Simmons
CORPORATE FINANCE

Estaronline Limited

Independent Adviser's Report

In Respect of:

- **the Acquisition of Shares by the Trustees of the Kahu Trust**
- **the Allotment of Shares under the Underwriting Arrangements with Stuart Nattrass and the Trustees of the Kahu Trust**

November 2015

Statement of Independence

Simmons Corporate Finance Limited confirms that it:

- has no conflict of interest that could affect its ability to provide an unbiased report
- has no direct or indirect pecuniary or other interest in the proposed transactions considered in this report, including any success or contingency fee or remuneration, other than to receive the cash fee for providing this report.

Simmons Corporate Finance Limited has satisfied the Takeovers Panel, on the basis of the material provided to the Takeovers Panel, that it is independent under the Takeovers Code for the purposes of preparing this Independent Adviser's Report.

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Section **Page**

1. Introduction

1.1 Background

Estaronline Limited (**eStar** or the **Company**) provides eCommerce platform solutions to some of Australasia's most prominent brands.

eStar currently has 80,237,846 fully paid ordinary shares on issue held by 193 shareholders.

The Company's shares are not listed on any equities security market.

A profile of eStar is set out in section 4.

1.2 Acquisition of Shares

The Company's 2 largest shareholders are:

- Stuart Nattrass – 25,564,990 ordinary shares (31.86%)
- Peter Morrison – 21,492,478 ordinary shares (26.79%).

Mr Nattrass and Mr Morrison are directors of the Company and are brothers in law.

The Company's shareholders not associated with Mr Nattrass or Mr Morrison (the **Non-associated Shareholders**) currently collectively hold 41.35% of the Company's ordinary shares on issue.

Mr Morrison proposes to sell the 21,492,478 ordinary shares to the trustees of the Kahu Trust, being Elizabeth Nattrass, Peter Morrison and Pauri Trustee Limited (the **Kahu Trustees**) (the **Share Acquisition**).

The impact of the Share Acquisition on the Company's share register is set out below.

Shareholding Levels Under the Share Acquisition

	Current		Share Acquisition		Post the Share Acquisition	
	Shares	%	Shares	%	Shares	%
Mr Nattrass	25,564,990	31.86%	-	-	25,564,990	31.86%
Mr Morrison	21,492,478	26.79%	(21,492,478)	(26.79)%	-	-
Kahu Trustees	-	-	21,492,478	26.79%	21,492,478	26.79%
Non-associated Shareholders	33,180,378	41.35%	-	-	33,180,378	41.35%
Total	80,237,846	100%	-	-	80,237,846	100%

1.3 Capital Raising

eStar intends to undertake a renounceable pro rata rights issue to existing shareholders (the **Rights Issue**) to raise approximately $1.2 million of additional capital (after costs of approximately $0.05 million) to fund the Company's growth initiatives.

The Rights Issue will be fully underwritten by Mr Nattrass and the Kahu Trustees (the **Underwriting Arrangements**).

Overview of the Rights Issue

The principal terms of the Rights Issue are:

- the right to subscribe for one new ordinary shares for every 4 ordinary shares held as at 9 December 2015 (the **Record Date**), resulting in the issue of up to 20,059,462 new ordinary shares (subject to rounding)
- shareholders on the Record Date will be entitled to the rights at no cost
- the rights are renounceable (which means shareholders can sell or transfer any of their rights)
- the closing date for applying for the new ordinary shares will be 18 December 2015. It is intended that the new ordinary shares will be allotted on 22 December 2015
- the new ordinary shares will be issued at $0.06 each, payable in full in cash
- shareholders may apply for more than their entitlement
- subject to shareholder approval, the Rights Issue will be fully underwritten by Mr Nattrass and the Kahu Trustees.

The full terms of the Rights Issue are set out in the Combined Investment Statement and Short Form Prospectus dated 24 November 2015 (the **Rights Issue IS&P**) which is being sent to shareholders with the notice of special meeting.

Overview of the Underwriting Arrangements

The principal terms of the Underwriting Arrangements between eStar and Mr Nattrass and the Kahu Trustees, as documented in the Underwriting Agreement between eStar, Mr Nattrass and the Kahu Trustees dated 20 November 2015 (the **Underwriting Agreement**), are:

- Mr Nattrass and the Kahu Trustees will fully underwrite the Rights Issue:
  - Mr Nattrass will accept his full entitlement under the Rights Issue of 6,391,247 new shares and will subscribe for 54.32% of any shortfall in the Rights Issue
  - the Kahu Trustees will accept their full entitlement of 5,373,120 new shares and will subscribe for 45.68% of any shortfall
- no underwriting fee will be paid to Mr Nattrass or the Kahu Trustees
- the Underwriting Arrangements are conditional on, amongst other things:
  - shareholder approval of the Share Acquisition, the Rights Issue and the Underwriting Arrangements
  - no material adverse events occurring before the closing date.

1.4 Impact of the Rights Issue and the Underwriting Arrangements on Shareholding Levels

Mr Nattrass currently holds 31.86% of the Company's ordinary shares on issue and the Kahu Trustees hold 26.79% after the Share Acquisition. The Non-associated Shareholders currently collectively hold 41.35% of the Company's ordinary shares on issue.

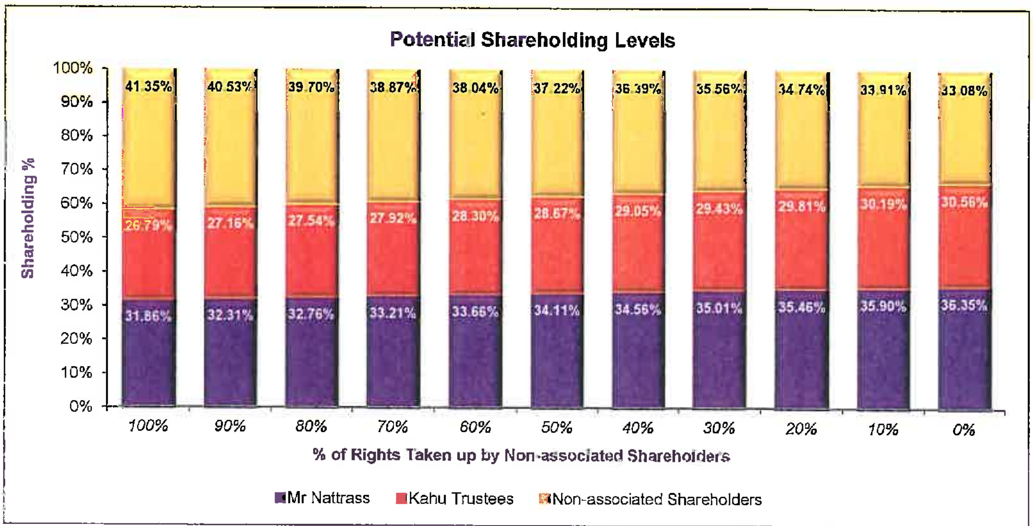
The table below shows the maximum number of shares that Mr Nattrass and the Kahu Trustees will hold under the Underwriting Arrangements if the Non-associated Shareholders do not take up any of their entitlements under the Rights Issue.

Maximum Shareholding Levels Under the Underwriting Arrangements

	Current		Underwriting Arrangements[1]		Post the Rights Issue	
	Shares	%	Shares	%	Shares	%
Mr Nattrass	25,564,990	31.86%	10,897,143	54.32%	36,462,133	36.35%
Kahu Trustees[2]	21,492,478	26.79%	9,162,319	45.68%	30,654,797	30.56%
Non-associated Shareholders	33,180,378	41.35%	-	-	33,180,378	33.08%
Total	80,237,846	100%	20,059,462	100%	100,297,308	100%

1 Assumes the Non-associated Shareholders do not take up any of their entitlements under the Rights Issue
2 Assumes the Share Acquisition is approved

The potential shareholding levels of Mr Nattrass and the Kahu Trustees and the Non-associated Shareholders following the Rights Issue are set out below, depending upon the level of take-up by the Non-associated Shareholders of their entitlements.



Mr Nattrass' shareholding level will range from 31.86% to 36.35% and the Kahu Trustees' shareholding level will range from 26.79% to 30.56%.

Collectively, Mr Nattrass' and the Kahu Trustees' shareholding level will range from 58.65% to 66.92%.

1.5 Regulatory Requirements

eStar is a code company as defined by the Takeovers Code (the **Code**) as it has 50 or more shareholders and 50 or more share parcels. Accordingly, the Company is subject to the provisions of the Code.

Rule 6 of the Code prohibits:

- a person who holds or controls less than 20% of the voting rights in a code company from increasing its holding or control of voting rights (together with its associates) beyond 20% and
- a person holding or controlling 20% or more of the voting rights in a code company from increasing its holding or control of voting rights

unless the person and that person's associates comply with exceptions to this fundamental rule.

One of the exceptions, set out in Rule 7(c) of the Code, enables a person and its associates to increase their holding or control of voting rights by an acquisition of shares if the acquisition is approved by an ordinary resolution of the code company.

The Acquisition will result in the Kahu Trustees controlling 26.79% of the voting rights in eStar.

The Non-associated Shareholders will vote on an ordinary resolution in respect of the Acquisition (resolution 1 - the **Share Acquisition Resolution**) at the Company's special meeting of shareholders on 9 December 2015.

In accordance with Rule 17(1), Mr Morrison and the Kahu Trustees and any of their associates cannot vote on the Acquisition Resolution.

Rule 18 of the Code requires the directors of a code company to obtain an Independent Adviser's Report on the merits of an acquisition under Rule 7(c).

This Independent Adviser's Report is to be included in, or accompany, the notice of meeting pursuant to Rule 15(h).

Another exception, set out in Rule 7(d) of the Code, enables a person and that person's associates to increase its control of voting rights beyond 20% by an allotment of shares if the allotment is approved by an ordinary resolution of the code company.

The Underwriting Arrangements will potentially result in Mr Nattrass increasing his shareholding in the Company beyond 31.86% and the Kahu Trustees increasing their shareholding beyond 26.79%. Accordingly, eStar is required to seek shareholder approval of Mr Nattrass' and the Kahu Trustees' increase in control of eStar.

The Non-associated Shareholders will vote on an ordinary resolution in respect of the Underwriting Arrangements (resolution 3 - the **Underwriting Resolution**).

In accordance with Rule 17(2), Mr Nattrass and the Kahu Trustees and any of their associates cannot vote on the Underwriting Resolution.

Before voting on the Underwriting Resolution, all of the Company's shareholders will vote on a special resolution in respect of the Rights Issue (resolution 2 – the **Rights Issue Resolution**).

The Share Acquisition Resolution and the Rights Issue Resolution must first be passed prior to the voting on the Underwriting Resolution.

Rule 18 of the Code requires the directors of a code company to obtain an Independent Adviser's Report on the merits of an allotment under Rule 7(d).

Rule 16(h) of the Code requires that the notice of meeting in respect of an allotment of shares under Rule 7(d) must include or be accompanied by an Independent Adviser's Report.

1.6 Purpose of the Report

The eStar board of directors (the **Board**) has engaged Simmons Corporate Finance Limited (**Simmons Corporate Finance**) to prepare an Independent Adviser's Report on the merits of the Underwriting Arrangements in accordance with Rule 18 of the Code.

Simmons Corporate Finance was approved by the Takeovers Panel on 11 September 2015 to prepare the Independent Adviser's Report in respect of the Underwriting Agreements and on 13 November 2015 in respect of the Share Acquisition.

Simmons Corporate Finance issues this Independent Adviser's Report to the Board for the benefit of the Non-associated Shareholders and to assist them in forming their own opinion on whether to vote for or against the Share Acquisition Resolution and the Underwriting Resolution.

We note that each shareholder's circumstances and objectives are unique. Accordingly, it is not possible to report on the merits of the Share Acquisition and the Underwriting Arrangements in relation to each shareholder. This report on the merits of the Share Acquisition and the Underwriting Arrangements is therefore necessarily general in nature.

The Independent Adviser's Report is not to be used for any other purpose without our prior written consent.

2. Evaluation of the Merits of the Acquisition of Shares by the Kahu Trustees from Mr Morrison

2.1 Basis of Evaluation

Rule 18 of the Code requires an evaluation of the merits of the acquisition of shares by the Kahu Trustees from Mr Morrison.

There is no legal definition of the term *merits* in New Zealand in either the Code or in any statute dealing with securities or commercial law.

In the absence of an explicit definition of *merits*, guidance can be taken from:

- the Takeovers Panel *Guidance Note on Independent Advisers and the Takeovers Code* dated 7 September 2015
- definitions designed to address similar issues within New Zealand regulations which are relevant to the proposed transaction
- overseas precedents
- the ordinary meaning of the term *merits*.

We are of the view that an assessment of the merits of the Share Acquisition should focus on:

- the rationale for the Share Acquisition
- the Share Acquisition price
- the impact of the Share Acquisition on the control of the Company
- the impact of the Share Acquisition on eStar's share price
- other issues associated with the Share Acquisition
- the implications if the Share Acquisition Resolution is not approved.

Our opinion should be considered as a whole. Selecting portions of the evaluation without considering all the factors and analyses together could create a misleading view of the process underlying the opinion.

2.2 Evaluation of the Merits of the Share Acquisition

In our opinion, after having regard to all relevant factors, there are no material negative aspects of the Share Acquisition from the perspective of the Non-associated Shareholders.

The rationale for the Share Acquisition is sound. The Share Acquisition is a transaction between Mr Morrison and a related trust, undertaken for asset planning and restructuring purposes.

The Share Acquisition price of $0.06 per share is based on the Rights Issue subscription price and therefore should not have any material impact on the Company's share price.

The Share Acquisition will not have any impact on the liquidity of eStar's shares.

The Share Acquisition will not have any impact on the control of the Company. It will simply result in the substitution of one shareholder (Mr Morrison) by another related shareholder (the Kahu Trustees).

The Share Acquisition will not have any dilutionary impact on the Non-associated Shareholders as no new shares are being issued.

The Share Acquisition will not have any impact on the attraction of eStar as a takeover target.

The implications of the Share Acquisition Resolution not being approved by the Non-associated Shareholders are that the Share Acquisition cannot proceed and therefore the Underwriting Arrangements (discussed in section 3) cannot proceed.

2.3 Voting For or Against the Share Acquisition Resolution

Voting for or against the Share Acquisition Resolution is a matter for individual shareholders based on their own views as to value and future market conditions, risk profile and other factors. Shareholders will need to consider these consequences and consult their own professional adviser if appropriate.

3. Evaluation of the Merits of the Allotment of Shares to Mr Nattrass and the Kahu Trustees Under the Underwriting Arrangements

3.1 Basis of Evaluation

We are of the view that an assessment of the merits of the allotment of shares to Mr Nattrass and the Kahu Trustees under the Underwriting Arrangements should focus on:

- the requirement for the Rights Issue
- the prospects for eStar without the Rights Issue
- the alternatives to the Rights Issue
- the structure of the Rights Issue
- the terms and conditions of the Underwriting Arrangements
- the alternatives to the Underwriting Arrangements
- the impact of the Rights Issue on eStar's financial position
- the impact of the Underwriting Arrangements on the control of the Company
- the impact of the Rights Issue and the Underwriting Arrangements on eStar's share price
- other benefits and disadvantages to Mr Nattrass and the Kahu Trustees of the Underwriting Arrangements
- the benefits and disadvantages for the Non-associated Shareholders of the Rights Issue and the Underwriting Arrangements
- the implications if the Underwriting Resolution is not approved.

Our opinion should be considered as a whole. Selecting portions of the evaluation without considering all the factors and analyses together could create a misleading view of the process underlying the opinion.

3.2 Summary of the Evaluation of the Merits of the Allotment of Shares to Mr Nattrass and the Kahu Trustees Under the Underwriting Arrangements

Our evaluation of the merits of the allotment of shares to Mr Nattrass and the Kahu Trustees under the Underwriting Arrangements is set out in detail in sections 3.3 to 3.15.

In summary, the positive aspects of the Underwriting Arrangements are:

- the rationale for the Rights Issue and the Underwriting Arrangements is sound
- the structure of the Rights Issue is reasonable:
  - the subscription price is at a discount to the average price at which the Company's shares have recently traded
  - the rights are renounceable, meaning that they can be sold or transferred

- the terms of the Underwriting Arrangements are favourable to the Non-associated Shareholders as no underwriting fee will be payable to Mr Nattrass and the Kahu Trustees
- the Underwriting Arrangements provide eStar with the certainty that the Rights Issue will raise approximately $1.2 million (after costs)
- the Rights Issue and the Underwriting Arrangements will have a positive impact on the Company's financial position
- the Underwriting Arrangements are unlikely to have any material impact on the liquidity of eStar's shares or on eStar's share price
- the Underwriting Arrangements are unlikely to have any material impact on the attraction of eStar as a takeover target to bidders other than Mr Nattrass and the Kahu Trustees
- the implications of the Underwriting Arrangements not being approved by the Non-associated Shareholders are significant in that the Company's ability to fund its ongoing operations, let alone its growth initiatives, will be put at risk.

In summary, the negative aspects of the Underwriting Arrangements are:

- depending on the level to which the Non-associated Shareholders take up their entitlements, Mr Nattrass' shareholding level will range from 31.86% to up to 36.35% following the Rights Issue and the Kahu Trustees' will range from 26.79% to up to 30.56%. At the higher end of the range, Mr Nattrass' and the Kahu Trustees' ability to influence the outcome of shareholding voting and exert shareholder control over the Company's board of directors and operations will increase to some degree – but not to a significant extent
- the dilutionary impact of the Rights Issue and Underwriting Arrangements on Non-associated Shareholders who do not take up their entitlements will result in their proportionate interests in the Company reducing by up to 20%
- depending on the level of Mr Nattrass' and the Kahu Trustees' shareholdings following the Rights Issue, the attraction of eStar as a takeover target for Mr Nattrass and the Kahu Trustees may diminish.

There are a number of positive and negative features associated with the allotment of shares to Mr Nattrass and the Kahu Trustees under the Underwriting Arrangements. In our view, when the Non-associated Shareholders are evaluating the merits of the transaction, they need to carefully consider:

- firstly, the imperative for the Company to undertake the Rights Issue
- secondly, the need for the Rights Issue to be fully underwritten
- thirdly, the degree to which they will participate in the Rights Issue.

If most or all of the Non-associated Shareholders are of the mind to take up their entitlements under the Rights Issue, then the level of dilution associated with the Underwriting Arrangements significantly diminishes, potentially to the extent that it is not a negative aspect at all. In such circumstances, the benefits of the Underwriting Arrangements significantly outweigh the negative aspects.

Conversely, if a number of Non-associated Shareholders are unlikely to take up their entitlements under the Rights Issue, they need to consider whether the negative aspects of the Underwriting Arrangements, including the potential dilution, justify voting against the Underwriting Arrangements with the possible outcome that the Company will be undercapitalised and therefore may not be able to fully fund its operations and execute its growth initiatives.

In our opinion, after having regard to all relevant factors, the positive aspects of the allotment of shares to Mr Nattrass and the Kahu Trustees under the Underwriting Arrangements outweigh the negative aspects from the perspective of the Non-associated Shareholders.

3.3 The Requirement for the Rights Issue

The funds raised from the Rights Issue will be primarily directed to the following purposes:

- employment of an expanded leadership team and an Australian based team that will be responsible for driving growth in the Australian market
- implementation of brand building marketing and communication activities
- ongoing development of the Company's core platform (*iSAMS*) and new product development (such as *RMProfiler*).

3.4 The Prospects for eStar Without the Rights Issue

The carrying value of eStar's equity was $1.9 million as at 31 March 2015 and it had $0.6 million of cash and cash equivalents at that date.

Without the additional funding from the Rights Issue, the Company will be able to operate for a period of time but it will not have as much equity capital as the Company's directors consider prudent in order to fund the Company's growth initiatives. Accordingly, the Company's ability to enhance its profitability would be diminished and eStar would need to raise additional equity in the near future in order to keep operating.

3.5 Alternatives to the Rights Issue

eStar could pursue alternative forms of raising capital including:

- seeking debt funding
- making a series of share placements
- seeking another strategic investor
- sale of assets.

We are advised by the Board that as the Company is currently incurring operating losses, it does not consider that eStar could access sufficient debt funding on commercially viable terms.

We are also advised that the Board did not seek to make any share placements as it did not wish to dilute existing shareholders' interests in the Company. It considered a pro rata rights issue to be the fairest form of capital raising for the Company's shareholders.

We are of the view that the alternative funding sources are not realistic alternatives at this point in time.

3.6 Structure of the Rights Issue

The Rights Issue has been structured as a renounceable issue of up to 20,059,462 ordinary shares to existing shareholders on a one for 4 basis at $0.06 per share that is fully underwritten by Mr Nattrass and the Kahu Trustees.

Size of the Rights Issue

We are advised by the Board that the approximately $1.2 million of capital to be raised under the Rights Issue (after costs) was based on the sum required to finance the Company's operations for the next year.

Pricing

The Rights Issue is at a discount to the volume weighted average share price (**VWAP**) that the shares have recently traded at. VWAP is calculated as the total value of shares traded divided by the total volume of shares traded over a defined period.

In the last 3 months, 220,000 shares have traded at between $0.04 and $0.07 per share at a VWAP of $0.067.

The subscription price of $0.06 per share is at a 10% discount to the 3 month VWAP.

When rights issues are priced at a discount to the prevailing share price, this results in a transfer of value from shareholders who do not participate in the rights issue (and do not sell their rights) to shareholders who take up their entitlements.

Based on eStar's 3 month VWAP of $0.067 and a one for 4 rights issue at a subscription price of $0.06 per share, the theoretical price of eStar's shares after the Rights Issue (the **Theoretical Ex-rights Share Price**) is $0.066 ([$0.067 x 4 + $0.06 x 1] ÷ 5).

The Theoretical Ex-rights Share Price suggests that the Rights Issue will not give rise to any significant transfer of value.

Renounceable

The rights are renounceable, meaning that they can be transferred or sold. However, given the limited liquidity of the Company's shares, the absence of a securities market for the rights to be traded on and a theoretical rights price of $0.001 per right, we consider it unlikely that any shareholders choosing not to take up their entitlements will be able to readily sell their rights.

3.7 Underwriting Options

On the basis that a rights issue is the most appropriate method at the present time for eStar to raise additional capital, eStar does have the following options regarding the underwriting of the Rights Issue:

- the Underwriting Arrangements as proposed or
- it could seek an alternative underwriter or
- it could undertake a non-underwritten issue.

Underwriting Arrangements

No underwriting fee will be payable to Mr Nattrass and the Kahu Trustees under the Underwriting Arrangements.

The payment of underwriting fees to an underwriter is a normal part of a rights issue. The actual fee percentage varies and generally is a function of the discount of the rights price, the size of the issue and the assessment of the risk that the underwriter is assuming (ie the probability that the underwriter will be called upon to purchase any shortfall in subscriptions). Underwriting fees in New Zealand tend to be in the range of 1.5% to 5.0% of the issue amount.

Given that no underwriting fee will be payable, we consider the Underwriting Arrangements to be favourable to the Non-associated Shareholders.

Alternative Underwriter

Given the relatively small size of the Company, the absence of institutional investors on its shareholder register and the limited liquidity of the Company's shares, we consider it unlikely that the underwriting opportunity would hold appeal to potential underwriters other than a party who was prepared to possibly hold a significant shareholding in eStar.

We are advised that the Board sought to agree the Underwriting Arrangements with Mr Nattrass and the Kahu Trustees rather than seeking alternative underwriters on this basis.

No Underwriter

An alternative option to seeking a different underwriter would be for eStar to undertake the Rights Issue without it being underwritten. In general terms, the greater the discount of the subscription price for the new shares under a rights issue to the current share price, the lower the risk of the rights issue being under subscribed.

A discounted subscription price does not necessarily guarantee the full take-up of a rights issue. Other factors that impact on the likely level of subscription under a rights issue include the demand for the shares (i.e. liquidity and spread of shareholders), the quantum of the required investments (in this case the average required investment is approximately $1,800 per Non-associated Shareholder (excluding the 10 largest shareholders)) and the general state of the equity markets.

We are of the view that eStar would bear considerable risk of not raising the expected level of capital of approximately $1.2 million (after costs) if it did not arrange for the Rights Issue to be fully underwritten.

3.8 Impact on Financial Position

A summary of eStar's recent financial performance and financial position is set out in sections 4.7 and 4.8.

eStar's total equity as at 31 March 2015 was $1.9 million, which equated to $0.023 per share as at that date.

The Rights Issue will raise approximately $1.2 million (after costs). For illustrative purposes, if the net proceeds were to have been received on 31 March 2015, eStar's total equity would significantly increase by 61% to $3.1 million. Equity per share would increase by 14% to $0.027.

3.9 Impact on Control

Share Capital and Shareholders

eStar currently has 80,237,846 fully paid ordinary shares on issue held by 193 shareholders.

The names, number of shares and percentage holding of the 10 largest shareholders as at 6 July 2015 are set out in section 4.6.

Mr Nattrass is the largest shareholder in eStar, holding 31.86% of the Company's shares. The Kahu Trustees are the second largest shareholder with 26.79%. The top 10 shareholders collectively hold over 72% of the Company's shares.

Mr Nattrass' and the Kahu Trustees' Potential Shareholding Levels

Depending on the uptake by the Non-associated Shareholders of their entitlements under the Rights Issue, Mr Nattrass and the Kahu Trustees will increase their respective shareholdings in eStar without having to make a formal offer to all shareholders in accordance with Rules 7(a) or 7(b) of the Code. Instead, under Rule 7(d) of the Code, the Non-associated Shareholders have the opportunity to vote for or against the proposed allotment of shares to Mr Nattrass and the Kahu Trustees under the terms of the Underwriting Arrangements.

The graph on page 3 shows the potential shareholding levels for Mr Nattrass and the Kahu Trustees depending upon the levels of take-up by the Non-associated Shareholders.

Mr Nattrass' potential shareholding level will be between 31.86% and up to 36.35% and the Kahu Trustees' will be between 26.79% and up to 30.56%, depending upon the level of take-up by the Non-associated Shareholders of their entitlements.

Shareholding Voting

Mr Nattrass and the Kahu Trustees both currently have the ability to influence the outcome of shareholder voting. Mr Nattrass' 31.86% shareholding and the Kahu Trustees' 26.79% shareholding can each singlehandedly block special resolutions (which require the approval of 75% of the votes cast by shareholders) but cannot singlehandedly pass or block ordinary resolutions (which require the approval of more than 50% of the votes cast by shareholders).

If Mr Nattrass and the Kahu Trustees were to vote in the same manner, then they would be able to control the outcome of ordinary resolutions.

In the extreme scenario of the Non-associated Shareholders taking up all of their entitlements – which we consider to be highly unlikely – Mr Nattrass' and the Kahu Trustees' shareholding levels will remain at 31.86% and 26.79% respectively. As such, Mr Nattrass' and the Kahu Trustees' ability to influence the outcome of shareholder voting will not change.

In the other extreme scenario of the Non-associated Shareholders taking up none of their entitlements – which we also consider to be highly unlikely – Mr Nattrass' and the Kahu Trustees' shareholding levels will be 36.35% and 30.56% respectively. In which case, Mr Nattrass' and the Kahu Trustees' ability to influence the outcome of shareholder voting will not change to any significant degree. They each would still not be able to singlehandedly determine the outcome of ordinary resolutions or pass any special resolutions. Even if they were to vote in the same manner, they would still not be able to pass any special resolutions on their own.

The ability for any shareholder to influence the Company's ordinary resolutions or special resolutions may be reduced by external factors such as the Company's constitution and the Companies Act 1993.

Based on the above, we are of the view that the allotment of shares to Mr Nattrass and the Kahu Trustees under the Underwriting Arrangements will potentially increase their ability to exert shareholder control over eStar but not to any significant degree.

Board Control

eStar currently has 4 directors, as set out in section 4.5.

Mr Inglis and Mr Monro are deemed not to be associates of Mr Nattrass or the Kahu Trustees, as defined in the Code.

We are advised by the Board that as far as it is aware, any increase in Mr Nattrass' and the Kahu Trustees' shareholdings following the Rights Issue will have no impact on the composition of the Board or Mr Nattrass' and Mr Morrison's level of influence at Board level.

Operations

We are advised by the Board that any increase in Mr Nattrass and the Kahu Trustees' respective shareholdings will have no discernible impact on the Company's operations.

3.10 Dilutionary Impact

The Underwriting Arrangements may result in the Non-associated Shareholders' proportionate shareholdings in the Company being diluted, depending on the extent to which they take up their entitlements under the Rights Issue.

Non-associated Shareholders who do not take up their entitlements under the Rights Issue will see their shareholding interests in the Company diluted by up to 20%.

While the potential level of dilution is significant, the actual level of dilution is in the hands of the Non-associated Shareholders as it is a function of whether they take up their entitlements under the Rights Issue.

3.11 Impact on Share Price and Liquidity

eStar's shares are not listed on any equities securities market. The Company acts as a conduit to shareholders who wish to buy or sell shares.

A summary of eStar's shares traded over the last 3 years is set out in section 4.10. During the period, 9,171,066 shares have traded between $0.04 and $0.10 per share at a VWAP of $0.083.

In the last 3 months, 220,000 shares have traded at prices ranging from $0.04 to $0.07 per share at a VWAP of $0.067. The last transaction was on 30 October 2015, when 20,000 traded at $0.04 per share.

We are advised that the current selling interest totals over 5,600,000 shares at prices ranging from $0.05 to $0.09 per share and a VWAP of $0.071. The largest sell order is for 2,000,000 shares at $0.06 per share.

In our view, given the illiquid nature of the Company's shares, the Rights Issue and the Underwriting Arrangements are unlikely to have a positive or negative effect on the liquidity of eStar's ordinary shares in the near term.

Given that the Rights Issue subscription price of $0.06 per share is at a 10% discount to the 3 month VWAP of $0.067, the Company's share price would in theory possibly drop to a small degree after the Rights Issue. As set out in section 3.6, the Theoretical Ex-rights Share Price is $0.066.

3.12 Key Benefit to Mr Nattrass and the Kahu Trustees

The subscription price of $0.06 per share is at a 10% discount to the 3 month VWAP of $0.067 per share. Accordingly, the Underwriting Arrangements provide Mr Nattrass and the Kahu Trustees with the opportunity to increase their respective shareholdings (and levels of control) in eStar at a slightly discounted price. However, this will only occur if some Non-associated Shareholders do not take up their entitlements.

3.13 Disadvantages to Mr Nattrass and the Kahu Trustees

Increased Exposure to the Risks of eStar

The key issues and risks that are likely to impact upon the business operations of eStar are summarised in section 4.4.

As Mr Nattrass' and the Kahu Trustees' ownership in eStar increases, so does their exposure to these risks. The level of ownership for Mr Nattrass and the Kahu Trustees will range from 31.86% to up to 36.35% and 26.79% to up to 30.56% respectively. Mr Nattrass and the Kahu Trustees have no control over the uptake of the Rights Issue by the Non-associated Shareholders and hence their ultimate shareholding levels in eStar.

Further Financial Commitments

Mr Nattrass and the Kahu Trustees have committed to take up their entitlements under the Rights Issue. This will require them to invest $383,475 and $322,387 respectively in eStar. If they are required to subscribe for additional shares under the Underwriting Arrangements, they may need to collectively invest up to a further $497,706 in eStar (assuming the Non-associated Shareholders do not take up any of their entitlements), of which Mr Nattrass will need to invest $270,354 and the Kahu Trustees $227,352.

3.14 Other Issues

All Shareholders Participate in the Rights Issue

The Rights Issue is pro rata. All Non-associated Shareholders have the opportunity to take up their entitlements to acquire ordinary shares. If all Non-associated Shareholders take up their entitlements, then Mr Nattrass and the Kahu Trustees will not increase their respective shareholding levels immediately after the Rights Issue.

Benefits to eStar of Mr Nattrass and the Kahu Trustees as Cornerstone Shareholders

The major benefit to eStar of the Underwriting Arrangements is that the Company is certain to obtain the approximately $1.2 million of funds (after costs) that it requires.

The Underwriting Arrangements will enhance Mr Nattrass' and the Kahu Trustees' positions as important cornerstone investors in the Company and further signals their confidence in the future prospects of eStar.

Non-associated Shareholder Approval is Required

Pursuant to Rule 7(d) of the Code, the Non-associated Shareholders must approve by ordinary resolution the Underwriting Arrangements and the allotment of shares to Mr Nattrass and the Kahu Trustees.

The Underwriting Arrangements will not proceed unless the Non-associated Shareholders approve the Underwriting Resolution.

May Reduce the Likelihood of a Takeover Offer from Mr Nattrass and the Kahu Trustees

The Underwriting Arrangements will result in Mr Nattrass' and the Kahu Trustees' shareholding levels in the Company ranging from 31.86% to up to 36.35% and 26.79% to up to 30.56% respectively following the Rights Issue.

Mr Nattrass and the Kahu Trustees will not be able to increase the level of their shareholdings unless they comply with the provisions of the Code. Mr Nattrass or the Kahu Trustees will only be able to acquire more shares in the Company if:

- one or other makes a full or partial takeover offer or
- the acquisition is approved by way of an ordinary resolution of the Non-associated Shareholders or
- the Company makes an allotment of shares which is approved by way of an ordinary resolution of the Non-associated Shareholders
- the Company undertakes a share buyback that is approved by the Company's shareholders and Mr Nattrass and / or the Kahu Trustees do not accept the offer of the buyback.

Neither Mr Nattrass nor the Kahu Trustees will be able to utilise the *creep* provisions of Rule 7(e) of the Code. The *creep* provisions enable entities that hold or control more than 50%, but less than 90% of the voting rights in a code company to buy up to a further 5% of the code company's shares per annum.

An increase in Mr Nattrass' and the Kahu Trustees' shareholding levels to up to 36.35% and 30.56% respectively may reduce the likelihood of a takeover offer for the Company from Mr Nattrass and / or the Kahu Trustees as one or other may consider that they have sufficient control over the Company.

It is possible that if Mr Nattrass and / or the Kahu Trustees did make a takeover offer for further shares in the Company, they may offer a control premium that is lower than would otherwise be expected as they may value their offer on the basis that they already have significant control of the Company and hence do not need to pay a control premium of any significance.

Likelihood of Other Takeover Offers does not Change

With Mr Nattrass and the Kahu Trustees currently holding 31.86% and 26.79% of the shares in eStar respectively, any bidder looking to fully take over the Company would need to ensure that Mr Nattrass and the Kahu Trustees would accept its offer, irrespective of whether Mr Nattrass and the Kahu Trustees held 31.86% or up to 36.35% and 26.79% or up to 30.56% respectively of the shares in the Company.

Similarly, in the event that a bidder made a partial takeover offer for (say) 50.1% of the Company, it would want Mr Nattrass and the Kahu Trustees to accept its offer to ensure its success, irrespective of whether Mr Nattrass and the Kahu Trustees held 31.86% or up to 36.35% and 26.79% or up to 30.56% respectively of the shares in the Company.

In our view, the increase in Mr Nattrass' and the Kahu Trustees' shareholding from 31.86% to up to 36.35% and 26.79% to up to 30.56% respectively will not have a material impact on the attraction of eStar as a takeover target to other parties.

3.15 Implications of the Resolutions not Being Approved

If the Rights Issue Resolution is not approved, then the Rights Issue will not proceed.

As stated in section 3.5, there are limited viable alternative forms of raising capital for the Company in the near term. While the Board considers that the Company has sufficient funds to maintain its current operations for the near term, its ability to fund the expansion of its business will be restricted.

If the Rights Issue Resolution is approved but the Underwriting Resolution is not approved, then the Rights Issue will proceed but it will not be underwritten. This means that there will be no certainty that the Company will raise the approximately $1.2 million of equity (after costs) that it is seeking. In our view there is a strong possibility that the Rights Issue will not be fully subscribed if it is not fully underwritten.

3.16 Voting For or Against the Underwriting Resolution

Voting for or against the Underwriting Resolution is a matter for individual shareholders based on their own views as to value and future market conditions, risk profile and other factors. Shareholders will need to consider these consequences and consult their own professional adviser if appropriate.

4. Profile of eStar

4.1 Background

eStar was incorporated on 20 January 1999 as Ecorp Limited. It changed its name to Estar Limited on 21 June 1999, to Estar Online Limited on 17 September 1999 and to Estaronline Limited on 20 October 1999.

4.2 Nature of Operations

eStar's core expertise is providing highly secure, reliable, scalable transactional cloud-based eCommerce platforms and service solutions. The Company's platform allows retail brands to maximise their online sales opportunities and focus on optimising the customer experience for visitors to their sites.

eStar has a strong customer base in the fashion, sportswear, giftware and homewares retail sectors in Australasia with approximately 50 active clients including brands such as Country Road, Briscoe Group, BLK, TS14+, Rodd & Gunn, Witchery, Smiths City and MIMCO.

eStar's solutions manage and handle everything from web page design and integration to back end logistics and order fulfilment, secure payment, shipping and returns. eStar's cloud based platform *iSAMS* (Internet Sales and Management System) integrates with clients' enterprise software and management systems. eStar offers all the elements that make up an end-to-end solution.

All services and products provided by eStar are aimed at increasing a brand's sales revenues both in-store and online. eStar's solutions also improve productivity through minimising human intervention by automating as many elements of the supply chain and operational logistics activities as possible.

eStar makes the online channel the most cost effective way for merchants to market, engage with clients, sell and fulfil orders.

eStar's fraud prevention software *RMProfiler* helps retailers make better decisions around order processing and reducing fraud rates. The product is highly scalable and is currently available on the *iSAMS* platform.

eStar is *PCI-DSS* (Payment Card Industry – Data Security Standard) level 1 compliant. This enables eStar to have market leading security, as well as access to data enabling eStar to develop products such as *RMProfiler*.

The Company employs 58 people and has offices in Christchurch and Melbourne.

4.3 Corporate Strategy

eStar's overall strategy is to be the leading Australasian based eCommerce solutions business, with a particular focus on the mid-market.

eStar's growth strategy is based around 5 strategic themes:

- client growth - a focus on building the client base. Australasian expansion through partners and an expanded sales team
- market visibility – a clear brand position, openness and improved communications, continuously building the presence and profile of eStar
- leading solutions - powerful open and integrated eCommerce solution (*iSAMS*), updated user interface and new product developments (including *RMProfiler*)
- scalable capacity - design and development in-house with leading service levels, flexible capacity secured by partners, developing solutions to deliver globally
- support - embedding ways of working and culture to enable ongoing success. Maintaining a high level of governance with secure funding for growth.

Australia provides the strongest short-term potential for growth, but there are opportunities beyond Australia.

4.4 Key Issues Affecting eStar

The main industry and specific business factors and risks that eStar faces include:

- the failure to implement the Company's growth strategy could have an adverse impact on eStar's financial performance
- eStar's sales efforts may not be as successful as anticipated, resulting in lower revenues and earnings
- existing or new eCommerce solution providers may compete with eStar in the mid-market space, which could have an adverse impact on the Company's operations
- the Company relies on a number of key personnel. The loss of certain key personnel could adversely impact on eStar's ability to achieve its growth objectives
- new technology and products that the Company develops may not perform as anticipated
- operational issues may adversely impact eStar, such as:
  - the lack of development of new products
  - failure of technology systems
  - intellectual property not being sufficiently protected
  - failure to comply with statutory or regulatory requirements
- changes in the relative value between the New Zealand dollar and Australian dollar may impact revenue and earnings.

4.5 Directors and Executive Management

The directors of eStar are:

- Rod Inglis
- Al Monro
- Peter Morrison
- Stuart Nattrass, chair.

The Company's executive management team includes:

- Andrew Buxton, chief executive officer
- Kevin Rowland, chief operations officer
- Richard Berridge, client services director
- Matt Neale, chief technology officer
- Rossi Biddle, chief sales officer
- Alison Crosbie, chief marketing officer
- Matt Thomas, lead solutions consultant.

4.6 Capital Structure and Shareholders

eStar currently has 80,237,846 ordinary shares on issue held by 193 shareholders.

The names, number of shares and percentage holding of the 10 largest shareholders as at 6 July 2015 are set out below.

eStar's 10 Largest Shareholders

Shareholder	No. of Shares	%
Stuart Nattrass	25,564,990	31.86%
Peter Morrison	21,492,478	26.79%
JBWere (NZ) Nominees Limited	2,000,000	2.49%
Walker Corporation Limited (**Walker**)	1,500,000	1.87%
Andrew Brown	1,452,348	1.81%
Philip Solarz and Samantha Solarz	1,333,332	1.66%
Peter James and Elizabeth Forde	1,249,194	1.56%
Paul Harrison	1,211,176	1.51%
John Scott and Kerry Kearney	1,200,795	1.50%
Margaret Turley	1,067,000	1.33%
Subtotal	58,071,313	72.37%
Others (183 shareholders)	22,166,533	27.63%
Total	80,237,846	100.00%

Source: eStar

Mr Morrison's shareholding will be sold to the Kahu Trustees under the Share Acquisition.

Walker is owned by interests associated with eStar director Rod Inglis.

4.7 Financial Performance

A summary of eStar's recent financial performance is set out below.

Summary of eStar Financial Performance	Year to 31 Mar 12 (Audited) $000	Year to 31 Mar 13 (Audited) $000	Year to 31 Mar 14 (Audited) $000	Year to 31 Mar 15 (Audited) $000
Revenue	4,620	4,938	4,871	5,467
Gross profit	1,508	1,257	1,264	822
Profit / (loss) from operations	779	427	436	(439)
Profit / (loss) before tax	1,130	773	435	(438)
Profit / (loss) for the year	812	569	317	(316)

Source: eStar audited financial statements

Prior to embarking on its current growth strategy, eStar had relatively steady revenue and earnings in the 2012, 2013 and 2014 financial years.

Revenue is earned in New Zealand and Australia in roughly similar proportions. The 12% increase in revenue in the 2015 financial year was mainly due to higher revenue levels derived from existing customers rather than gaining new customers.

Cost of sales consists mainly of wages and salaries. Other operating expenses consist mainly of administration expenses.

The higher costs in the 2015 financial year reflected an increased focus on marketing and sales growth.

4.8 Financial Position

A summary of eStar's recent financial position is set out below.

Summary of eStar Financial Position	As at 31 Mar 12 (Audited) $000	As at 31 Mar 13 (Audited) $000	As at 31 Mar 14 (Audited) $000	As at 31 Mar 15 (Audited) $000
Current assets	1,795	2,059	1,968	1,627
Non current assets	666	699	819	982
Total assets	2,461	2,758	2,787	2,609
Current liabilities	(927)	(633)	(583)	(724)
Total equity	1,534	2,125	2,204	1,885

Source: eStar audited financial statements

Current assets as at 31 March 2015 consisted mainly of trade receivables ($1.0 million) and cash and cash equivalents ($0.6 million).

Non current assets as at 31 March 2015 consisted mainly of buildings ($0.4 million) and computer equipment ($0.3 million).

Current liabilities as at 31 March 2015 consisted mainly of trade payables ($0.3 million), employee entitlements ($0.2 million) and GST payable ($0.2 million).

4.9 Cash Flows

A summary of eStar's recent cash flows is set out below.

Summary of eStar Cash Flows	Year to 31 Mar 12 (Audited) $000	Year to 31 Mar 13 (Audited) $000	Year to 31 Mar 14 (Audited) $000	Year to 31 Mar 15 (Audited) $000
Net cash flow from / (used in) operating activities	861	288	644	(147)
Net cash from / (used in) investing activities	20	(198)	(305)	(221)
Net cash used in financing activities	(586)	-	(259)	-
Net increase/(decrease) in cash held	295	90	80	(368)
Opening cash balance	515	810	891	926
Effect of exchange rate changes	-	(9)	(45)	(7)
Closing cash balance	810	891	926	551

Source: eStar audited financial statements

eStar has generated positive cash flows from its operating activities each year except in the 2015 financial year when the Company incurred an operating loss.

Cash used in investing activities relate mainly to the acquisition of fixed assets.

Cash flows used in financing activities in the 2012 and 2014 financial years represented dividends paid.

4.10 Share Price History

eStar's shares are not listed on any equities security market. The Company acts as a conduit to shareholders who wish to buy or sell shares.

Trading in the Company's shares is extremely thin, reflecting that the shares are not listed on an equities securities market and 58.65% of the shares are held collectively by Mr Nattrass and the Kahu Trustees.

Set out below is a summary of the known share transactions for the past 3 years.

Share Transactions

Calendar Year	No. of Transactions	No. of Shares	Price Low	Price High	VWAP
2013	20	1,690,286	$0.08	$0.10	$0.095
2014	9	6,997,447	$0.07	$0.085	$0.080
2015	8	483,333	$0.04	$0.095	$0.079

Source: eStar

A total of 9,171,066 shares have traded over the period at a VWAP of $0.083.

The 3 month VWAP was $0.067, involving the sale of 220,000 shares at prices ranging from $0.04 to $0.07 per share.

The last transaction was on 30 October 2015, when 20,000 traded at $0.04 per share.

We are advised that the current selling interest totals over 5,600,000 shares at prices ranging from $0.05 to $0.09 per share and a VWAP of $0.071. The largest sell order is for 2,000,000 shares at $0.06 per share.

5. Sources of Information, Reliance on Information, Disclaimer and Indemnity

5.1 Sources of Information

The statements and opinions expressed in this report are based on the following main sources of information:

- the notice of special meeting
- the Rights Issue IS&P
- the Underwriting Agreement
- the eStar annual reports for the years ended 31 March, 2013 to 2015
- *eStar Strategy : FY2016 – 2018 vII*
- Company information provided by eStar.

During the course of preparing this report, we have had discussions with and / or received information from the Board and executive management of eStar and eStar's legal advisers.

The Board has confirmed that we have been provided for the purpose of this Independent Adviser's Report with all information relevant to the Underwriting Arrangements that is known to them and that all the information is true and accurate in all material aspects and is not misleading by reason of omission or otherwise.

Including this confirmation, we have obtained all the information that we believe is desirable for the purpose of preparing this Independent Adviser's Report.

In our opinion, the information to be provided by eStar to the Non-associated Shareholders is sufficient to enable the Board and the Non-associated Shareholders to understand all the relevant factors and to make an informed decision in respect of the Underwriting Arrangements.

5.2 Reliance on Information

In preparing this report we have relied upon and assumed, without independent verification, the accuracy and completeness of all information that was available from public sources and all information that was furnished to us by eStar and its advisers.

We have evaluated that information through analysis, enquiry and examination for the purposes of preparing this report but we have not verified the accuracy or completeness of any such information or conducted an appraisal of any assets. We have not carried out any form of due diligence or audit on the accounting or other records of eStar. We do not warrant that our enquiries would reveal any matter which an audit, due diligence review or extensive examination might disclose.

5.3 Disclaimer

We have prepared this report with care and diligence and the statements in the report are given in good faith and in the belief, on reasonable grounds, that such statements are not false or misleading. However, in no way do we guarantee or otherwise warrant that any forecasts of future profits, cash flows or financial position of eStar will be achieved. Forecasts are inherently uncertain. They are predictions of future events that cannot be assured. They are based upon assumptions, many of which are beyond the control of eStar and its directors and management. Actual results will vary from the forecasts and these variations may be significantly more or less favourable.

We assume no responsibility arising in any way whatsoever for errors or omissions (including responsibility to any person for negligence) for the preparation of the report to the extent that such errors or omissions result from our reasonable reliance on information provided by others or assumptions disclosed in the report or assumptions reasonably taken as implicit.

Our evaluation has been arrived at based on economic, exchange rate, market and other conditions prevailing at the date of this report. Such conditions may change significantly over relatively short periods of time. We have no obligation or undertaking to advise any person of any change in circumstances which comes to our attention after the date of this report or to review, revise or update this report.

We have had no involvement in the preparation of the notice of special meeting issued by eStar and have not verified or approved the contents of the notice of special meeting. We do not accept any responsibility for the contents of the notice of special meeting except for this report.

5.4 Indemnity

eStar has agreed that, to the extent permitted by law, it will indemnify Simmons Corporate Finance and its directors and employees in respect of any liability suffered or incurred as a result of or in connection with the preparation of the report. This indemnity does not apply in respect of any negligence, wilful misconduct or breach of law. eStar has also agreed to indemnify Simmons Corporate Finance and its directors and employees for time incurred and any costs in relation to any inquiry or proceeding initiated by any person. Where Simmons Corporate Finance or its directors and employees are found liable for or guilty of negligence, wilful misconduct or breach of law or term of reference, Simmons Corporate Finance shall reimburse such costs.

6. Qualifications and Expertise, Independence, Declarations and Consents

6.1 Qualifications and Expertise

Simmons Corporate Finance is a New Zealand owned specialist corporate finance advisory practice. It advises on mergers and acquisitions, prepares independent expert's reports and provides valuation advice.

The person in the company responsible for issuing this report is Peter Simmons, B.Com, DipBus (Finance), INFINZ (Cert).

Simmons Corporate Finance and Mr Simmons have significant experience in the independent investigation of transactions and issuing opinions on the merits and fairness of the terms and financial conditions of the transactions.

6.2 Independence

Simmons Corporate Finance does not have at the date of this report, and has not had, any shareholding in or other relationship with eStar or Mr Nattrass, Mr Morrison or the Kahu Trustees or any conflicts of interest that could affect our ability to provide an unbiased opinion in relation to the transactions.

Simmons Corporate Finance has not had any part in the formulation of the Share Acquisition, the Rights Issue or the Underwriting Arrangements or any aspects thereof. Our sole involvement has been the preparation of this report.

Simmons Corporate Finance will receive a fixed fee for the preparation of this report. This fee is not contingent on the conclusions of this report or the outcome of the Share Acquisition, the Rights Issue or the Underwriting Arrangements. We will receive no other benefit from the preparation of this report.

6.3 Declarations

An advance draft of this report was provided to the Board for its comments as to factual accuracy of the contents of the report. Changes made to the report as a result of the circulation of the draft have not changed the methodology or our conclusions.

Our terms of reference for this engagement did not contain any term which materially restricted the scope of the report.

6.4 Consents

We consent to the issuing of this report in the form and context in which it is to be included in the notice of special meeting to be sent to eStar's shareholders. Neither the whole nor any part of this report, nor any reference thereto may be included in any other document without our prior written consent as to the form and context in which it appears.

P. Simmons

Peter Simmons
Director
Simmons Corporate Finance Limited
23 November 2015