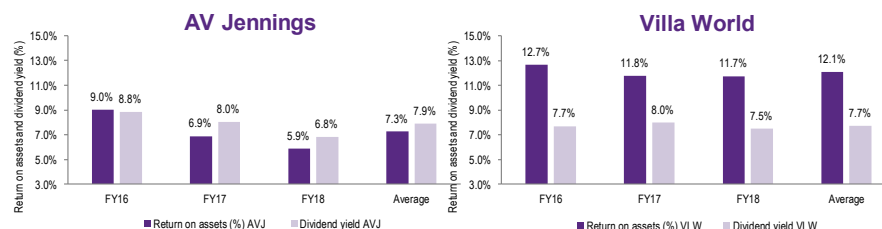


Source: GTCF Analysis

Note (1): We have not included the EBITDA margins for the half-year as they are not meaningful.

Note (2): For the calculation of the average contract value, we have considered the average contract value of FY16, FY17, FY18 and 1HFY19. For the calculation of the average EBITDA margin, we have considered the EBITDA margin for FY16, FY17 and FY18 as the full year EBITDA was not available as at the date of the valuation for Villa World and AVJ.

Return on asset and dividend yield over the last 3 years of Villa World and AVJ



Source: GTCF Analysis

Note (1): Return on assets is calculated as EBIT less tax at 30% divided by (net assets + net debt)

Note (2): Dividend yield is calculated as the dividend paid in the financial year divided by the average share price in that particular year.

Note (3) Average is calculated as the simple average over FY16, FY17 and FY18

Based on the above, we note the following:

- Both companies have a similar geographic mix with Villa World having a marginally higher price point relative to AVJ⁸⁰.
- Villa World's financial performance has been superior both in relation to the average EBITDA margin and the ROA. Villa World generated an average ROA over the last three year period between FY16 and FY18 of 12.1% compared with 7.3% generated by AVJ. This indicates AVJ is required to invest more in assets than Villa World to generate the same operating profit. This seems to support the fact that Villa World is trading a premium P/NTA compared with AVJ.
- AVJ only has a free float of 36% as a result of major shareholder, SC Global Developments Limited, a Singaporean property developer, holding 54% of issued capital. This results in relatively lower liquidity in AVJ's shares which might distort share price performance and consequently the implied valuation multiple. The shareholder structure also limits the takeover contestability of the company which accordingly reduces the relative valuation.

⁷⁸ The average contract value for AV Jennings is based on the information provided in the Investor Presentation. The average contract value for Villa World represents the weighted average value of the revenue per lot for land only and house and land wherein the weights used is the total revenue mix reported by the Company in its Investor Presentation.

⁷⁹ The revenue mix reported in the Investor Presentation includes the land sales to Englobo, which is a joint venture partner on one of the projects. The revenue per lot reported in the Investor presentation excludes the Englobo sales. However, we are of the opinion that the Englobo sales are not necessarily representative of the Company's operations and have therefore not considered including them for comparison purposes

⁸⁰ AVJ's average contract value is affected by the New Zealand operations which have a substantially lower average contract value.

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We are of the opinion that the EBITDA Multiple of AVJ is not reliable as in the short term is affected by the current negative property cycle and earnings and limited brokers coverage and over the longer term is resulting in valuation multiples that in our opinion are not applicable to a property developer.

Sunland Group Limited

Sunland is a Queensland-based residential property developer with c. 4,421 lots as of December 2018, with approximately 691 lots currently under construction. Sunland focuses on the development and construction of detached homes, inner city multi-storey apartments and the subdivision of land along Australia's eastern seaboard. Sunland also has 24,600 square meters of retail/commercial property properties with an estimated value of A\$212 million as at 31 December 2018⁸¹. Sunland's portfolio is heavily weighted⁸² towards Queensland⁸³ with most of the properties located in the inner city medium to high density areas close to the CBD. Premium inner city residential apartments (47%), form a relatively large proportion of Sunland's projects with the balance comprising medium density residential houses⁸⁴ (24%) and urban land development (30%).

The average contract value of Sunland's lots over the last three years has been c. A\$0.7⁸⁵ million, which is more than double Villa World's average contract value of c. A\$0.3 million and it reflects both the type of products and location.

Sunland is less comparable to Villa World than AVJ given that circa 60% of the estimated value of the portfolio is derived by multi-storeys residential apartments and another circa 15% by both urban and retail/commercial developments. As a result of its market positioning and focus, Sunland is trading at a significant discount to both EBITDA and NTA multiples compared with the Villa World multiples implied in our valuation assessment.

Cedar Woods Properties Ltd

Cedar Woods is a Perth-based residential property developer focused on urban land and built form residential, industrial and commercial purposes. The company has a total portfolio of c. 9,700 lots as of December 2018 of which a large proportion (c. 59⁸⁶%) of lots are based in Perth. Cedar Woods outsources its building operation. The company has a diverse product mix, from residential communities on the edge of CBD locations to inner city urban infill sites and lifestyle locations and commercial properties, which forms c. 50% of the total revenue with the balance 50% derived from land sales.

Cedar Woods' financial performance has significantly benefited from the Williams Landing project, which is a highly valued⁸⁷ residential and commercial property development in Melbourne's western growth corridor 20 km from the CBD. Williams Landing was launched in March 2008 with first homes sold in 2009. This is a large masterplan mixed use community with circa 2,500 residential apartments and 365 commercial properties⁸⁸. As at 31 December 2018, the project had a remaining life of 9 years, including the

⁸¹ Sunland's FY18 annual report.

⁸² The geographic mix by number of lots is as follows - QLD (87%), VIC (5%) and NSW (8%).

⁸³ Within Queensland, the number of lots are heavily weighted towards Brisbane and Gold Coast.

⁸⁴ Residential houses are somewhat comparable to townhouses although still at a higher price point.

⁸⁵ Calculated as the simple average of the sales contract value over the following periods - FY16 - A\$613,000; FY17 - A\$718,300; FY18 - A\$560,000 and 1HFY19 - A\$957,000. We have not included settlement values as the comparison would not be on a like-for-like basis.

⁸⁶ Calculated as 5,700 lots divided by 9,700 lots as reported in the 1HFY19 Investor Presentation.

⁸⁷ Cedar Woods reported in February 2008 that Williams Landing was a A\$1.5 billion dollar development. As at 31 December 2018, the project has a remaining life of 10+ years. The project includes 20 commercial / residential sites over 200 dwellings outside of town centre. A shopping centre has been built and retained. At this site, the Company managed to settle the Target Australia Headquarters with Centuria Property Funds Limited.

⁸⁸ This includes the Target Head Office and Victorian State Government Office.

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development of 20 large scale, mixed-use sites that will provide new projects and regular contributions to earnings. Cedar Woods has a demonstrated capacity to deliver superior returns at Williams Landing which have historically contributed to the ability of the company to generate EBITDA margins more than double all the other listed peers and a higher ROA. We have set out below some relevant examples:

- In June 2017, Cedar Woods announced that it had signed an agreement to sell the Target Australia headquarter building in Williams Landing to Centuria Property Funds Limited for A\$58.23 million. Target had signed an agreement with Cedar Woods in December 2016 to build the new headquarters committing to 10 year lease.
- In April 2018, Cedar Woods advised that it had secured a long-term lease with the Victorian State Government at a new A-grade office building in Williams Landing for an initial period of 15 years with two additional five year options available. At the same time, Cedar Woods advised that it had moved to pre-sell the building.
- In July 2018, Cedar Woods announced the sale of 107 Overton Road in Williams Landing to the Hellenic Club of Canberra for A\$25.9 million at a yield of 5.4%. The building is yet to be developed and settlement is expected in FY20.

Cedar Woods has 20 additional sites in Williams Landing that can accommodate commercial, residential or mixed-used developments similar to the above. Given the company already owns the land and the precinct has developed into a prime location for commercial and office buildings, the business model of the company will be able to deliver sustained above market profit with limited risks for the shareholders given that the buildings are usually pre-sold and leased before construction commences.

Cedar Woods is also able to retain exposure to commercial property and generate recurring and stable rental revenues which materially de-risk the operations. We note that in FY18, Cedar Woods generated A\$6 million of revenue from the rentals of the Williams Landing Shopping Centre which is carried on the balance sheet and it has a fair value of A\$70 million.

Based on the superior returns that Cedar Woods has been able to generate historically, the pipeline of residential and commercial opportunities yet to be developed at Williams Landing and the commercial properties retained on the balance sheet, we are of the opinion that Cedar Woods should trade at a significant premium to Villa World.

Other comparable companies

From the above trading multiples analysis, we have excluded the following companies:

- Peet Limited ("Peet") is a residential property developer that acquires, develops and markets residential land throughout Australia. Peet is geographically diversified with presence across all Australian mainland states and territories, with dominant presence in WA, VIC and QLD. Peet has the third largest Australian residential land bank⁸⁹ of over 50,000 lots. However, we have not included

⁸⁹ Behind Lendlease and Stockland.

Peet in our list of comparable companies as it has a substantial funds management business, which delivered more than 30% of EBITDA in FY18, reducing cyclicalities of earnings and margins.

- Finbar Group Limited ("Finbar") is a residential apartment developer operating in WA, primarily in Perth. Finbar develops residential apartments, and to a lesser extent commercial office and retail properties. Finbar develops medium to high-density residential buildings, with the majority in close proximity to the city. We have not relied upon Finbar's valuation multiple as we consider the company materially different from Villa World due to a different product (high-density apartments) and a different market (Western Australia).
- Other property companies such as Devine Limited ("Devine"), Tian An Australia Limited ("Tian An"), and Desane Group Limited ("Desane") are also excluded from our peer analysis as these companies are considerably smaller in size with significant differences in product offering, target segment and some (i.e. Devine) in difficult financial circumstances.

Conclusion

In summary, we consider the EBITDA Multiple and P/NTA Multiple implied in our valuation assessment reasonable based on the following:

- We consider AVJ as the most comparable company. The implied P/NTA is at a significant premium to AVJ multiples on a minority basis, which is appropriate given that Villa World has historically been able to deliver superior financial returns both in terms of EBITDA margin and ROA. In addition, the lack of takeover contestability of AVJ, given that the major shareholder holds 54% of issued capital, usually adversely affects the valuation of the business and the trading prices.
- The multiples implied in our valuation on a control basis are at premium to the trading multiples of Sunland. We are of the opinion that this is reasonable given that the majority of Sunland's portfolio consists of multi-storey inner city residential apartments and these apartment projects have more lumpy cash flows, longer cash generation cycles and subject to greater market volatility. The financial performance generated by Sunland is substantially in line with Villa World.
- We consider appropriate for the multiples implied in our valuation on a control basis to be at a discount to the trading multiples of Cedar Woods as Villa World does not have a flagship project of the scale and size of Williams Landing which has historically allowed the company to generate superior return but still offers a long-dated pipeline of opportunities. Further, the presence of commercial property on the balance sheet allows the company to gear stable rental income.

7 Sources of information, disclaimer and consents

7.1 Sources of information

In preparing this report Grant Thornton Corporate Finance has used various sources of information, including:

- Scheme Implementation Deed
- ASX announcement regarding the Scheme
- Releases and announcements by Villa World to ASX
- Villa World Annual reports
- Villa World feasibility studies
- Villa World website
- Various broker reports
- Other publicly available information;
- IBISWorld Report
- Capital IQ
- Discussions with Management and its advisors

7.2 Limitation, qualification and independence

This report and opinion is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.

Grant Thornton Corporate Finance has prepared this report on the basis of financial and other information provided by the Company, and publicly available information. Grant Thornton Corporate Finance has considered and relied upon this information. Grant Thornton Corporate Finance has no reason to believe that any information supplied was false or that any material information has been withheld. Grant Thornton Corporate Finance has evaluated the information provided by the Company through inquiry, analysis and review, and nothing has come to our attention to indicate the information provided was materially misstated or would not afford reasonable grounds upon which to base our report. Nothing in this report should be taken to imply that Grant Thornton Corporate Finance has audited any information supplied to us, or has in any way carried out an audit on the books of accounts or other records of the Company.

This report has been prepared to assist the Directors of Villa World in advising the Villa World Shareholders in relation to the Scheme. This report should not be used for any other purpose. In particular, it is not intended that this report should be used for any purpose other than as an expression of Grant Thornton Corporate Finance's opinion as to whether the Scheme is in the best interest of Villa World Shareholders.



Villa World has indemnified Grant Thornton Corporate Finance, its affiliated companies and their respective officers and employees, who may be involved in or in any way associated with the performance of services contemplated by our engagement letter, against any and all losses, claims, damages and liabilities arising out of or related to the performance of those services whether by reason of their negligence or otherwise, excepting gross negligence and wilful misconduct, and which arise from reliance on information provided by the Company, which the Company knew or should have known to be false and/or reliance on information, which was material information the Company had in its possession and which the Company knew or should have known to be material and which did not provide to Grant Thornton Corporate Finance. The Company will reimburse any indemnified party for all expenses (including without limitation, legal expenses) on a full indemnity basis as they are incurred.

7.3 Consents

Grant Thornton Corporate Finance consents to the issuing of this report in the form and context in which it is included in the Scheme Booklet to be sent to Villa World Shareholders. Neither the whole nor part of this report nor any reference thereto may be included in or with or attached to any other document, resolution, letter or statement without the prior written consent of Grant Thornton Corporate Finance as to the form and context in which it appears.

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Appendix A - Valuation methodologies

Capitalisation of future maintainable earnings

The capitalisation of future maintainable earnings multiplied by appropriate earnings multiple is a suitable valuation method for businesses that are expected to trade profitably into the foreseeable future.

Maintainable earnings are the assessed sustainable profits that can be derived by a company's business and excludes any abnormal or "one off" profits or losses.

This approach involves a review of the multiples at which shares in listed companies in the same industry sector trade on the share market. These multiples give an indication of the price payable by portfolio investors for the acquisition of a parcel shareholding in the company.

Discounted future cash flows

An analysis of the net present value of forecast cash flows or DCF is a valuation technique based on the premise that the value of the business is the present value of its future cash flows. This technique is particularly suited to a business with a finite life. In applying this method, the expected level of future cash flows are discounted by an appropriate discount rate based on the weighted average cost of capital. The cost of equity capital, being a component of the WACC, is estimated using the Capital Asset Pricing Model.

Predicting future cash flows is a complex exercise requiring assumptions as to the future direction of the company, growth rates, operating and capital expenditure and numerous other factors. An application of this method generally requires cash flow forecasts for a minimum of five years.

Orderly realisation of assets

The amount that would be distributed to shareholders on an orderly realisation of assets is based on the assumption that a company is liquidated with the funds realised from the sale of its assets, after payment of all liabilities, including realisation costs and taxation charges that arise, being distributed to shareholders.

Market value of quoted securities

Market value is the price per issued share as quoted on the ASX or other recognised securities exchange. The share market price would, prima facie, constitute the market value of the shares of a publicly traded company, although such market price usually reflects the price paid for a minority holding or small parcel of shares, and does not reflect the market value offering control to the acquirer.

Comparable market transactions

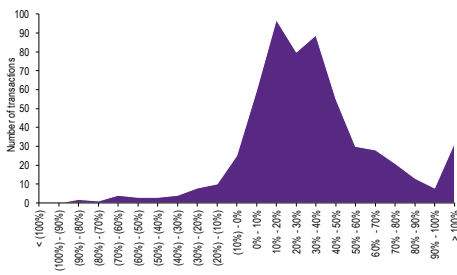
The comparable transactions method is the value of similar assets established through comparative transactions to which is added the realisable value of surplus assets. The comparable transactions method uses similar or comparative transactions to establish a value for the current transaction.

Comparable transactions methodology involves applying multiples extracted from the market transaction price of similar assets to the equivalent assets and earnings of the company. The risk attached to this valuation methodology is that in many cases, the relevant transactions contain features that are unique to that transaction and it is often difficult to establish sufficient detail of all the material factors that contributed to the transaction price.

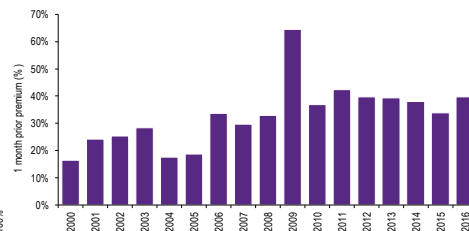
Appendix B - Control premium study

Evidence from studies indicates that premium for control on successful takeovers has frequently been in the range of 20% to 40% in Australia, and that the premium vary significantly for each transaction.

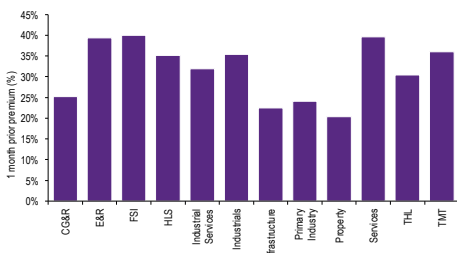
1 Month Prior Control Premium



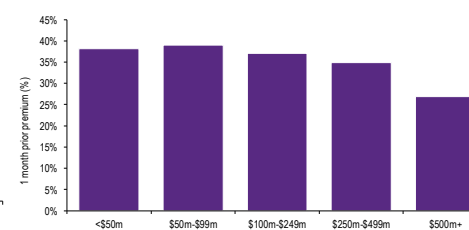
Control premium per completion date



Control premium per industry



Control premium and size



	Control premium
Average	34.33%
Median	29.34%

Source: GTCF Analysis.

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Appendix C – Transaction multiples

Whilst we have considered the comparable transactions, we do not place reliance on them due to multiple factors.

We have also examined the acquisitions of companies with broadly similar operations and their implied valuation multiples. We note that there have been few relevant transactions in the Australian residential property sector. The following table summarises the implied valuation multiples in recent transactions.

Date	Target	Buyer	Deal	Equity		Implied
			Value	Value	EV	PBV
13-Jun-18	Gateway Lifestyle Group	Hometown America Corporation	559.0	683.4	935.7	1.41
24-Jul-17	Tian An Australia Limited	Oasis Star Limited	58.7	112.6	62.9	0.91
01-Jul-16	Payce Consolidated Limited	Bellawest Pty Limited	125.2	324.3	545.7	1.20
10-Nov-15	Devine Limited	CIMIC Group Limited	61.1	123.8	177.8	0.50
10-Apr-13	CIC Australia Limited	Peet Limited	65.5	75.5	123.2	0.91

Source: S&P Global, GTCF Analysis

We note the following about these Transaction Multiples:

- The Transaction Multiples relate to a controlling interest transaction, with the exception of Devine Limited, and therefore may incorporate various levels of control premium. In addition, the consideration may include special value paid by the acquirers, which is unique to each acquirer.
- We note that the transactions occurred in different time periods. Economic and market factors, including competition dynamics, interest rates, and consumer confidence may be materially different from those as at valuation date. These factors may influence the amounts paid by the acquirers of these businesses.

We are of the opinion that none of the target companies above are directly comparable to Villa World and we have not relied on the transaction multiples as part of our valuation cross-check. We note the following about these companies.

- Gateway Lifestyle Group ("Gateway") is a leading operator of over 50 high quality residential land lease communities on the east coast of Australia providing independent living options typically for people above 50 years old. Apart from the development and sale of new manufactured homes to individual retirees, Gateway fully owns and operates the existing portfolio of residential rental communities. Development revenues accounted for less than half of total revenues in FY18, with the company's earnings largely comprising recurring long-term rental income.
- Tian An Australia Limited ("TIA"), an ASX-listed property developer⁹⁰ that specialises in the development and sale of residential and commercial properties. Historically, TIA was focused on developments in Western Australia, however, is now focusing on residential development sites along the east coast of Australia, within inner metropolitan and city locations, close to established infrastructure. We do not consider TIA to be comparable due to its focus on high density residential apartments, as well as its considerably smaller size.

⁹⁰ Tian An had a market capitalisation of A\$75 million before announcement of the transaction.

- Payce Consolidated Limited ("Payce") is engaged in the development and sale of residential, retail and commercial property primarily within the Sydney property market. The company's key product comprised medium density apartments and mixed use (retail/commercial) product and urban renewal projects. At the time of the transaction, Payce had a development pipeline of approximately 7,500 apartments over the next five years in Sydney. We do not consider Payce to be directly comparable due to its focus on inner city residential apartments in the Sydney market (and lack of residential land subdivision and sales), as well as its provision of commercial properties.
- Devine Limited ("Devine") is an ASX-listed⁹¹ residential property developer that mainly focuses on the development of residential communities. The company is active across land development, house construction, apartment development and construction. Operations are primarily skewed towards Queensland but are also established throughout Victoria and South Australia. As at 30 June 2015, Devine had a development pipeline of approximately 10,000 future dwellings across communities, integrated housing and apartments. We note that CIMIC already effectively controlled Devine as it held a 50.6% interest before the transaction, thus the implied valuation multiple might not reflect a controlling interest. We have not relied on the transaction given Devine was incurring losses prior to the transaction.
- CIC Australia Limited ("CIC") is a prominent property development company in the ACT⁹² region, Darwin, Adelaide and regional New South Wales. CIC's projects cover new suburbs, residential apartment complexes and occasionally an industrial project. CIC's principal activities are the acquisition, sub-division, development, construction and sale of real estate, with its primary activity being the purchase and sub-division of residential land for resale. We do not consider CIC to be comparable given its market and its focus on apartments.

⁹¹ Devine had market capitalisation of A\$96 million before announcement of the transaction.

⁹² Australian Capital Territory

Appendix D - Discount Rate

Discount Rate Inputs

Introduction

The cash flow assumptions underlying the DCF approach are on a nominal, ungeared and post-tax basis. Accordingly, we have assessed a range of nominal post-tax discount rates for the purpose of calculating the net present value of the cash flows under the Run-off Scenarios.

The discount rates were determined using the WACC formula. The WACC represents the average of the rates of return required by providers of debt and equity capital to compensate for the time value of money and the perceived risk or uncertainty of the cash flows, weighted in proportion to the market value of the debt and equity capital provided. However, we note that the selection of an appropriate discount rate is ultimately a matter of professional judgment.

Under a classical tax system, the nominal WACC is calculated as follows:

$$\text{WACC} = R_d \times \frac{D}{D+E} \times (1-t) + R_e \times \frac{E}{D+E}$$

Where:

- R_e = the required rate of return on equity capital;
- E = the market value of equity capital;
- D = the market value of debt capital;
- R_d = the required rate of return on debt capital; and
- t = the statutory corporate tax rate.

Required rate of return on equity capital

We have used the capital asset pricing model ("CAPM"), which is commonly used by practitioners, to calculate the required return on equity capital. We have also considered the TSR in determining an appropriate cost of equity.

The CAPM assumes that an investor holds a large portfolio comprising risk-free and risky investments. The total risk of an investment comprises systematic risk and unsystematic risk. Systematic risk is the variability in an investment's expected return that relates to general movements in capital markets (such as the share market) while unsystematic risk is the variability that relates to matters that are unsystematic to the investment being valued.

The CAPM assumes that unsystematic risk can be avoided by holding investments as part of a large and well-diversified portfolio and that the investor will only require a rate of return sufficient to compensate for the additional, non-diversifiable systematic risk that the investment brings to the portfolio. Diversification cannot eliminate the systematic risk due to economy-wide factors that are assumed to affect all securities in a similar fashion.

Accordingly, whilst investors can eliminate unsystematic risk by diversifying their portfolio, they will seek to be compensated for the non-diversifiable systematic risk by way of a risk premium on the expected return.

The extent of this compensation depends on the extent to which the company's returns are correlated with the market as a whole. The greater the systematic risk faced by investors, the larger the required return on capital will be demanded by investors.

The systematic risk is measured by the investment's beta. The beta is a measure of the co-variance of the expected returns of the investment with the expected returns on a hypothetical portfolio comprising all investments in the market - it is a measure of the investment's relative risk.

A risk-free investment has a beta of zero and the market portfolio has a beta of one. The greater the systematic risk of an investment the higher the beta of the investment.

The CAPM assumes that the return required by an investor in respect of an investment will be a combination of the risk-free rate of return and a premium for systematic risk, which is measured by multiplying the beta of the investment by the return earned on the market portfolio in excess of the risk-free rate.

Under the CAPM, the required nominal rate of return on equity (R_e) is estimated as follows:

$$R_e = R_f + \beta_e (R_m - R_f)$$

Where:

- R_f = risk free rate
- β_e = expected equity beta of the investment
- $(R_m - R_f)$ = market risk premium

Risk-free rate – 3.0% (Run-off Scenario) and 3.5% (Replenish Scenario)

Under the Run-off Scenario, majority of the existing projects are expected to be completed settled by the end of 6 years i.e. by FY25. In the absence of an official risk free rate, the yield on government bonds (in an appropriate jurisdiction) is commonly used as a proxy. Accordingly, we have observed the yield on the 5-year and 10-year Australian Government bond over several intervals from a period of 5 trading days to 10 trading years, which is set out in the table below:

Australia Government Debt - 5 Year as at 9 August 2019	Range		Daily average Nominal
Previous 5 trading days	0.67%	- 0.73%	0.70%
Previous 10 trading days	0.67%	- 0.88%	0.77%
Previous 20 trading days	0.67%	- 1.07%	0.88%
Previous 30 trading days	0.67%	- 1.07%	0.93%
Previous 60 trading days	0.67%	- 1.32%	1.02%
Previous 1 year trading	0.67%	- 2.39%	1.73%
Previous 2 years trading	0.67%	- 2.52%	2.02%
Previous 3 years trading	0.67%	- 2.79%	2.00%
Previous 5 years trading	0.67%	- 3.11%	2.07%
Previous 10 years trading	0.67%	- 5.60%	3.01%

Source: S&P Global

Australia Government Debt - 10 Year as at 9 August 2019		Range		Daily average Nominal
Previous 5 trading days	0.96%	-	1.05%	0.99%
Previous 10 trading days	0.96%	-	1.21%	1.09%
Previous 20 trading days	0.96%	-	1.46%	1.21%
Previous 30 trading days	0.96%	-	1.46%	1.25%
Previous 60 trading days	0.96%	-	1.68%	1.35%
Previous 1 year trading	0.96%	-	2.79%	2.10%
Previous 2 years trading	0.96%	-	2.93%	2.41%
Previous 3 years trading	0.96%	-	2.99%	2.44%
Previous 5 years trading	0.96%	-	3.71%	2.55%
Previous 10 years trading	0.96%	-	5.88%	3.47%

Source: S&P Global

Based on the above, we have adopted a risk-free rate of 3% under the Run-off Scenario and 3.5% under the Replenish Scenario which is a more longer term rate given the perpetuity of the cash flows.

Market risk premium – 6.0%

The market risk premium represents the additional return an investor expects to receive to compensate for additional risk associated with investing in equities as opposed to assets on which a risk free rate of return is earned. However, given the inherent high volatility of realised rates of return, especially for equities, the market risk premium can only be meaningfully estimated over long periods of time. In this regard, Grant Thornton studies of the historical risk premium over periods of 20 to 80 years suggest a risk premium of 6.0% for the Australia markets.

For the purpose of the WACC assessment, Grant Thornton Corporate Finance has adopted a market risk premium of 6.0%⁹³.

Equity beta – 1.0 to 1.1

The beta measures the expected relative risk of the equity in a company. The choice of the beta requires judgement and necessarily involves subjective assessment as it is subject to measurement issues and a high degree of variation.

An equity beta includes the effect of gearing on equity returns and reflects the riskiness of returns to equity holders. However, an asset beta excludes the impact of gearing and reflects the riskiness of returns on the asset, rather than returns to equity holders. Asset betas can be compared across asset classes independent of the impact of the financial structure adopted by the owners of the business.

Equity betas are typically calculated from historical data. These are then used as a proxy for the future which assumes that the relative risk of the past will continue into the future. Therefore, there is no right equity beta and it is important not to simply apply historical equity betas when calculating the cost of equity.

⁹³ A market risk premium of 6% has been widely used in regulatory price determinations in Australia and by market regulators. In addition, we have performed an analysis of the S&P ASX 200 accumulation index which measures total returns generated by the ASX 200, and compared this to our adopted risk-free rate and market risk premium. Total returns generated by the ASX 200 since 1992 equate to a CAGR of circa 9.5% which is consistent with the market return implied by our adopted risk free rate of 3.5% under the Replenish Scenario and market risk premium of 6%.

For the purpose of the report, we have had regard to the observed betas (equity betas) of comparable listed companies operating in the Australian residential property development industry. Below tables show both the 2-year weekly and 5-year monthly betas of the broadly comparable companies. We note that many observations are not statistically relevant, so we have not been able to rely upon these beta's.

Company	Country	Market cap A\$m	Equity Beta ¹	2-year weekly beta			SIRCA Beta ⁴
				Gearing Ratio ²	Ungeared Beta	Regeared Beta ³	
Villa World Limited	Australia	293	0.13	56.7%	NM	NM	0.72
AVJennings Limited	Australia	236	1.03	65.2%	0.71	0.80	0.41
Sunland Group Limited	Australia	231	0.21	49.6%	0.15	0.17	0.32
Cedar Woods Properties Limited	Australia	515	0.59	24.6%	0.51	0.57	0.57
Peet Limited	Australia	544	0.21	33.0%	NM	NM	0.12
Devine Limited	Australia	23	0.13	130.2%	NM	NM	0.46
Finbar Group Limited	Australia	238	0.47	12.7%	0.44	0.49	0.73
Desane Group Holdings Limited	Australia	57	0.57	-28.3%	0.71	0.80	0.45
Tian An Australia Limited	Australia	40	(0.41)	26.1%	NM	NM	0.46
Average (excluding Villa World)			0.35	39.1%	0.50	0.57	0.44
Median (excluding Villa World)			0.34	29.5%	0.51	0.57	0.46

Source: S&P Global, SIRCA Limited, GTCF calculations.

Notes: (1) Equity betas are calculated using data provided by S&P Global. The betas are based on a 2 year period with weekly observations based on the local index. (2) Betas have been unlevered based on the average gearing ratio (i.e. net debt divided by shareholders' equity based on market values). (3) Betas have been regeared based on the assumed regearing ratio of 29% based on Villa World's median target gearing ratio (between 15% and 30%). (4) SIRCA's beta is based on the most recent publication as of March 2019. (5) Betas with R-square less than 0.02 are not meaningful and excluded.

Company	Country	Market cap A\$m	Equity Beta ¹	5-year monthly beta			SIRCA Beta ⁴
				Gearing Ratio ²	Ungeared Beta	Regeared Beta ³	
Villa World Limited	Australia	293	0.82	43.3%	0.63	0.71	0.72
AVJennings Limited	Australia	236	0.50	55.4%	0.36	0.40	0.41
Sunland Group Limited	Australia	231	0.23	54.4%	0.17	0.19	0.32
Cedar Woods Properties Limited	Australia	515	0.51	17.8%	0.45	0.51	0.57
Peet Limited	Australia	544	0.33	41.1%	0.26	0.29	0.12
Devine Limited	Australia	23	0.42	81.3%	0.27	0.30	0.46
Finbar Group Limited	Australia	238	0.69	18.4%	0.61	0.69	0.73
Desane Group Holdings Limited	Australia	57	0.58	9.3%	0.54	0.61	0.45
Tian An Australia Limited	Australia	40	0.13	-17.6%	NM	NM	0.46
Average (excluding Villa World)			0.42	32.5%	0.38	0.43	0.44
Median (excluding Villa World)			0.46	29.7%	0.36	0.40	0.46

Source: S&P Global, SIRCA Limited, GTCF calculations.

Notes: (1) Equity betas are calculated using data provided by S&P Global. The betas are based on a 5 year period with monthly observations based on the local index. (2) Betas have been unlevered based on the average gearing ratio (i.e. net debt divided by shareholders' equity based on market values). (3) Betas have been regeared based on the assumed regearing ratio of 18% based on Villa World's the lower end of Villa World's target gearing ratio of 15% to 30%. (4) SIRCA's beta is based on the most recent publication as of March 2019. (5) Betas with R-square less than 0.02 are not meaningful and excluded.



In addition to the above, SIRCA also reports⁹⁴ overall beta's for the real estate industry⁹⁵ between 0.85 and 1.26, with a midpoint of 1.05.

It should be noted that the above betas are drawn from the actual and observed historical relationship between risk and returns. From these actual results, the expected relationship is estimated generally on the basis of extrapolating past results. Despite the arbitrary nature of the calculations it is important to assess their commercial reasonableness. That is, to assess how closely the observed relationship is likely to deviate from the expected relationship.

Consequently, while measured equity betas of the listed comparable companies provide useful benchmarks against which the equity beta used in estimating the cost of equity for the predevelopment assets, the selection of an unsystematic equity beta requires a level of judgement.

The asset betas of the selected companies are calculated by adjusting the equity betas for the effect of gearing to obtain an estimate of the business risk of the comparable companies, a process commonly referred as de-gearing. We have then recalculated the equity beta based on an assumed 'optimal' capital structure deemed appropriate for the business (re-gearing). This is a subjective exercise, which carries a significant possibility of estimation error.

We used the following formula to undertake the de-gearing and re-gearing exercise:

$$\beta_e = \beta_a \left[1 + \frac{D}{E} \times (1 - t) \right]$$

Where:

- β_e = Equity beta
- β_a = Asset beta
- t = corporate tax rate

The betas are de-gearred using the average historical gearing levels of those respective companies over several years. We then re-gearred based on a gearing ratio⁹⁶ of 29% debt (see Capital Structure Section below for further discussions).

For the purposes of our valuation, we have selected a beta range of between 1.0 and 1.10 to calculate the required rate of return on equity capital. In our beta assessment we had regard to the 5-year beta of Australian residential property developer AVJennings as well as the midpoint of the beta range related to real estate industry (excluding investment trusts) assessed by SIRCA Limited as of March 2019.

Specific risk premium – between 1% (Run-off Scenario) and 2% (Replenish Scenario)

Our selected specific risk premium represents a weighted average specific risk premium where the project revenues are used as weights and the specific risk premium for each project ranges between 0% and 2% for the existing projects and 3% for the Unfinished Projects.

⁹⁴ As of March 2019.

⁹⁵ Excluding investment trusts.

⁹⁶ Debt to equity ratio.

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Cost of debt – 5.0% -6.0% (Run-Scenario) and 6% to 7% (Replenish Scenario)

For the purpose of estimating the cost of debt applicable to Villa World, Grant Thornton Corporate Finance has considered the following:

- The weighted average interest rate on credit outstanding for large businesses over the last one to five years as published by the Reserve Bank of Australia.
- The historical and current cost of debt for Villa World and the comparable companies.
- Expectations of the yield curve.

Based on the above, Grant Thornton Corporate Finance has adopted a cost of debt of 5.0% to 6.0% on a pre-tax basis under the Run-off Scenario and between 6% and 7% under the Replenish Scenario.

Capital Structure - 15% (Run-Off Scenario) and between 20% and 30% (Replenish Scenario)

The appropriate level of gearing that is utilised in determining WACC for a particular company should be the “target” gearing ratio, rather than the actual level of gearing, which may fluctuate over the life of a company. The target or optimal gearing level can therefore be derived based on the trade-off theory which stipulates that the target level of gearing for a project is one at which the present value of the tax benefits from the deductibility of interest are offset by present value of costs of financial distress. In practice, the target level of gearing is evaluated based on the quality and variability of cash flows. These are determined by:

- the quality and life cycle of a company;
- the quality and variability of earnings and cash flows;
- working capital;
- level of capital expenditure; and
- the risk profile of the assets.

For the purpose of the valuation, Grant Thornton Corporate Finance has adopted the lower end of the target gearing of Villa World of 15% under the Run-off Scenario and between 20% and 30% under the Replenish Scenario.

Tax rate – 30%

For the purpose of our valuation assessment we have assumed the Australian corporate tax rate of 30%.

*Discount rate summary***Run-off Scenario**

WACC calculation	Low	High
Cost of equity		
Risk free rate	3.0%	3.0%
Beta	1.00	1.10
Market risk premium	6.0%	6.0%
Specific risk premium	1.0%	1.0%
Cost of equity	10.0%	10.6%
Cost of debt		
Cost of debt (pre tax)	5.0%	6.0%
Tax	30.0%	30.0%
Cost of debt (post tax)	3.5%	4.2%
Capital structure		
Proportion of debt	15.0%	15.0%
Proportion of equity	85.0%	85.0%
	100%	100%
WACC (nominal, post tax)	9.0%	9.6%

Source: GTCF Analysis

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Replenish Scenario

Replenish Scenario	Low	High
WACC calculation		
Cost of equity		
Risk free rate	3.5%	3.5%
Beta	1.00	1.10
Market risk premium	6.0%	6.0%
Specific risk premium	2.0%	2.0%
Cost of equity	11.5%	12.1%
Cost of debt		
Cost of debt (pre tax)	6.0%	7.0%
Tax	30.0%	30.0%
Cost of debt (post tax)	4.2%	4.9%
Capital structure		
Proportion of debt	30.0%	20.0%
Proportion of equity	70.0%	80.0%
	100%	100%
WACC (nominal, post tax)	9.3%	10.7%

Source: GTCF Calculations

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Appendix E - Description of comparable companies

Company	Description
AVJennings Limited	AVJennings Limited operates as a residential development company in Australia. It engages in land and apartment development, and integrated housing activities. The company was founded in 1932 and is based in Hawthorn, Australia. AVJennings Limited is a subsidiary of SC Global Developments Pte Ltd.
Sunland Group Limited	Sunland Group Limited develops and constructs residential properties in Australia. It operates through Residential Housing and Urban Development, and Multi-Storey segments. The Residential Housing and Urban Development segment is involved in land subdivision and medium density integrated housing developments. The Multi-Storey segment develops and sells medium-rise projects between 5 and 15 storeys, and high-rise developments above 15 storeys. The company also provides project services. Sunland Group Limited was founded in 1983 and is based in Brisbane, Australia.
Cedar Woods Properties Ltd.	Cedar Woods Properties Limited engages in property investment and development activities in Australia. The company is involved in the urban land subdivision and development of residential, commercial, and industrial projects in Western Australia, Victoria, and Queensland. It offers small affordable housing lots at its residential estates and luxury apartments at boutique waterfront developments. Cedar Woods Properties Limited was founded in 1987 and is headquartered in West Perth, Australia.
Peet Limited	Peet Limited acquires, develops, and markets residential land in Australia. The company operates through Funds Management, Company-Owned Projects, and Joint Arrangements segments. The Funds Management segment provides underwriting, capital raising, and asset identification services. The Company-Owned Projects segment acquires parcels of land primarily for residential development purposes, as well as produces non-residential blocks of land. The Joint Arrangements segment undertakes and develops land for government, statutory authorities, and private landowners. As of June 30, 2015, it managed and marketed a land bank of approximately 47,000 lots in various Australian cities. The company was founded in 1895 and is based in Perth, Australia.
Finbar Group Limited	Finbar Group Limited, together with its subsidiaries, invests in and develops properties in Australia. It primarily develops medium to high-density residential apartments and commercial office/retail properties, and rents its properties in Western Australia. The company was incorporated in 1984 and is based in East Perth, Australia.
Devine Limited	Devine Limited, together with its subsidiaries, engages in land development, home building, construction, and property development activities in Australia. It develops and sells various real estate properties, including housing, residential land, residential units, and retail/commercial office developments, as well as medium density and high-rise developments. The company was founded in 1983 and is based in Hamilton, Australia. Devine Limited is a subsidiary of CIMIC Group Limited.
Tian An Australia Limited	Tian An Australia Limited engages in the development of residential properties in Australia. The company's project portfolio comprises residential communities, townhouses, and apartments, as well as mixed-use properties for the retail/commercial premises. It also provides retail and commercial for lease. The company was formerly known as PBD Developments Limited and changed its name to Tian An Australia Limited in April 2016. Tian An Australia Limited was founded in 1985 and is based in Sydney, Australia.

Source: S&P Global, GTCF

Appendix F - Description of target companies

Target Company	Description
Gateway Lifestyle Group	Gateway Lifestyle Group engages in the development and operations of manufactured homes in Australia. As of June 30, 2018, it had 58 residential land lease communities primarily in New South Wales, Queensland, Victoria, South Australia, and the Australian Capital Territory. The company was founded in 2009 and is headquartered in Sydney, Australia. As of October 15, 2018, Gateway Lifestyle Group operates as a subsidiary of Hometown America Corporation.
Tian An Australia Limited	Tian An Australia Limited engages in the development of residential properties in Australia. The company's project portfolio comprises residential communities, townhouses, and apartments, as well as mixed-use properties for the retail/commercial premises. It also provides retail and commercial for lease. The company was formerly known as PBD Developments Limited and changed its name to Tian An Australia Limited in April 2016. Tian An Australia Limited was founded in 1985 and is based in Sydney, Australia.
Payce Consolidated Ltd.	Payce Consolidated Limited, together with its subsidiaries, engages in the investment and development of properties in Australia. The company develops residential apartments for sale, as well as owns and rents industrial and retail properties. The company was founded in 1978 and is headquartered in Sydney, Australia.
Devine Limited	Devine Limited, together with its subsidiaries, engages in land development, home building, construction, and property development activities in Australia. It develops and sells various real estate properties, including housing, residential land, residential units, and retail/commercial office developments, as well as medium density and high-rise developments. The company was founded in 1983 and is based in Hamilton, Australia. Devine Limited is a subsidiary of CIMIC Group Limited.
CIC Australia Limited	CIC Australia Limited, together with its subsidiaries, is engaged in the acquisition, subdivision, development, construction, and sale of residential real estate projects. It undertakes projects in South Australia, the Northern Territory, and Western Australia, as well as on the NSW south coast. The company was formerly known as Jerrabomberra Estates Limited and changed its name to CIC Australia Limited in February 2010. The company was founded in 1986 and is headquartered in Canberra, Australia. CIC Australia Limited operates as a subsidiary of Peet Limited.

Source: S&P Global, GTCF

Appendix G - Glossary

Abbreviation	Description
ABS	Australian Bureau of Statistics
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investments Commission
ATO	Australian Taxation Office
AVID or the Bidder	AVID Property Group Australia Pty Ltd
AVJennings	AVJennings Limited
CAGR	Compounded annual growth rate
CAPM	Capital Asset Pricing Model
Cedar Woods	Cedar Woods Properties Ltd
COO	Chief Operating Officer
Corporations Act	Corporations Act 2001
DCF	Discounted cash flow
Desane	Desane Limited
Devine	Devine Limited
Donnybrook	The Donnybrook project
EBITDA	Earnings before interest, taxes, depreciation and amortisation
EBITDA Multiple	EBITDA Multiple implied from enterprise value divided by EBITDA
FHOG	First home owner grant scheme
Final Dividend and/or Special Dividend	Under the SIA, Villa World is permitted to pay a final dividend and/or special dividend up to an aggregated amount of 35 cents per share on or prior to the implementation of the Scheme
Finbar	Finbar Group Limited
FIRB	Foreign Investment Review Board
FSG	Financial Services Guide
FYXX	Financial year ending 30 June 20XX
GFC	Global Financial Crisis
Grant Thornton Corporate Finance	Grant Thornton Corporate Finance Pty Ltd
GT Model	Grant Thornton's 5-year cash flow projections for the Company based on the Internal Model
GT Model - Run-off	Grant Thornton's 9-year cash flow projections for the Company using the feasibility studies for each project
House Industry	House Construction Industry
IBISWorld Land Industry Report 2019	IBISWorld Land Development and Sub-division Industry Report as of April 2019
IER	Independent Expert Report
Initial Proposal	On 14 March 2019, Villa World announced that on 8 March 2019, it had received an unsolicited, indicative, conditional and non-binding expression of interest from AVID to acquire all issued shares of the Company at a cash price of \$2.23 per share to be implemented via a Scheme of Arrangement

Internal Model	Projections provided by Management up to FY25
IRR	Internal Rate of Return
Land Industry	The land development and sub-division industry
Management	Management of Villa World Limited
NPAT	Net profit after tax
NSW	New South Wales
NTA	Net tangible assets
P/NTA Multiple	P/NTA Multiple implied from share price divided by the net tangible asset value per share
PBV	Price/Book Value
Peers Index	Peer index comprising the trading price of AVJennings, Cedar Woods, and Sunland.
Peet	Peet Limited
Portfolio	The active projects which contain unsold lots
PSP	Precinct structure plan
Put-Call	Land acquired under a put and call reducing the upfront cash payment required
QLD	Queensland
RBA	Reserve Bank of Australia
Revised Proposal	On 2 May 2019, Villa World announced that it had received a revised unsolicited, indicative, conditional and non-binding expression of interest from AVID to acquire all issued shares of the Company at a cash price of \$2.345 per share to be implemented via a Scheme of Arrangement
RG 111	Regulatory Guide 111 Contents of expert reports
RG 112	Regulatory Guide 112 Independence of experts
RG 142	Regulatory Guide 142 Scheme of arrangement
RPP Index	The residential property price index, as published by ABS, consisting of the house price of Sydney, Melbourne and Brisbane
SA	South Australia

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Annexure

B

Annexure B – Scheme

Scheme of arrangement made under section 411 of the Corporations Act

Date

Parties Villa World Limited ACN 117 546 326 of Level 1, 19 Elizabeth Avenue, Broadbeach, Queensland, Australia, 4218 (**Target**)

Each Scheme Shareholder

Background

- A. Target and Bidder have entered into the Implementation Agreement, pursuant to which, amongst other things, Target agreed to propose this Scheme to Scheme Shareholders and each of Target and Bidder agreed to take certain steps to give effect to this Scheme.
- B. If this Scheme becomes Effective, Bidder will provide or procure the provision of the Scheme Consideration to the Scheme Shareholders in accordance with the provisions of this Scheme and the Deed Poll, and Bidder will acquire all Scheme Shares and Target will enter Bidder in Target Share Register as the holder of the Scheme Shares subject to and in accordance with the provisions of this Scheme.

Operative provisions

1. Definitions and interpretation

1.1 Definitions

Unless the context requires otherwise, in this Scheme:

Aggregate Scheme Consideration means the aggregate amount of the Scheme Consideration payable to Scheme Shareholders for all Scheme Shares under the Scheme.

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited ACN 008 624 691 or, as the context requires, the financial market operated by it known as the Australian Securities Exchange.

Bidder means AVID Property Group Australia Pty Limited ABN 76 608 061 874.

Business Day means a day which is a "Business Day" within the meaning given in the Listing Rules.

CHESS means the Clearing House Electronic Subregister System for the electronic transfer of securities, operated by ASX Settlement Pty Limited, a wholly-owned subsidiary of ASX.

Condition means each condition specified in clause 3.1 of the Implementation Agreement.

Corporations Act means the Corporations Act 2001 (Cth).

Court means the Federal Court of Australia or such other court of competent jurisdiction as Target and Bidder agree in writing.

Deed Poll means a deed poll to be executed by Bidder in favour of the Scheme Shareholders, substantially in the form set out in Annexure B to the Implementation Agreement or in such other form as Target and Bidder agree in writing.

Effective means, when used in relation to the Scheme, the coming into effect, pursuant to section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) of the Corporations Act in relation to the Scheme.

Effective Date means the date on which the Scheme becomes Effective.

Encumbrance means a mortgage, charge, pledge, lien, encumbrance, security interest, title retention, preferential right, trust arrangement, contractual right of set-off, or any other security agreement or arrangement in favour of any person, whether registered or unregistered, including any Security Interest.

End Date means the date 6 months after the date of the Implementation Agreement or such other date agreed in writing between Target and Bidder.

Implementation Agreement means the scheme implementation agreement between Target and Bidder, dated 5 July 2019.

Implementation Date means the date which is 5 Business Days after the Record Date or such other date as Target and Bidder agree in writing.

Listing Rules means the official listing rules of the ASX.

Marketable Parcel has the meaning given to that term in the Listing Rules.

Permitted Dividend means a Permitted Full Year Dividend or a Permitted Special Dividend, as the context requires, provided that the aggregate amount of all such dividends declared and paid by Target to Target Shareholders between the date of the Implementation Agreement and the Implementation Date does not exceed \$0.35 per Target Share.

Permitted Full Year Dividend means a full year dividend declared and paid by Target to Target Shareholders between the date of the Implementation Agreement and the Implementation Date in respect of the financial year ending 30 June 2019 (which may be fully franked subject to the availability of franking credits and which, to the extent franked, will not result in the franking account of Target being in deficit after the payment of the dividend and it would not be in deficit on the assumption that any tax refunds referable to the period prior to the Implementation Date had been received prior to the Implementation Date).

Permitted Special Dividend means a special dividend declared and paid by Target to Target Shareholders between the date of the Implementation Agreement and the Implementation Date (which may be fully franked subject to the availability of franking credits and which, to the extent franked, will not result in the franking account of Target being in deficit after the payment of the dividend and it would not be in deficit on the assumption that any tax refunds referable to the period prior to the Implementation Date had been received prior to the Implementation Date).

Record Date means 7.00 pm (Sydney time) on the date which is 5 Business Days after the Effective Date or such other time and date agreed in writing between Bidder and Target.

Registered Addresses means in relation to a Scheme Shareholder, the address of the Scheme Shareholder as recorded in Target Share Register.

Regulatory Authority means:

- (a) any government or local authority, any department, minister or agency of any government and any other governmental, administrative, fiscal, monetary or judicial body; and
- (b) any other authority, agency, commission or similar entity having powers or jurisdiction under any law or regulation or the listing rules of any recognised stock or securities exchange.

Related Body Corporate has the meaning given in section 50 of the Corporations Act.

Representatives means, in relation to a party, all directors, officers, employees, professional advisers (including financiers, financial advisers, corporate advisers, legal advisers or technical or other expert advisers or consultants) and agents of the party or of its Related Bodies Corporate.

Scheme means this scheme of arrangement subject to any alterations or conditions made or required by Court under section 411(6) of the Corporations Act and agreed to by Bidder and Target in writing.

Scheme Consideration means the amount of \$2.345 per Scheme Share, less the amount of any Permitted Dividend that is declared and paid per Scheme Share.

Scheme Meeting means the meeting of Target Shareholders convened by the Court in relation to the Scheme pursuant to section 411(1) of the Corporations Act.

Scheme Share means a Target Share on issue as at the Record Date.

Scheme Shareholder means each person registered in the Target Share Register as the holder of the Scheme Shares as at the Record Date.

Scheme Transfer means one or more proper instruments of transfer in respect of the Scheme Shares for the purposes of section 1071B of the Corporations Act, which may be or include a master transfer of all or part of the Scheme Shares.

Second Court Date means the first day of hearing of an application made to the Court for an order pursuant to section 411(4)(b) of the Corporations Act approving the Scheme or, if the hearing of such application is adjourned for any reason, means the first day of the adjourned hearing.

Security Interest has the meaning given in section 12 of the Personal Property Securities Act 2009 (Cth).

Separate Account has the meaning given in clause 6.3(c).

Share Registry means Computershare Investor Services Pty Limited of Level 1, 200 Mary Street, Brisbane, Queensland 4000.

Subsidiary has the meaning given to that term in the Corporations Act.

Target Board means the board of directors of Target.

Target Group means Target and each of its Subsidiaries (each of which is a **Target Group Member**).

Target Incentive Plan means the Villa World Limited Executive Long Term Incentive Plan adopted by Target Board on 30 September 2015.

Target Performance Rights means performance rights in respect of Target Shares issued pursuant to the Target Incentive Plan.

Target Share Register means the register of members of Target maintained by or on behalf of Target in accordance with section 168(1) of the Corporations Act.

Target Shareholder means a person who is registered in the Target Share Register as a holder of Target Shares.

Target Shares means fully paid ordinary shares in the capital of Target.

Transaction means the acquisition by Bidder (or a wholly-owned Subsidiary of Bidder) of the Scheme Shares for the Scheme Consideration pursuant to the Scheme.

Trust Account means an Australian dollar denominated trust account which attracts interest at a commercial rate and is operated by or on behalf of Target as trustee for the Scheme Shareholders (except that any interest on the amount deposited, less bank fees and other charges, will accrue for the benefit of Bidder), details of which Target must notify to Bidder no later than 5 Business Days before the Implementation Date.

Unclaimed Money Legislation has the meaning given in clause 6.3(c).

1.2 Business Day

If the day on which any act to be done under this Scheme is a day other than a Business Day, that act must be done on the immediately preceding Business Day except where this Scheme expressly specifies otherwise.

1.3 Listing rules are law

A Listing Rule or business rule of a financial market or securities exchange will be regarded as a law for the purposes of this Scheme.

1.4 Interpretation

In this Scheme headings are for convenience only and do not affect interpretation and, unless the contrary intention appears:

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- (a) a word importing the singular includes the plural and vice versa, and a word of any gender includes the corresponding words of any other gender;
- (b) the word **including** or any other form of that word is not a word of limitation;
- (c) if a word or phrase is given a defined meaning, any other part of speech or grammatical form of that word or phrase has a corresponding meaning;
- (d) a reference to a **person** includes an individual, the estate of an individual, a corporation, an authority, an association or parties in a joint venture, a partnership and a trust;
- (e) a reference to a party includes that party's executors, administrators, successors and permitted assigns, including persons taking by way of novation and, in the case of a trustee, includes any substituted or additional trustee;
- (f) a reference to a document (including this Scheme) is to that document as varied, novated, ratified or replaced from time to time;
- (g) a reference to a party, clause, schedule, exhibit, attachment, or annexure is a reference to a party, clause, schedule, exhibit, attachment, or annexure to or of this Scheme, and a reference to this Scheme includes all schedules, exhibits, attachments, and annexures to it;
- (h) a reference to an agency or body if that agency or body ceases to exist or is reconstituted, renamed or replaced or has its powers or function removed (**obsolete body**), means the agency or body which performs most closely the functions of the obsolete body;
- (i) a reference to a statute includes any regulations or other instruments made under it (**delegated legislation**) and a reference to a statute or delegated legislation or a provision of either includes consolidations, amendments, re-enactments and replacements;
- (j) a reference to **\$** or **dollar** is to Australian currency;
- (k) if a word or phrase is not given a defined meaning in clause 1.1 but is defined in or for the purposes of the Corporations Act, it has the same meaning when used in this Scheme;
- (l) a reference to a date or time is to that date or time in Sydney, Australia; and
- (m) this Scheme (including any term or condition of it) must not be construed adversely to a party solely on the basis that the party prepared it or caused it to be prepared.

2. Preliminary matters

2.1 Target

- (a) Target is a public company limited by shares, incorporated in Australia and registered in the State of Victoria.
- (b) Target is admitted to the official list of ASX and Target Shares are officially quoted on the ASX.
- (c) As at the date of the Implementation Agreement, Target had the following securities on issue:
- (i) 125,159,925 Target Shares; and
 - (ii) 1,967,346 Target Performance Rights.

2.2 Bidder

Bidder is a proprietary company limited by shares, incorporated in Australia and registered in the State of Victoria.

2.3 Implementation Agreement

Bidder and Target have agreed, by executing the Implementation Agreement, to implement this Scheme (among other things).

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2.4 Deed Poll

Bidder has agreed, by executing the Deed Poll, to perform its obligations under this Scheme, including the obligation to provide or procure the provision of the Scheme Consideration to the Scheme Shareholders in accordance with the terms of the Scheme.

3. Conditions precedent**3.1 Conditions**

The Scheme is conditional on and will not become Effective unless and until each of the following conditions precedent is satisfied:

- (a) all of the Conditions in clause 3.1 of the Implementation Agreement (other than the Condition in clause 3.1(e) of the Implementation Agreement relating to Court approval of this Scheme) are satisfied or waived in accordance with the terms of the Implementation Agreement by 8.00am on the Second Court Date;
- (b) neither the Implementation Agreement nor Deed Poll is terminated in accordance with its terms before 8.00am on the Second Court Date;
- (c) this Scheme is approved by the Court under section 411(4)(b) of the Corporations Act, including with such alterations or other conditions made or required by the Court under section 411(6) of the Corporations Act, as are acceptable to Target and Bidder (each acting reasonably);
- (d) such other conditions made or required by the Court under section 411(6) of the Corporations Act, as are acceptable to Target and Bidder (each acting reasonably) are satisfied or waived; and
- (e) the orders of the Court made under section 411(4)(b) of the Corporations Act (and if applicable, section 411(6) of the Corporations Act) approving this Scheme coming into effect pursuant to section 411(10) of the Corporations Act.

3.2 Certificates

- (a) Target and Bidder must each provide to the Court on the Second Court Date a certificate, or such other evidence as the Court may require or request, confirming (in respect of matters within their knowledge) whether or not as at 8.00am on the Second Court Date all of the conditions set out in clause 3.1 (other than the conditions in clauses 3.1(c) to 3.1(e) above) have been satisfied or waived in accordance with this Scheme and the Implementation Agreement.
- (b) The certificates given by Target and Bidder under clause 3.2(a) constitute conclusive evidence that the conditions set out in clause 3.1 (other than the conditions in clauses 3.1(c) to 3.1(e) above) have been satisfied or waived in accordance with this Scheme and the Implementation Agreement.

3.3 End Date

Without limiting any rights under the Implementation Deed, this Scheme will lapse and be of no further force or effect if:

- (a) the Effective Date does not occur on or before the End Date; or
- (b) the Implementation Deed or the Deed Poll is terminated in accordance with its terms before the Scheme becomes Effective,

unless Target and Bidder otherwise agree in writing (and, if required, as approved by the Court).

4. Effect of the Scheme

If this Scheme becomes Effective:

- (a) in consideration for the transfer of each Scheme Share to Bidder, Bidder will provide or procure the provision of the Scheme Consideration to Scheme Shareholders in accordance with this Scheme and the Deed Poll;

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- (b) all of the Scheme Shares, together with all rights and entitlements attaching to the Scheme Shares at the Implementation Date, will be transferred to Bidder; and
- (c) Target will enter the name of Bidder in the Target Share Register in respect of all the Scheme Shares.

5. Implementation of the Scheme

5.1 Lodgement of Court orders

For the purposes of section 411(10) of the Corporations Act, Target must lodge with ASIC an office copy of the orders made by the Court under section 411(4)(b) of the Corporations Act approving this Scheme as soon as possible following such approval and, in any event, by no later than 5.00pm on the Business Day immediately following the day on which it receives such office copy (or such later date as is agreed between the parties in writing).

5.2 Transfer of Scheme Shares

Subject to the Scheme becoming Effective, on the Implementation Date:

- (a) subject to Bidder providing or procuring the provision of the Scheme Consideration in the manner contemplated by clause 6.2(b) of this Scheme and the Deed Poll, all of the Scheme Shares, together with all rights and entitlements attaching to them at the Implementation Date, must be transferred to Bidder, without the need for any further act by any Scheme Shareholder (other than acts performed by Target or any of its directors, officers or secretaries, as agent and attorney of the Scheme Shareholders under clause 9.5 of this Scheme or otherwise) by:
 - (i) Target delivering to Bidder a duly completed and executed Scheme Transfer to transfer all of the Scheme Shares to Bidder, executed on behalf of the Scheme Shareholders by Target in its capacity as their agent and attorney; and
 - (ii) Bidder duly executing such Scheme Transfer and delivering the executed and, if necessary, stamped, Scheme Transfer to Target for registration; and
- (b) immediately following receipt of the Scheme Transfer in accordance with clause 5.2(a)(ii), Target entering, or procuring the entry of, the name of Bidder in the Target Share Register in respect of all the Scheme Shares.

6. Scheme Consideration

6.1 Entitlement to Scheme Consideration

Subject to the terms of this Scheme, on the Implementation Date, in consideration for the transfer of the Scheme Shares to Bidder, each Scheme Shareholder will be entitled to receive the Scheme Consideration in respect of each Scheme Share held by that Scheme Shareholder in accordance with this clause 6 and the Deed Poll.

6.2 Provision of Scheme Consideration

- (a) Bidder must provide or procure the provision of the Scheme Consideration to Scheme Shareholders in accordance with its obligations under clause 6.2(b).
- (b) The obligation of Bidder to provide, or procure the provision of, the Scheme Consideration to Scheme Shareholders in accordance with this Scheme and the Deed Poll will be satisfied by Bidder:
 - (i) paying, or procuring the payment, into the Trust Account, of an amount in cleared funds equal to the Aggregate Scheme Consideration by no later than one Business Day before the Implementation Date to be held by or on behalf of Target on trust for the Scheme Shareholders (provided that any interest on the amount so deposited, less bank fees and other charges, will accrue for the benefit of Bidder); and
 - (ii) providing Target with written confirmation that payment has been made in accordance with clause 6.2(b)(i) above.

- (c) Subject to Bidder complying with its obligations under clause 6.2(a), Target must, on the Implementation Date, pay, or procure the payment, from the Trust Account to each Scheme Shareholder an amount equal to the Scheme Consideration in respect of each Scheme Share held by that Scheme Shareholder as set out in the Target Share Register on the Record Date.
- (d) Target's obligations under clause 6.2(c) will be satisfied by Target:
- (i) where a Scheme Shareholder has, before the Record Date, made an election in accordance with the requirements of the Share Registry to receive dividend payments from Target by electronic funds transfer to a bank account nominated by the Scheme Shareholder, paying, or procuring the payment of, the relevant amount to that Scheme Shareholder in Australian currency by electronic means in accordance with that election; or
 - (ii) whether or not a Scheme Shareholder has made an election referred to in clause 6.2(d)(i), dispatching, or procuring the dispatch of, a cheque in Australian currency for the relevant amount to that Scheme Shareholder by prepaid post to the Registered Address of that Scheme Shareholder, such cheque being drawn in the name of the Scheme Shareholder (or in the case of joint holders, in accordance with clause 6.6).

6.3 Unclaimed, returned and other dealings with Scheme Consideration

- (a) Target may cancel a cheque issued under this clause 6 if the cheque:
- (i) is returned to Target; or
 - (ii) has not been presented for payment within six months after the date on which the cheque was sent,
- (b) During the period of one year commencing on the Implementation Date, on request in writing from a Scheme Shareholder to Target (or the Share Registry) (which request may not be made until the date which is 20 Business Days after the Implementation Date), a cheque that was previously cancelled under clause 6.3(a) must be reissued.
- (c) In the event that:
- (i) a Scheme Shareholder does not have a Registered Address and no account has been notified in accordance with clause 6.2(d)(i) or a deposit into such an account is rejected or refunded; or
 - (ii) a cheque issued under this clause 6 has been cancelled in accordance with clause 6.3(a),

Target, as trustee for the Scheme Shareholders, may credit the amount payable to the relevant Scheme Shareholder to a separate bank account of Target (**Separate Account**) to be held on trust by Target for the Scheme Shareholder until the Scheme Shareholder claims the amount or the amount is dealt with in accordance with the *Unclaimed Money Act 1995* (NSW) (**Unclaimed Money Legislation**) (except that any interest on the amount deposited, less bank fees and other charges, will accrue for the benefit of Bidder). To avoid doubt, if the amount is not credited to a Separate Account, the amount will continue to be held in the Trust Account until the Scheme Shareholder claims the amount or the amount is dealt with in accordance with the Unclaimed Money Legislation.

Until such time as the amount is dealt with in accordance with the Unclaimed Money Legislation, Target must hold the amount on trust for the relevant Scheme Shareholder (except that any interest on the amount deposited, less bank fees and other charges, will accrue for the benefit of Bidder). An amount credited to the Separate Account or Trust Account (as applicable) is to be treated as having been paid to the Scheme Shareholder when credited to the Separate Account or Trust Account (as applicable). Target must maintain records of the amount paid, the people who are entitled to the amounts and any transfer of the amounts.

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- (d) The Unclaimed Money Legislation will apply in relation to any Scheme Consideration which becomes 'unclaimed money' (as defined in sections 7, 8 and 10 of the Unclaimed Money Legislation).

6.4 Treatment of surplus amounts

To the extent that there is a surplus in the amount held by Target as the trustee for the Scheme Shareholders in the Trust Account, that surplus may, at the election of Bidder, either remain with Target or be paid by Target as trustee for the Scheme Shareholders to Bidder following the satisfaction of Target's obligations as the trustee for the Scheme Shareholders under this clause 6 (provided that, for the avoidance of doubt, any interest on the amount deposited, less bank fees and other charges, will accrue for the benefit of Bidder).

6.5 Amounts to be withheld or retained

If written notice is given to Target (or the Share Registry) of an order or direction made by a court of competent jurisdiction or by any Regulatory Authority that:

- (a) requires payment to a third party in respect of Scheme Shares held by a particular Scheme Shareholder, which amount would otherwise be payable to that Scheme Shareholder by Target in accordance with clause 6, then Target will be entitled to make that payment (or procure that it is made) in accordance with that order or direction; or
- (b) prevents Target from making a payment to a particular Scheme Shareholder in accordance with clause 6, or such payment is otherwise prohibited by applicable law, Target will be entitled to retain an amount, in Australian dollars, equal to the amount of the relevant payment until such time as payment in accordance with clause 6 is permitted by that order or direction or otherwise by law,

and the payment or retention by or on behalf of Target will constitute the full discharge of Target's obligations under this Scheme with respect to the amount so paid or retained until, in the case of clause 6.5(b), it is no longer required to be retained.

6.6 Joint holders

In the case of Scheme Shares held in joint names:

- (a) any cheque required to be sent under this Scheme will be made payable to the joint holders and sent, at the sole discretion of Target, either to the holder whose name appears first in the Target Share Register as at the Record Date or to the joint holders (unless the joint holders have nominated a bank account under clause 6.2(d)(i), in which case the amount must be deposited directly to the nominated bank account of the joint holders);
- (b) any other document required to be sent under this Scheme will be forwarded, at the sole discretion of Target, either to the holder whose name appears first in Target Share Register as at the Record Date or to the joint holders.

6.7 Rounding

Where the calculation of the Scheme Consideration to be provided to a particular Scheme Shareholder would result in the Scheme Shareholder becoming entitled to a fraction of a cent, the fractional entitlement will be rounded up to the nearest cent.

7. Dealings in Target Shares

7.1 Determination of Scheme Shareholders

To establish the identity of the Scheme Shareholders, dealings in Target Shares or other alterations to the Target Share Register will only be recognised if:

- (a) in the case of dealings of the type to be effected using CHESS, the transferee is registered in the Target Share Register as the holder of the relevant Target Shares before the Record Date; and
- (b) in all other cases, registrable transfer or transmission applications in respect of those dealings, or valid requests in respect of other alterations, are received before the Record Date at the place where the Target Share Register is kept,

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and for the purpose of establishing the persons who are Scheme Shareholders, Target must not accept for registration nor recognise for any purpose (except a transfer to Bidder pursuant to this Scheme and any subsequent transfer by Bidder or its successors in title) any transfer or transmission application or other request received after the Record Date, or received prior to the Record Date but not in registrable or actionable form.

7.2 Target Share Register

- (a) Target must maintain the Target Share Register in accordance with the provisions of this clause 7.2 until the Scheme Consideration has been provided to the Scheme Shareholders and the Target Share Register in this form will solely determine entitlements to the Scheme Consideration.
- (b) Target must register valid registrable transmission applications or transfers of the kind referred to in clause 7.1(b) by no later than the Record Date (provided that for the avoidance of doubt nothing in this clause 7.2(b) requires Target to register a transfer that would result in a Target Shareholder holding a parcel of Target Shares that is less than a Marketable Parcel).
- (c) Target will not accept for registration or recognise for any purpose any transmission application or transfer in respect of Target Shares received after the Record Date.
- (d) If this Scheme becomes Effective, from the Record Date until the earlier of registration of Bidder in respect of all Scheme Shares under clause 5.2(b) or the End Date, no Scheme Shareholder may dispose of, purport or agree to dispose of, or otherwise deal with any Scheme Shares or any interest in them in any way except as set out in this Scheme and any attempt to do so will be void and have no effect and Target will be entitled to disregard any such disposal, purported disposal, agreement or other dealing.

7.3 Information made available to Bidder

As soon as practicable after the Record Date and in any event at least 2 Business Days before the Implementation Date, Target will ensure that details of the names, Registered Addresses and holdings of Target Shares for each Scheme Shareholder as shown in the Target Share Register as at the Record Date are available to Bidder in the form Bidder reasonably requires.

7.4 Effect of share certificates and holding statements

- (a) Each entry which is current on the Target Share Register as at the Record Date is the sole evidence of entitlement to the Scheme Consideration in respect of the Scheme Shares relating to that entry.
- (b) All certificates and statements of holding for Scheme Shares (other than statements of holding in favour of Bidder and its successors in title) will cease to have effect after the Record Date as documents of title (or evidence thereof) in respect of those shares and, as from that date, each entry current at that date on the Target Share Register (other than entries in respect of Bidder) will cease to have effect except as evidence of entitlement to the Scheme Consideration in respect of the Scheme Shares relating to that entry.

8. Quotation of Target Shares

8.1 Suspension of trading

Subject to the Scheme becoming Effective, Target must take all steps reasonably necessary and within its power to procure that trading in Target Shares on ASX is suspended with effect from the close of trading on the Effective Date, including by applying to ASX to suspend trading in Target Shares with effect from the close of trading on the Effective Date.

8.2 Removal of Target from official list of ASX

Unless otherwise directed by Bidder, Target must take all steps reasonably necessary and within its power (including by applying to ASX and satisfying any conditions reasonably required by ASX) to procure:

- (a) the termination of the official quotation of Target Shares on the ASX; and

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- (b) the removal of Target from the official list of ASX, in each case, with effect on and from the close of trading on the Business Day immediately following the Implementation Date.

9. General Scheme provisions

9.1 Consent to amendments to this Scheme

If the Court proposes to approve this Scheme subject to any alterations or conditions:

- (a) Target may, by its counsel or solicitors, consent on behalf of all persons concerned to those alterations or conditions to which Bidder has consented; and
- (b) each Scheme Shareholder agrees to any such alterations or conditions to which Target, by its counsel or solicitors, has consented.

9.2 Binding effect of the Scheme

This Scheme binds Target and all Scheme Shareholders (including those who did not attend the Scheme Meeting, those who did not vote at that Scheme Meeting, or voted against this Scheme at the Scheme Meeting) and, to the extent of any inconsistency, overrides the constitution of Target.

9.3 Agreement of Scheme Shareholders

Each Scheme Shareholder:

- (a) irrevocably agrees to the transfer of their Scheme Shares, together with all rights and entitlements attaching to those Scheme Shares, in accordance with terms of this Scheme;
- (b) irrevocably agrees to the variation, cancellation or modification of the rights attached to their Scheme Shares constituted by or resulting from this Scheme;
- (c) irrevocably agrees to, on the direction of Bidder, destroy any share certificates or holding statements relating to their Scheme Shares; and
- (d) irrevocably acknowledges and agrees that this Scheme binds Target and all Scheme Shareholders (including those who did not attend the Scheme Meeting, those who did not vote at that Scheme Meeting, or voted against this Scheme at the Scheme Meeting) and, to the extent of any inconsistency, overrides the constitution of Target; and
- (e) irrevocably consents to Bidder and Target doing all things and executing all deeds, instruments, transfers or other documents as may be necessary, incidental or expedient to the implementation and performance of this Scheme,

without the need for any further act by the Scheme Shareholder.

9.4 Warranties by Scheme Shareholders

- (a) Each Scheme Shareholder is deemed to have warranted to Target and Bidder, and appointed and authorised Target as its attorney and agent to warrant to Bidder that:
- (i) all Scheme Shares held by that Scheme Shareholder, together all rights and entitlements attaching to those Scheme Shares, which are transferred to Bidder under this Scheme will, at the time of transfer to Bidder, be:
- A. fully paid;
- B. free from all Encumbrances and third party rights or interests of any kind; and
- C. free from all restrictions on transfer of any kind;
- (ii) it has full power and capacity to sell and to transfer their Scheme Shares, together with all rights and entitlements attaching to their Scheme Shares, to Bidder; and

- (iii) it has no existing right to be issued any Target Shares, options exercisable into Target Shares, Target Performance Rights, Target convertible notes or any other Target securities, other than, in the case of any Scheme Shareholder who is also a holder of Target Performance Rights, the right to be issued Target Shares on the vesting of those Target Performance Rights (if applicable) before the Record Date, in accordance with their terms.
- (b) Target undertakes that it will provide such warranty to Bidder as agent and attorney for each Scheme Shareholder.

9.5 Authority given to Target

Immediately upon this Scheme becoming Effective, each Scheme Shareholder without the need for any further act:

- (a) irrevocably appoints Target and each of its directors, secretaries and officers (jointly and severally) as its attorney and agent for the purpose of:
 - (i) enforcing the Deed Poll against Bidder;
 - (ii) doing and/or executing all acts, matters, things and documents necessary, desirable, incidental or expedient to give full effect to this Scheme and the transactions contemplated by it, including, without limitation, executing and delivering the Scheme Transfer,

and Target accepts such appointment. Target, as attorney and agent of each Scheme Shareholder, may sub-delegate its functions, authorities or powers under this clause 9.5 to all or any of its directors, officers or employees (jointly, severally or jointly and severally); and

- (b) will be deemed to have authorised Target to do and execute all acts, matters, things and documents on the part of each Scheme Shareholder necessary, desirable, incidental or expedient to give full effect to this Scheme and the transactions contemplated by it, including, without limitation, executing and delivering the Scheme Transfer as agent and attorney of each Scheme Shareholder.

9.6 Appointment of sole proxy

Immediately, upon the provision of the Scheme Consideration by the Bidder to the Scheme Shareholders in the manner contemplated by clause 6.2(b) and until Target registers Bidder as the holder of all Scheme Shares in the Target Share Register, each Scheme Shareholder:

- (a) is deemed to have irrevocably appointed Bidder as its attorney and agent (and directed Bidder in such capacity) to appoint any director, officer, secretary or agent nominated by Bidder as its sole proxy and, where applicable or appropriate, corporate representative to:
 - (i) attend shareholders' meetings of Target;
 - (ii) exercise the votes attaching to the Scheme Shares registered in their name; and
 - (iii) sign any Target Shareholders' resolutions, whether in person, by proxy or by corporate representative;
- (b) undertakes not to otherwise attend or vote at any Target Shareholders' meetings or sign or vote on any resolutions, whether in person, by proxy or by corporate representative, other than as pursuant to clause 9.6(a);
- (c) must take all other actions in the capacity of a registered holder of Scheme Shares as Bidder reasonably directs; and
- (d) acknowledges and agrees that in exercising the powers referred to in clause 9.6(a), Bidder and any director, officer, secretary or agent nominated by Bidder under clause 9.6(a) may act in the best interests of Bidder as the intended registered holder of the Scheme Shares.

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9.7 Title to Target Shares

- (a) Immediately, upon the Scheme Consideration being provided by the Bidder to the Scheme Shareholders in accordance with clause 6.2(b) and until Target registers Bidder as the holder of all Scheme Shares in the Target Share Register, Bidder will be beneficially entitled to all of the Scheme Shares.
- (b) Without limiting clause 9.7(a), the Scheme Shares (including all rights and entitlements attaching to the Scheme Shares) will, at the time of transfer of them to Bidder, vest in Bidder free from all Encumbrances and third party rights or interests of any kind, and free from all restrictions on transfer of any kind, in each case, whether legal or otherwise.

10. General

10.1 Stamp duties

Bidder must pursuant to its obligations under the Deed Poll:

- (a) pay all stamp duties and any related fines and penalties in respect of the transfer of the Scheme Shares to Bidder pursuant to this Scheme or the Deed Poll and is authorised to apply for and retain the proceeds of any refund due in respect of stamp duty paid under this clause; and
- (b) indemnify each Scheme Shareholder against any liability from a failure to comply with clause 10.1(a).

10.2 Notices

- (a) If a notice, transfer, transmission application, direction or other communication referred to in this Scheme is sent by post to Target, it will not be taken to be received in the ordinary course of post or on a date and time other than the date and time (if any) on which it is actually received at Target's registered office or at the place where the Target Share Register is kept.
- (b) The accidental omission to give notice of the Scheme Meeting or the non-receipt of such a notice by any Target Shareholder may not, unless so ordered by the Court, invalidate the Scheme Meeting or the proceedings of the Scheme Meeting.

10.3 Further acts and documents

Target must do all further acts and execute and deliver all further documents (on its own behalf and on behalf of each Scheme Shareholder) required by law or necessary to give effect to this Scheme and the transactions contemplated by it.

10.4 No liability when acting in good faith

None of Target or Bidder, nor any of their respective directors, officers, secretaries, employees or Related Bodies Corporate, will be liable for anything done or omitted to be done in the performance of this Scheme or the Deed Poll in good faith.

11. Governing law and jurisdiction

11.1 Governing law

This Scheme is governed by the law applying in New South Wales, Australia.

11.2 Jurisdiction

Each party irrevocably:

- (a) submits to the non exclusive jurisdiction of the courts of New South Wales, Australia the courts having jurisdiction in that state and the courts competent to determine appeals from those courts, with respect to any proceedings that may be brought at any time relating to this Scheme; and
- (b) waives any objection it may now or in the future have to the venue of any proceedings, and any claim it may now or in the future have that any proceedings have been brought in an inconvenient forum, if that venue falls within clause 11.2(a).

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Annexure

C

Deed poll dated 3/9/19

By AVID Property Group Australia Pty Limited ABN 76 608 061 874 of Suite 02, Level 35, 259 George Street, Sydney, New South Wales 2000 (Bidder)

In favour of Each person registered as a holder of fully paid ordinary shares in the capital of Villa World Limited ACN 117 546 326 of Level 1, 19 Elizabeth Avenue, Broadbeach, Queensland 4218 (Target) on issue as at the Record Date (Scheme Shareholders)

Background

- A. Target and Bidder have entered into the Implementation Agreement, pursuant to which, amongst other things, Bidder:
- (i) is to pay the Scheme Consideration to each Scheme Shareholder and acquire all Scheme Shares held by Scheme Shareholders under the Scheme; and
 - (ii) agreed to enter into this deed poll.
- B. Bidder is entering into this deed poll for the purposes of covenanting in favour of the Scheme Shareholders to procure and undertake the actions attributed to the Bidder under the Scheme.

It is declared as follows

1. Definitions and interpretation

1.1 Definitions

Unless the context requires otherwise, in this deed poll:

- (a) **Implementation Agreement** means the scheme implementation agreement between Target and Bidder, dated 5 July 2019; and
- (b) **Scheme** means the scheme of arrangement under Part 5.1 of the Corporations Act between the Target and the Scheme Shareholders in substantially the same form as set out in Annexure A of the Implementation Agreement, subject to any alterations or conditions made or required by Court under section 411(6) of the Corporations Act and agreed to by Bidder and Target in writing.

1.2 Terms defined in the Scheme

Capitalised words and phrases used but not defined in this deed poll have the meaning given to them in the Scheme, unless the context requires otherwise.

1.3 Interpretation

The provisions of clauses 1.2, 1.3 and 1.4 of the Scheme form part of this deed poll as if set out in full in this deed poll, except that references to "Scheme" in those clauses will be taken to be references to "deed poll".

1.4 Nature of this deed poll

The Bidder acknowledges and agrees that:

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Annexure C - Deed Poll

- (a) this deed poll may be relied on and enforced by any Scheme Shareholder in accordance with its terms even though the Scheme Shareholders are not a party to it; and
- (b) under the Scheme, each Scheme Shareholder irrevocably appoints Target and each of its directors, secretaries and officers (jointly and severally) as its attorney and agent to enforce this deed poll against Bidder.

2. Condition Precedent

2.1 Condition

The obligations of the Bidder under this deed poll are subject to the Scheme becoming Effective.

2.2 Termination

The obligations of the Bidder under this deed poll will automatically terminate and this deed poll will be of no further force or effect if:

- (a) the Effective Date does not occur on or before the End Date; or
- (b) the Implementation Deed is terminated in accordance with its terms before the Scheme becomes Effective,

unless Target and Bidder otherwise agree in writing (and, if required, as approved by the Court).

2.3 Consequences of termination

If this deed poll terminates under clause 2.2, in addition to and without prejudice to any other rights, powers or remedies available to it:

- (a) Bidder is released from its obligations to further perform this deed poll; and
- (b) each Scheme Shareholder retains the rights it has against the Bidder in respect of any breach of this deed poll which occurs before it was terminated.

3. Scheme Obligations

Subject to clause 2, Bidder undertakes in favour of each Scheme Shareholder to:

- (a) provide or procure the provision of the Scheme Consideration to each Scheme Shareholder in accordance with the terms of the Scheme; and
- (b) undertake all other actions attributed to it under the Scheme, as if named a party to the Scheme,

in each case subject to and in accordance with the terms of the Scheme.

4. Warranties

The Bidder represents and warrants to each Scheme Shareholder that:

- (a) it is a company properly incorporated and validly existing under the laws of its place of incorporation;
- (b) it has the legal right and full corporate power to execute, deliver and perform its obligations under this deed poll and to carry out the transactions contemplated by this deed poll;

- (c) it has taken all necessary corporate action to authorise its entry into this deed poll and has taken or will take all necessary corporate action to authorise the performance of this deed poll and to carry out the transactions contemplated by this deed poll;
- (d) this deed poll constitutes (or will when executed constitute) valid legal and binding obligations on it and is enforceable against it in accordance with its terms;
- (e) this deed poll does not conflict with, or result in a breach of or default under:
 - (i) any provision of the constitution or equivalent constituent documents of Bidder or any of its Subsidiaries; or
 - (ii) any writ, order or injunction, judgment, law, rule, obligation or regulation to which Bidder or any of its Subsidiaries is party, or by which Bidder or any of its Subsidiaries is bound.

5. Continuing obligations

This deed poll is irrevocable and remains in full force and effect, subject to clause 2 of this deed poll, until the earlier of:

- (a) the time at which the Bidder has fully performed its obligations under this deed poll; and
- (b) the termination of this deed poll under clause 2.

6. Notices

6.1 How notice to be given

Each communication (including each notice, consent, approval, request and demand) under or in connection with this agreement:

- (a) may be given by personal service, post or email;
- (b) must be in writing and in English;
- (c) must be addressed as follows (or as otherwise notified by that party to each other party from time to time):
 - (i) if to Target:

Address: Level 1
19 Elizabeth Avenue
Broadbeach Queensland 4218
Australia

Email: BScale@villaworld.com.au

Attention: Brad Scale

with a copy in each case to:

Email: CTreasure@villaworld.com.au

Email: Julian.Donnan@allens.com.au

Email: Chelsey.Drake@allens.com.au

Annexure C - Deed Poll

(ii) if to Bidder:

Address: Suite 02, Level 35
259 George Street
Sydney NSW 200
Australia

Email: cholt@avid.com.au

Attention: Cameron Holt

with a copy in each case to:

Email: anthony.kingsley@proprium.com

Email: rmoriarty@claytonutz.com

- (d) (in the case of personal service or post) must be signed by the party making it or (on that party's behalf) by the solicitor for, or any attorney, director, secretary or authorised agent of, that party;
- (e) (in the case of email) must state that the email is a communication under this agreement; and
- (f) must be delivered by hand or posted by prepaid post to the address or sent by email to the email address, of the addressee, in accordance with this clause 6.1 of this deed poll.

6.2 When notice taken to be received

Each communication (including each notice, consent, approval, request and demand) under or in connection with this deed poll is taken to be received by the addressee:

- (a) (in the case of prepaid post sent to an address in the same country) on the third day after the date of posting;
- (b) (in the case of prepaid post sent to an address in another country) on the fifth day after the date of posting by airmail;
- (c) (in the case of delivery by hand) on delivery; and
- (d) (in the case of email) unless the party sending the email knows or reasonably ought to suspect that the email and the attached communication were not delivered to the addressee's domain specified in the email address notified for the purposes of clause 6.1 of this deed poll, 4 hours after the email was sent,

but if the communication would otherwise be taken to be received on a day that is not a working day or after 5.00 pm, it is taken to be received at 9.00 am on the next working day (**working day** meaning a day that is not a Saturday, Sunday or public holiday and on which banks are open for business generally, in the place to which the communication is posted, sent or delivered).

7. General

7.1 Amendments

This deed poll may only be amended by another deed poll entered into by the Bidder, and then only:

- (a) if before the First Court Date, if the amendment is agreed to by the Target in writing; and

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- (b) if on or after the First Court Date, if the amendment is agreed to by the Target in writing and the Court indicates that the amendment would not of itself preclude approval of the Scheme.

7.2 Assignment

- (a) The rights of each Scheme Shareholder under this deed poll are personal and cannot be assigned, novated, transferred or otherwise dealt with without the prior written consent of the Bidder.
- (b) Any purported assignment, novation, transfer or other dealing in contravention of clause 7.2(a) of this deed poll is invalid.

7.3 Cumulative rights

The rights, powers and remedies of the Bidder and each Scheme Shareholder under this deed poll are cumulative and do not exclude any other rights, powers or remedies provided by the law independently of this deed poll.

7.4 Waiver

- (a) Failure to exercise or enforce, or a delay in exercising or enforcing, or the partial exercise or enforcement of, a right, power or remedy provided by law or under this deed poll by a party does not preclude, or operate as a waiver of, the exercise or enforcement, or further exercise or enforcement, of that or any other right, power or remedy provided by law or under this deed poll.
- (b) A waiver or consent given by a party under this deed poll is only effective and binding on that party if it is given or confirmed in writing by that party.
- (c) No waiver of a breach of a term of this deed poll operates as a waiver of another breach of that term or of a breach of any other term of this deed poll.

7.5 Stamp Duty

Bidder must:

- (a) pay all stamp duties and any related fines and penalties in respect of the transfer of the Scheme Shares to Bidder pursuant to this Scheme or the Deed Poll and is authorised to apply for and retain the proceeds of any refund due in respect of stamp duty paid under this clause; and
- (b) indemnify each Scheme Shareholder against any liability from a failure to comply with clause 7.5(a) of this deed poll.

7.6 Further assurances

Bidder must, at its own expense, do all things and execute all documents necessary to give full effect to this deed poll and the transactions contemplated by it.

7.7 Counterparts

This deed poll may be executed in counterparts, all of which taken together constitute one document.

8. Governing law and jurisdiction

8.1 Governing law

This deed poll is governed by the law applying in New South Wales, Australia.

8.2 Jurisdiction

The Bidder irrevocably:

- (a) submits to the non exclusive jurisdiction of the courts of New South Wales, Australia the courts having jurisdiction in that state and the courts competent to determine appeals from those courts, with respect to any proceedings that may be brought at any time relating to this deed poll; and
- (b) waives any objection it may now or in the future have to the venue of any proceedings, and any claim it may now or in the future have that any proceedings have been brought in an inconvenient forum, if that venue falls within clause 8.2(a).

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Executed and delivered as a deed poll.

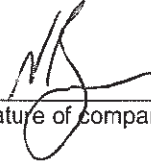
Executed by AVID Property Group Australia Pty Limited ABN 76 608 061 874 in accordance with section 127 of the Corporations Act 2001 (Cth):



Signature of director

Cameron Holt

Full name of director



Signature of company secretary/director

Nicole Bannerman

Full name of company secretary/director

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Annexure

D

Annexure D – Notice of Meeting

Notice of Scheme Meeting

Villa World Limited ABN 38 117 546 326 (Villa World)

(ASX Code: VLW)

Notice is hereby given that, by order of the Supreme Court of New South Wales (**Court**) made on 6 September 2019 pursuant to section 411(1) of the *Corporations Act 2001* (Cth) (**Corporations Act**), a general meeting of holders of fully paid ordinary shares in Villa World (**Villa World Shareholders**) will be held at 2.30pm (Brisbane time) (being 3.30pm, Sydney time) on Friday, 11 October 2019, in the Sorrento Room at the Sofitel Gold Coast Broadbeach, 81 Surf Parade, Broadbeach Queensland 4218 (**Scheme Meeting**).

Business of the Scheme Meeting

The purpose of the Scheme Meeting is to consider and, if thought fit, agree to a scheme of arrangement (with or without modification or any alterations or conditions required by the Court) proposed to be entered into between Villa World and Villa World Shareholders, at the Scheme Record Date, pursuant to Part 5.1 of the Corporations Act (the **Scheme**).

Scheme Resolution

To consider, and, if thought fit, pass the following resolution in accordance with section 411(4)(a)(ii) of the Corporations Act:

That, pursuant to and in accordance with section 411 of the Corporations Act 2001 (Cth), the scheme of arrangement proposed between Villa World Limited and the holders of its fully paid ordinary shares (the terms of which are contained in and more particularly described in the Scheme Booklet of which the Notice of Scheme Meeting forms part) is agreed to (with or without alterations or conditions as approved by the Court) and, subject to approval of the scheme of arrangement by the Court, the board of directors of Villa World is authorised to implement the scheme of arrangement with any such alterations or conditions.

There are no relevant voting exclusions that apply to this Scheme Meeting.

Chairman

The Court has directed that Mr Mark Jewell is to act as chair of the Scheme Meeting (and that, if Mr Jewell is unable or unwilling to attend, Mr David Rennick is to act as chair of the Scheme Meeting) and has directed the chair to report the result of the resolution to the Court.



Brad Scale
General Counsel and Company Secretary

6 September 2019

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Notes to the Notice of Scheme Meeting

These notes should be read in conjunction with the Notice of Scheme Meeting and the information in the Scheme Booklet (of which the Notice of Scheme Meeting forms part). Unless the context requires otherwise, terms used in the Notice of Scheme Meeting and in these notes have the same meaning as set out in Section 9 (*Glossary and interpretation*) of the Scheme Booklet.

Requisite Majorities

In accordance with section 411(4)(a)(ii) of the Corporations Act, the Scheme Resolution must be passed by:

- a majority in number (more than 50%) of Villa World Shareholders present and voting at the Scheme Meeting (whether in person or by proxy, corporate representative or attorney); and
- at least 75% of the total number of votes cast on the Scheme Resolution by Villa World Shareholders present and voting at the Scheme Meeting (whether in person or by proxy, corporate representative or attorney).

Entitlement to vote

The time for the purposes of determining voting entitlements pursuant to regulation 7.11.37 of the *Corporations Regulations 2001* (Cth) will be 7.00pm (Sydney time) on Wednesday, 9 October 2019.

Voting at the Scheme Meeting

If you are eligible to vote at the Scheme Meeting, you may:

- vote in person at the Scheme Meeting;
- appoint one or two proxies to attend and vote at the Scheme Meeting on your behalf;
- appoint an attorney to attend and vote at the Scheme Meeting on your behalf; or
- if you are a body corporate, appoint a corporate representative to attend and vote at the Scheme Meeting on your behalf.

Voting will be conducted by poll.

Jointly held securities

If you hold Villa World Shares jointly with one or more other person, only one of you may vote. If more than one of you attempts to vote in person at the meeting, only the vote of the holder whose name appears first on the Villa World Register will be counted.

Voting in person

To vote in person, you must attend the Scheme Meeting on the date and at the place set out in the Notice of Scheme Meeting.

Proxies

If you are unable to attend the meeting, you may appoint one or two proxies to attend and vote at the Scheme Meeting on your behalf. If you wish to appoint a proxy, please complete the enclosed proxy form or vote online using the login information provided.

If you appoint two proxies, each proxy may be appointed to exercise a specified number or proportion of your votes. If no such number or proportion is specified, each proxy may exercise half of your votes. Please refer to the enclosed proxy form for instructions on completion and lodgement.

A proxy does not need to hold Villa World Shares. A proxy may be an individual or a body corporate. If you appoint a body corporate as proxy, the body corporate will need to ensure that it appoints an individual as corporate representative and provides satisfactory evidence of that appointment. If you return your proxy instruction form without identifying a proxy on it, you will be taken to have appointed the chair of the Scheme Meeting as your proxy to vote on your behalf.

You can direct your proxy how to vote by following the instructions on the proxy form (i.e. by ticking the relevant boxes next to the Scheme Resolution on the proxy form (being 'for', 'against' or 'abstain')).

If you do not instruct your proxy how to vote, your proxy may vote as he or she sees fit at the Scheme Meeting. If the chair of the Scheme Meeting is appointed as your proxy (or is appointed your proxy by default), he intends to vote all valid undirected proxies which appoint (or are taken to appoint) the chair of the Scheme Meeting in favour of the Scheme Resolution.

Any directed proxies that are not voted on a poll at the Scheme meeting by the appointed proxy will automatically default to the chair of the Scheme Meeting who is required to vote proxies as directed on a poll.

If you hold Villa World Shares jointly with one or more other persons, in order for your proxy appointment to be valid, all of you must sign the proxy form.

Your appointment of a proxy does not preclude you from attending in person, revoking the proxy and voting at the Scheme Meeting.

The signed and completed proxy form must be received by the Villa World Registry, Computershare Investor Services Pty Limited, by 2.30pm (Brisbane time) (being 3.30pm, Sydney time) on 9 October 2019. If the Scheme Meeting is adjourned, proxy forms must be received by the Villa World Registry at least 48 hours before the resumption of the Scheme Meeting in relation to the resumed part of the Scheme Meeting.

The completed proxy form may be:

- mailed to the Villa World Registry at Villa World Limited C/- Computershare Investor Services Pty Limited, GPO Box 242, Melbourne VIC 3001, Australia;
- faxed to the Villa World Registry on 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia);
- submitted online to the Villa World Registry by visiting the website, www.investorvote.com.au. You will need your Securityholder Reference Number (SRN) or Holder Identification Number (HIN) and Control Number as shown on your proxy form. You will be taken to have signed the proxy form if you lodge it in accordance with the instructions on the website; or
- for Intermediary Online subscribers (custodians), submitted online to the Villa World Registry by visiting the website, www.intermediaryonline.com. You will need your Securityholder Reference Number (SRN) or Holder Identification Number (HIN) and Control Number as shown on your proxy form. You will be taken to have signed the proxy form if you lodge it in accordance with the instructions on the website.

If a proxy form is completed under power of attorney or other authority, the original or certified copy of the power of attorney or other authority must accompany the completed proxy form unless the power of attorney or other authority has previously been given to the Villa World Share Registry.

Voting by power of attorney

You may appoint an attorney to attend and vote at the Scheme Meeting on your behalf.

Powers of attorney must be received by Villa World Registry by no later than 2.30pm (Sydney time) on 9 October 2019.

Persons attending the Scheme Meeting as an attorney should bring to the Scheme Meeting the original or certified copy of the power of attorney under which they have been authorised to attend and vote at the Scheme Meeting.

Your appointment of an attorney does not preclude you from attending in person and voting at the Scheme Meeting.

Voting by corporate representative (in the case of a body corporate)

If you are a body corporate, you may appoint a corporate representative to attend and vote at the Scheme Meeting on your behalf. The appointment must comply with section 250D of the Corporations Act.

A corporate representative should bring to the Scheme Meeting evidence of their appointment, including any authority under which the document appointing them as corporate representative was signed.

Court approval

If the Scheme Resolution put to this Scheme Meeting is passed by the Requisite Majorities and the other conditions to the Scheme are satisfied or waived (if applicable) in accordance with the Scheme, Villa World intends to apply to the Court for the necessary orders to approve the Scheme.

In order for the Scheme to become effective, it must be approved by the Court and an office copy of the orders of the Court approving the Scheme must be lodged with ASIC.

Further details in respect of the Scheme Resolution to be put to the Scheme Meeting are set out in the accompanying Scheme Booklet.

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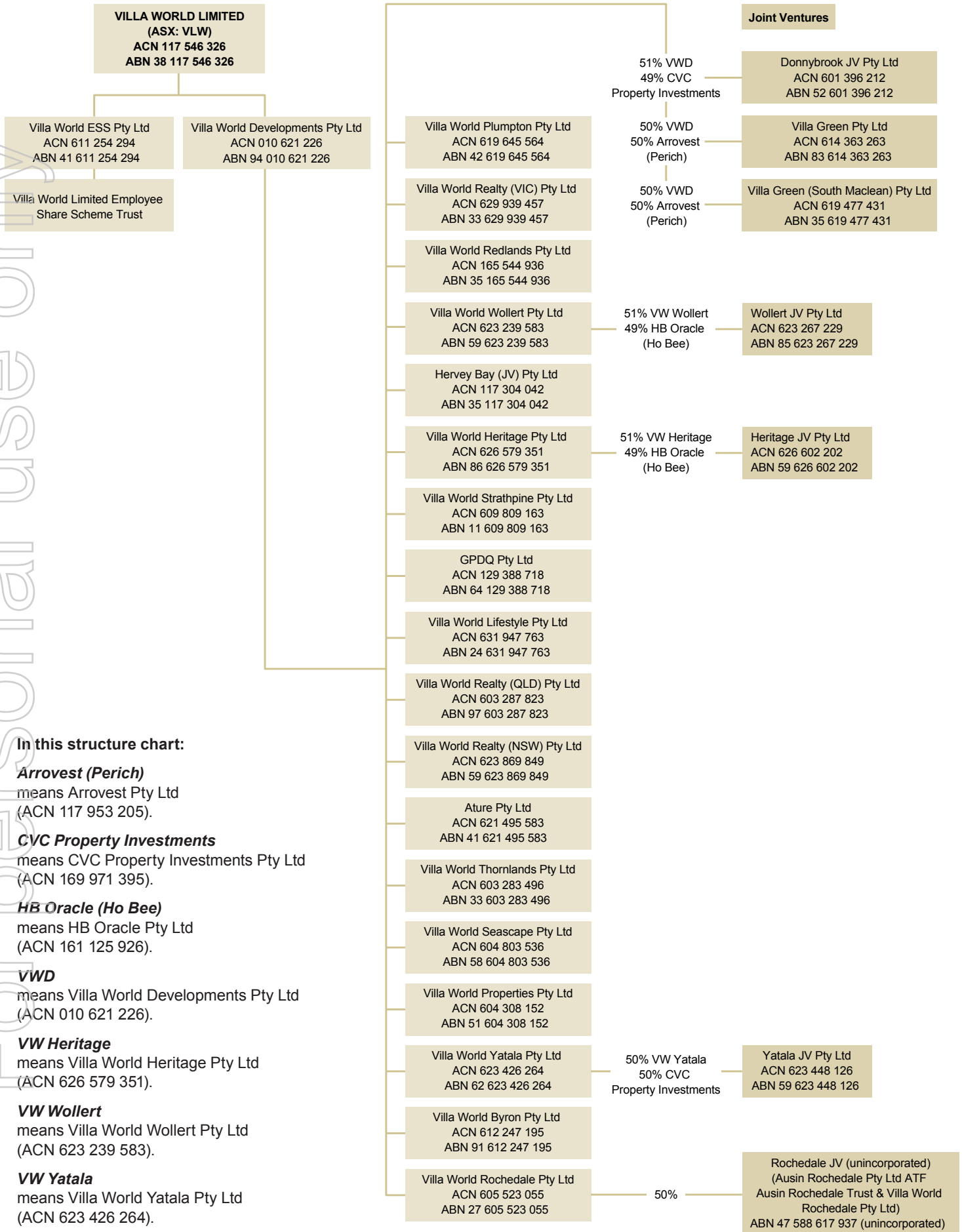
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Annexure

E

Annexure E - Villa World Structure Chart



In this structure chart:

Arrovest (Perich)

means Arrovest Pty Ltd
(ACN 117 953 205).

CVC Property Investments

means CVC Property Investments Pty Ltd
(ACN 169 971 395).

HB Oracle (Ho Bee)

means HB Oracle Pty Ltd
(ACN 161 125 926).

VWD

means Villa World Developments Pty Ltd
(ACN 010 621 226).

VW Heritage

means Villa World Heritage Pty Ltd
(ACN 626 579 351).

VW Wollert

means Villa World Wollert Pty Ltd
(ACN 623 239 583).

VW Yatala

means Villa World Yatala Pty Ltd
(ACN 623 426 264).

Corporate Directory

VILLA WORLD LIMITED

Level 1, Oracle West
19 Elizabeth Avenue
Broadbeach QLD 4218

www.villaworld.com.au

SHAREHOLDER INFORMATION LINE

1300 077 476 (within Australia)
+61 3 9415 4079 (outside Australia)
Monday to Friday between 8.30am to 5.30pm
(Sydney time)

DIRECTORS

Mark Jewell

(Independent Non-Executive Chairman)

Craig Treasure

(Chief Executive Officer and Managing Director)

David Rennick

(Independent Non-Executive Director)

Lisa MacCallum

(Independent Non-Executive Director)

INDEPENDENT EXPERT

Grant Thornton Corporate Finance Pty Ltd

Level 17, 383 Kent Street
Sydney NSW 2000

SHARE REGISTRY

Computershare Investor Services Pty Limited

Level 1, 200 Mary Street
Brisbane QLD 4000

LEGAL AND TAXATION ADVISOR

Allens

Deutsche Bank Place
126 Phillip Street
Sydney NSW 2000

FINANCIAL ADVISOR

Macquarie Capital (Australia) Limited

50 Martin Place
Sydney NSW 2000

STOCK EXCHANGE LISTING

Villa World Limited shares are listed on the
Australian Securities Exchange

(ASX code: VLW)

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HELPING PEOPLE REACH HOME