

Southern Travel Holdings Limited

Independent Adviser's Report

In Respect of the Full Takeover Offer by Southern Travel Holdings Joint Venture

March 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 STH JV Offer 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.

Index

Section	Page
1. Introduction	1
2. Evaluation of the Merits of the STH JV Offer	4
3. Profile of Southern Travel	10
4. Valuation of Southern Travel	21
5. Sources of Information, Reliance on Information, Disclaimer and Indemnity	28
6. Qualifications and Expertise, Independence, Declarations and Consents	30
 Appendix	
I. Tourism Sector Company Trading Multiples	31

1. Introduction

1.1 Southern Travel Holdings Limited

Southern Travel Holdings Limited (**Southern Travel** or the **Company**) provides specialist services in the travel and tourism sectors – primarily in New Zealand and Australia.

Southern Travel was listed on the NZX Alternative Market (**NZAX**) up until 30 November 2012, when it delisted from the NZAX. From 3 December 2012, the Company's shares have traded on the Unlisted internet-based securities trading platform (**Unlisted**) owned and operated by Efficient Market Services Limited.

Southern Travel had a market capitalisation of \$3.7 million as at 18 March 2015 and unaudited total equity of \$7.0 million as at 31 January 2015.

A profile of Southern Travel is set out in section 3.

1.2 Southern Travel Holdings Joint Venture

Southern Travel Holdings Joint Venture (**STH JV**) is an unincorporated joint venture between 17 of Southern Travel's shareholders. The 17 members of STH JV collectively hold 11,223,067 shares, representing 90.98% of Southern Travel's total shares on issue.

Members of STH JV		
	Southern Travel Shares	% of Total Shares
Rodney Walshe Limited (RWL)	3,393,148	27.51%
Kiyomi Gunji	2,263,000	18.34%
Kazue Gunji	1,737,000	14.08%
Argyle Trustee Limited (Argyle)	1,315,531	10.66%
Russell Field and Anthony Palmer	850,000	6.89%
Keith Johnston and Judith Johnston	472,993	3.83%
Bancorp Strategic Management Limited (Bancorp)	386,691	3.13%
Kerry Graham	210,608	1.71%
Awatea Investments Limited (Awatea)	170,739	1.38%
Ian Douglas	93,393	0.76%
Geoffrey Walker and Martin Richardson	92,291	0.75%
Terry Horne and Margaret Horne	86,267	0.70%
Michael Hall	84,227	0.68%
Terry Horne and Barbara Horne	50,000	0.41%
Frances Flanagan	8,250	0.07%
Timothy Horne	7,143	0.06%
Christie Horne	1,786	0.01%
	<u>11,223,067</u>	<u>90.98%</u>

Source: STH JV Offer Document

RWL is owned by Rodney Walshe and Marlene Walshe. Mr Walshe is a director of the Company.

Kiyomi Gunji is a director of the Company. Kazue Gunji is married to Mr Gunji.

Mr Walshe and Mr Gunji form STH JV's management committee.

1.3 STH JV Offer

On 24 February 2015, STH JV sent Southern Travel a notice of intention to make a full takeover offer for all of the shares in Southern Travel not already held by members of STH JV (the **STH JV Offer**).

STH JV sent the STH JV Offer Document to the Company's shareholders on 11 March 2015.

Number of Shares Sought

The STH JV Offer is for all of the ordinary shares in Southern Travel not already held by members of STH JV. The members of STH JV collectively hold 11,223,067 shares. Accordingly, the STH JV Offer is for the remaining 1,113,004 shares in the Company (9.02% of the total shares on issue).

Consideration

STH JV, through its nominee STH JV Nominee Limited, is offering cash of \$0.30 for each Southern Travel ordinary share.

Conditions

The STH JV Offer was declared unconditional on 13 March 2015.

The STH JV Offer was conditional on STH JV receiving sufficient acceptances such that STH JV (or persons acting jointly or in concert with STH JV) held or controlled 90.00% or more of the voting rights in Southern Travel (the **Minimum Acceptance Condition**).

As STH JV (or persons acting jointly or in concert with STH JV) already held or controlled more than 90.00% of the voting rights in Southern Travel, the condition was satisfied as soon as STH JV received any acceptance in respect of any number of shares from any Southern Travel shareholder who is not a member of STH JV.

David Lock holds 50,000 shares in the Company (0.41%). Mr Lock entered into a lock up agreement with STH JV dated 20 February 2015 (the **Lock Up Agreement**) under which he agreed to accept at least one of the Southern Travel shares that he owns into the STH JV Offer.

Change in Circumstances

The STH JV Offer contains provisions that if there is a change in circumstances on or after 24 February 2015 that impacts on Southern Travel's shares and the offer is unconditional or becomes unconditional, then an adjustment will be made so as to ensure that the STH JV Offer results in the same financial outcome for STH JV as if the change in circumstance did not occur. The changes in circumstance relate to Southern Travel:

- declaring, making or paying any dividend or any other distribution
- making any issue of shares or other securities or financial products of any nature by way of bonus issue
- making any issue of shares to any person other than by way of bonus issue
- subdividing or consolidating its shares.

Offer Dates

The offer is open from 11 March 2015 and closes at 11:59pm on 9 April 2015 (unless extended by STH JV in accordance with the provisions of the Takeovers Code (the **Code**)).

Agreements to Accept the STH JV Offer

No shareholder has agreed conditionally or unconditionally to accept the STH JV Offer as at the date of the offer other than David Lock under the Lock Up Agreement.

1.4 Regulatory Requirements

Southern Travel is a code company for the purposes 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(a) of the Code, enables a person to increase its control of voting rights beyond 20% by making a full offer for all of the shares of the target company.

Rule 21 of the Code requires the directors of a target company to obtain an Independent Adviser's Report on the merits of the offer. This Independent Adviser's Report is to accompany the Target Company Statement required to be sent to the target's shareholders pursuant to Rule 46 and Schedule 2 of the Code.

1.5 Purpose of the Report

The Company's independent directors, John King and David Osborne (the **Independent Directors**) have engaged Simmons Corporate Finance Limited (**Simmons Corporate Finance**) to prepare an Independent Adviser's Report on the STH JV Offer in accordance with Rule 21 of the Code.

Simmons Corporate Finance was approved by the Takeovers Panel on 2 March 2015 to prepare the Independent Adviser's Report.

Simmons Corporate Finance issues this Independent Adviser's Report to assist the Company's shareholders in forming their own opinion on whether or not to accept the STH JV Offer. We note that each shareholder's circumstances and objectives are unique. Accordingly, it is not possible to report on the merits of the STH JV Offer in relation to each shareholder. This report on the merits of the STH JV Offer 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 STH JV Offer

2.1 Basis of Evaluation

Rule 21 of the Code requires an evaluation of the *merits* of the STH JV Offer.

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 March 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 STH JV Offer should focus on:

- the rationale for the STH JV Offer
- the assessed value of Southern Travel's shares and the value of the consideration to be received by shareholders
- the implications of the conditions attached to the offer
- the likelihood of alternative offers or alternative transactions
- the advantages and disadvantages for the shareholders of accepting the STH JV Offer
- the implications for the shareholders of not accepting the STH JV Offer.

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 Rationale for the STH JV Offer

We have discussed the rationale for the STH JV Offer with STH JV's management committee. They stated that the objective of the takeover offer is to simplify Southern Travel's shareholding structure. While the Company currently has 123 shareholders, the top 10 shareholders hold almost 90% of the shares. As it has more than 50 shareholders, Southern Travel is deemed to be a code company and must comply with the provisions of the Code. Completion of the STH JV Offer will reduce the number of shareholders and Southern Travel will no longer be a code company. This will enable members of STH JV to effect any changes in Southern Travel's capital structure (such as capital raisings or the sale and purchase of shares) more efficiently as shareholder approval under the provisions of the Code will no longer be required. The STH JV Offer will also enable the Company to save on administration costs such as shareholder communications and registry costs and Unlisted fees.

We consider the rationale for the STH JV Offer to be sound. Southern Travel must comply with the provisions of the Code as it is currently a code company. This requirement can sometimes add significant regulatory compliance costs to a relatively small business.

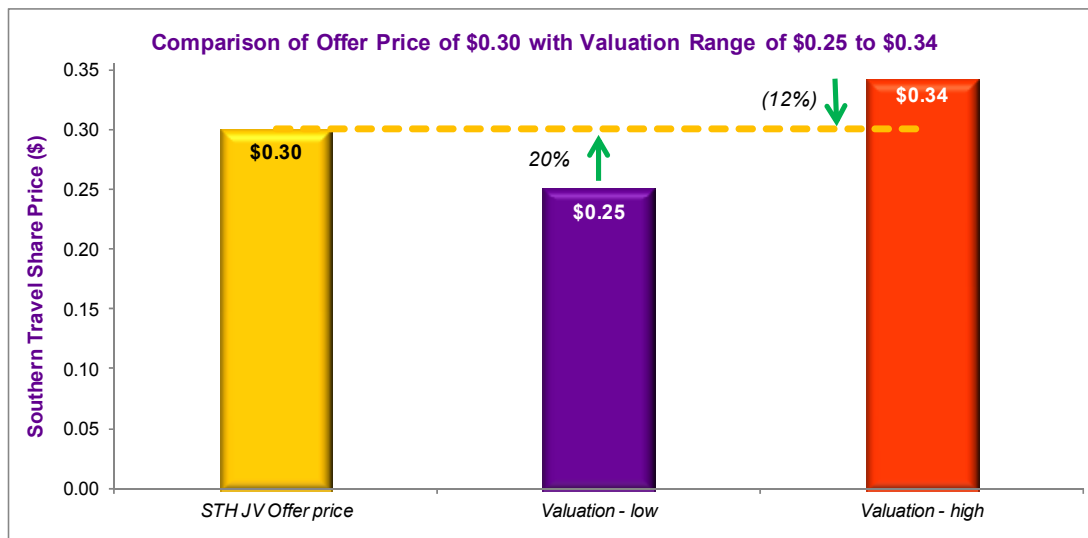
The acquisition of 100% of the Company's shares will enable STH JV to gain access to some of the Company's cash balances, which stood at \$5.1 million as at 31 January 2015. STH JV's outlay under the STH JV Offer will amount to \$0.3 million plus costs. We understand that STH JV is financing the STH JV Offer through a loan from Bancorp Capital Limited, which is a related entity of STH JV member Bancorp. Following the completion of the offer, a portion of the cash held by Southern Travel will be distributed to STH JV members to enable them to repay the debt that was raised to finance the STH JV Offer.

2.3 Value of Southern Travel's Shares Compared with the Offer Price of \$0.30

In our opinion, the full underlying value of the Southern Travel shares is in the range of \$0.25 to \$0.34 per share, as set out in section 4.

This value is for 100% of the ordinary shares based on the Company's current strategic and operational initiatives and therefore reflects the value of control. However, it excludes the value of any synergies that STH JV may specifically derive from acquiring full control of Southern Travel.

The STH JV Offer consideration is cash of \$0.30 per share, which is marginally above the midpoint of our valuation range.



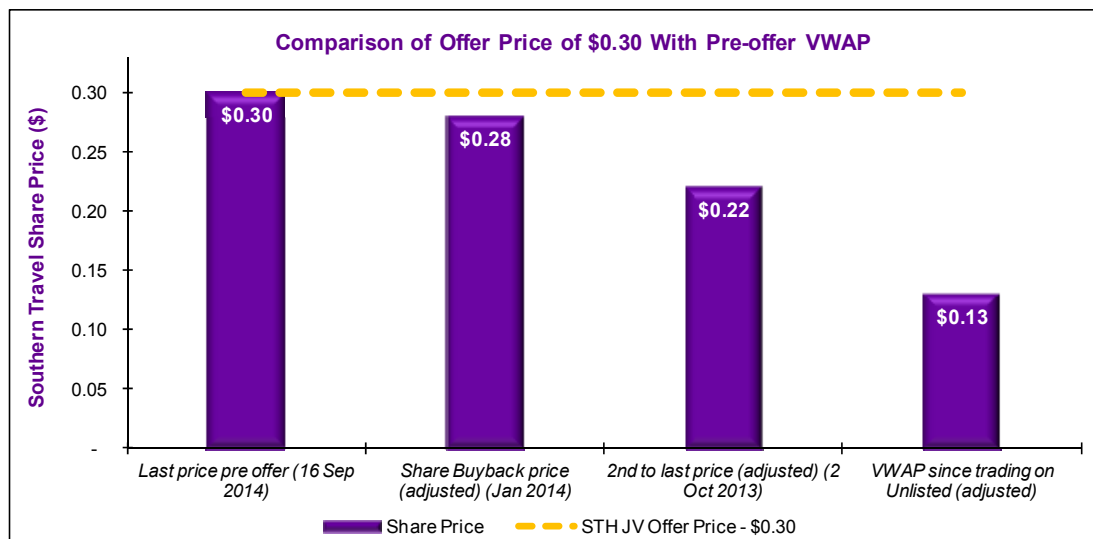
2.4 Southern Travel Share Price Compared with Offer Price of \$0.30

Southern Travel's shares are traded on Unlisted. Trading in the Company's shares is extremely thin, reflecting that 59.93% of the shares are held by cornerstone shareholders Kiyomi Gunji and Kazue Gunji and RWL and the top 10 shareholders hold 89.32% of the shares.

The analysis in section 3.11 shows that only 38,500 shares have traded since the Company's shares commenced trading on Unlisted on 3 December 2012. The shares have traded on only 6 days at prices between \$0.08 and \$0.30 at a volume weighted average share price (VWAP) of \$0.13. The low end of the range and the VWAP have been adjusted for a 2:1 share consolidation that the Company undertook on 19 March 2014 (the **Consolidation**).

The STH JV Offer of \$0.30 per share:

- equates to the price that the shares last traded at on Unlisted on 16 September 2014 before the STH JV Offer was announced. This was a trade of 5,000 shares
- represents a premium of 7% on the price paid by the Company when it undertook a share buyback in late 2013 / early 2014 (the **Share Buyback**). The Share Buyback price of \$0.14 equates to \$0.28 when adjusted for the Consolidation
- represents a premium of 36% on the second to last trade on Unlisted of 1,500 shares at \$0.22 per share on 2 October 2013 (adjusted for the Consolidation)
- represents a premium of 131% over the VWAP since the shares commenced trading on Unlisted on 3 December 2012 of \$0.13 (adjusted for the Consolidation).



The vast majority of successful takeovers of listed companies are at a premium to recent trading prices and, in general terms, tend to be priced at a premium in the vicinity of 20% to 35%.

We note that trading in the Company's shares on Unlisted is extremely thin. In our view, the lack of liquidity in the Company's shares means that the observed share prices may not be a reliable indicator of the market value of Southern Travel's shares.

2.5 Potential Synergies

The obvious immediate synergies available to STH JV arising from its full ownership of Southern Travel will be a reduction in the level of administration costs that would be incurred. The Company would have a significantly lower number of shareholders to report to and its shares would no longer be traded on Unlisted. These cost savings could be in the vicinity of \$25,000 per annum.

As stated in section 2.2, STH JV will also be able to gain access to the Company's cash balances. A portion of the cash balances will be used to repay the debt that was raised to finance the STH JV Offer.

2.6 Conditions of the STH JV Offer

The only condition of the STH JV Offer is the Minimum Acceptance Condition, whereby STH JV must receive acceptances for 90% or more of the voting rights in Southern Travel by the end of the offer period (unless extended by STH JV).

The 90% shareholding threshold entitles STH JV to invoke the compulsory acquisition provisions of the Code.

The Minimum Acceptance Condition has been met and the offer was declared unconditional on 13 March 2015.

2.7 Compulsory Acquisition

As the STH JV Offer has been declared unconditional, STH JV has the right to, and has stated that it intends to, compulsorily acquire the remaining shares in the Company.

Shareholders are therefore not faced with the simple decision of whether they should accept or reject the STH JV Offer as shareholders who reject the offer will not be able to retain their shares when STH JV compulsorily acquires the shares. However, while shareholders cannot stop STH JV from acquiring their shares, their decision as to whether to accept or reject the STH JV Offer may have an impact on how the shares are priced for the purposes of compulsory acquisition.

If the holders of more than 50% of the shares for which the offer is made (ie more than 556,502 shares, representing 4.51% of all of the shares in the Company) accept the offer, the price at which the other shares will be compulsorily acquired will be the offer price of \$0.30 per share.

If the holders of 50% (ie 556,502 shares) or more of the shares do not accept the offer, the price will be fixed as follows:

- STH JV will acquire the remaining shares at \$0.30 per share, unless
- If, within 14 days after the notice of compulsory acquisition is given by STH JV, the holders of 10% of the outstanding securities (which is at a maximum 111,300 shares, representing 0.90% of all the shares in the Company) or more object to the offer price of \$0.30 by giving written notice to STH JV, the price will be determined by an independent expert appointed by the Takeovers Panel. This price may be less than or greater than \$0.30 per share.

2.8 Likelihood of Alternative Takeover Offers

We consider the likelihood of an alternate takeover offer to be highly improbable as the STH JV Offer has been declared unconditional and STH JV intends to compulsorily acquire the remaining shares in the Company.

We are advised by the Independent Directors that as at the date of this report, they are not aware of any alternative takeover offer or alternative transaction impacting on the control of the Company.

The Independent Directors have however advised us that since the STH JV Offer was announced, the Company has been approached by 2 parties interested in discussing potential transactions in respect of separate components of the Company's operations. The Independent Directors have advised us that as at the date of this report, Southern Travel has not progressed discussions with either of these parties and therefore they cannot form a view on whether a transaction will arise with either party or if a transaction were to arise, what the likely financial impact will be for the Company.

For the sake of completeness, we note that if an alternative takeover offer was made, then those shareholders who had already accepted the STH JV Offer would not be able to accept those shares into the alternative takeover offer until the STH JV Offer lapsed. However, given that the likelihood of an alternate takeover offer is negligible, we do not consider that this matter should influence a shareholder's decision as to whether to accept the STH JV Offer.

2.9 Likelihood of STH JV Increasing the Offer Price

Given that the STH JV Offer has been declared unconditional and STH JV will compulsorily acquire the remaining shares, we consider it highly improbable that STH JV will increase its offer price.

Nevertheless, if STH JV does increase its price under this offer, the increased price will be available to all shareholders, including those who have already accepted the STH JV Offer at \$0.30 per share.

2.10 Advantages of Accepting the STH JV Offer

Acceptance of the offer will enable shareholders to realise cash of \$0.30 for each of their shares. Given that the offer has been declared unconditional, payment must be made within 7 days of STH JV receiving the acceptance.

As stated previously, trading in the Company's shares on Unlisted is extremely thin. The STH JV Offer provides shareholders with the opportunity to promptly realise cash for their shares that otherwise may not be readily available.

2.11 Disadvantages of Accepting the STH JV Offer

We are of the view that there are no significant disadvantages to accepting the offer as shareholders cannot stop STH JV from compulsorily acquiring all of the shares in Southern Travel.

However, as discussed in section 2.7, the non-acceptance of the offer may have an impact on how the compulsory acquisition price is set.

2.12 Summary of the Evaluation of the Merits of the STH JV Offer

The STH JV Offer is a full offer for all of the shares in the Company. Factors that shareholders should consider when deciding whether to accept or reject the STH JV Offer include:

- the rationale of the STH JV Offer is to reduce the number of shareholders in the Company, which will result in Southern Travel no longer being a code company
- STH JV is already assured of holding at least 90.98% of the Company's shares and the STH JV Offer has been declared unconditional. STH JV will therefore compulsorily acquire the remainder of the shares. The price at which shares will be acquired will be \$0.30 per share or, in the circumstances explained in section 2.7, at the price determined by an independent expert
- we assess the full underlying value of Southern Travel's shares to be in the range of \$0.25 to \$0.34 per share. The STH JV Offer price of \$0.30 per share is marginally above the midpoint of our range
- the STH JV Offer of \$0.30 per share represents premia ranging from nil to 131% over the Company's VWAP since the Company's shares commenced trading on Unlisted on 3 December 2012. However, trading in the Company's shares is extremely thin and therefore does not necessarily represent a strong indication of the fair market value of Southern Travel's shares
- given that STH JV already holds 90.98% of the total shares on issue and will compulsorily acquire the remaining shares in the Company, we consider the likelihood of an alternative takeover offer or STH JV increasing its offer price to be highly improbable.

In our view, the key decision for shareholders is whether to accept the STH JV Offer immediately and receive cash of \$0.30 per share within 7 days of the acceptance or wait until STH JV compulsorily acquires the shares at a price which may be \$0.30 per share or, if sufficient shareholders object to that price, a price that is determined by an independent expert and which may be less than or greater than \$0.30 per share.

2.13 Acceptance or Rejection of the STH JV Offer

Acceptance or rejection of the STH JV Offer is a matter for individual shareholders based on their own views as to value and future market conditions, risk profile, liquidity preference, tax position and other factors. In particular, taxation consequences will vary widely across shareholders. Shareholders will need to consider these consequences and consult their own professional adviser if appropriate.

3. Profile of Southern Travel

3.1 Company Background and History

The Company was incorporated on 10 September 1996 as Silver Fern Holidays Group (1996) Limited. It changed its name to SWV(J) Holdings Limited on 26 November 1999 and to Southern Travel Holdings Limited on 3 February 2004.

The business was founded in 1978 by Kiyomi Gunji and the late Ken Walton as Silver Fern Holidays. It operated as a specialist inbound tour operator to New Zealand, focused on the Japanese inbound market.

In September 2004, the Company offered 2,500,000 new shares and the founding shareholders offered 2,000,000 existing shares at \$1.30 per share to the public. It listed on the NZAX on 1 October 2004.

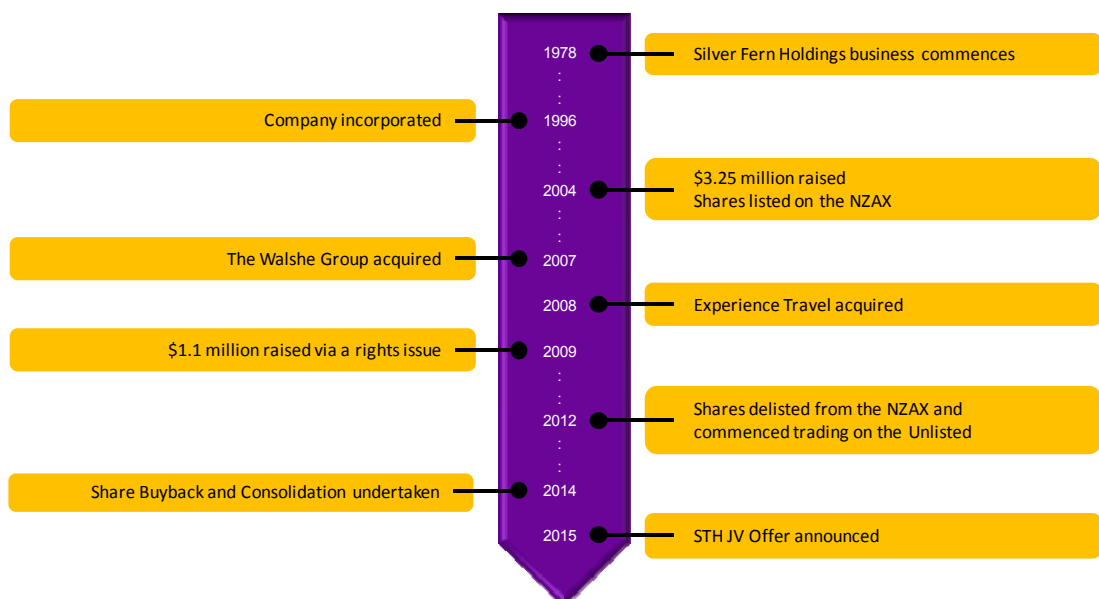
In June 2007, Southern Travel acquired The Walshe Group for \$3.8 million through a combination of \$1.8 million of cash and the issue of 4,709,302 ordinary shares issued at \$0.43 per share. The Walshe Group is a specialist representation company, providing representation services to airlines and destination brands in New Zealand, Australia and more recently Hong Kong and Singapore.

In September 2008, the Company acquired Experience Travel for cash of \$1.0 million. Experience Travel is an online operator marketing a full range of New Zealand travel products to inbound clients primarily from the USA and the UK.

In October 2009, Southern Travel raised approximately \$1.1 million through the issue of 7,551,273 new shares at \$0.15 per share under a 3:7 non-renounceable rights issue.

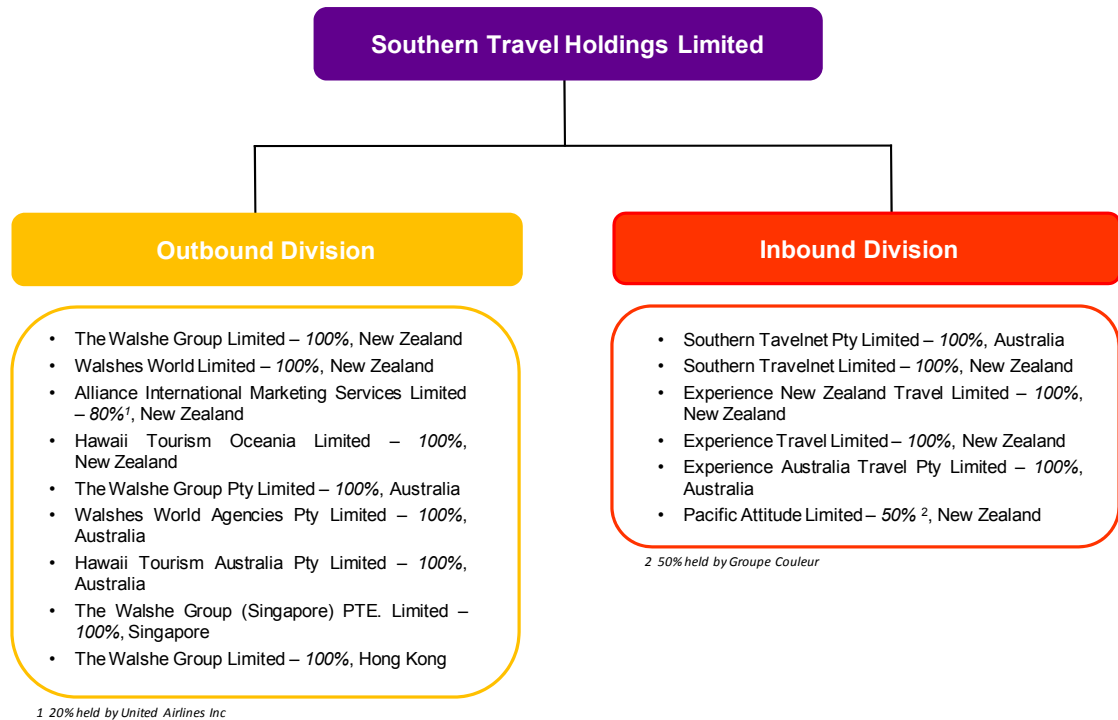
In January 2014, the Company completed the Share Buyback whereby it bought back 671,626 shares at \$0.14 per share at a total cost of \$162,000 (including transaction costs). Following the Share Buyback, the Company undertook the Consolidation on 19 March 2014.

Key events in the Company's history are set out below.



3.2 Corporate Structure

The Southern Travel corporate group structure is set out below.



3.3 Overview of Operations

The Southern Travel group of companies provide specialist services in the travel and tourism sectors – primarily in New Zealand and Australia. It operates both outbound and inbound tourism related divisions.

Outbound Division

The principal activities of the Outbound Division are undertaken by the Walshe Group and entail the marketing and representation of global airlines and destinations in New Zealand, Australia, Hong Kong and Singapore.

The Walshe Group is one of the largest specialist airline GSA and tourist board representation companies in Australia and New Zealand. It was established in 1976 and now operates in Australia, New Zealand, Hong Kong and Singapore.

Key airline clients include:

- Australia – Aircalin, Lufthansa Group, Oman Air, SAS, South African Airways
- New Zealand – Aircalin, Air Niugini, China Airlines, Delta Airlines, Etihad, Hawaiian Airlines, South African Airways, United Airlines
- Hong Kong – Airberlin, Air Seychelles / Etihad
- Singapore – IndiGo, LATAM.

Key tourist board clients for Australia and New Zealand include:

- Hawaii Tourism Authority
- New York City & Company
- Sultanate of Oman Tourism
- Visit Flanders.

Inbound Division

The principal activities of the Inbound Division entities are the arrangement of tours and tour related services into New Zealand and Australia.

Southern Travelnet works with key travel trade partners in Japan, Korea and China to develop programs for group leisure series, technical visits, school groups and corporate incentive business to New Zealand and Australia. Southern Travelnet has offices in New Zealand, Australia and Japan.

Experience Travel develops quality bespoke itineraries and planning requirements for discerning customers. Honeymoons, special interest and private exclusive getaways are key areas of focus.

Pacific Attitude specialises in major sporting events travel. It is a 50:50 joint venture between Southern Travel and Groupe Couleur of France, a leading tour operator for sporting events. Pacific Attitude provides travel solutions to take people to leading sporting events around the world (such as the Rugby World Cup, FIFA Hospitality and the Winter Games).

3.4 Capital Structure and Shareholders

Southern Travel currently has 12,336,071 fully paid ordinary shares on issue held by 123 shareholders.

The names, number of shares and percentage holding of the 10 largest shareholders as at 26 February 2015 are set out below.

Southern Travel's 10 Largest Shareholders		
Shareholder	No. of Shares Held	%
RWL	3,393,148	27.51%
Kiyomi Gunji	2,263,000	18.34%
Kazue Gunji	1,737,000	14.08%
Argyle	1,315,531	10.66%
Russell Field and Anthony Palmer	850,000	6.89%
Keith Johnston and Judith Johnston	472,993	3.83%
Bancorp	386,691	3.13%
John Richardson	218,394	1.77%
Kerry Graham	210,608	1.71%
Awatea	170,739	1.38%
Subtotal	<u>11,018,104</u>	<u>89.32%</u>
Others (113 shareholders)	1,317,967	10.68%
Total	<u>12,336,071</u>	<u>100.00%</u>

Source: Link Market Services Limited ([Link](#))

3.5 Directors and Senior Management

The directors of Southern Travel are:

- Kiyomi Gunji (member of STH JV)
- John King, chair, independent
- David Osborne, independent
- Jacqui Walshe, managing director (associated with STH JV)
- Rodney Walshe (member of STH JV).

The Company's senior executives are:

- Jacqui Walshe, managing director
- Georgina Plimmer, commercial services manager
- Stephen Tanner, general manager, group business performance
- Jane Wilson, general manager, group business development
- Anil Rodricks, general manager, Lufthansa Group division
- Michael Hall, general manager, Experience Travel.

3.6 Corporate Objectives and Strategy

Southern Travel undertook a major strategic review in February 2014, resulting in a considerable change to the management and structure of the Company.

Southern Travel's strategic objectives are focussed on:

- organisational performance improvement to reduce complexity within the business
- expanding Experience New Zealand into the Experience Travel global franchise
- regaining the Company's reputation for creativity in marketing through increased investment in skills and technology in order to retain and expand client revenue
- growing the Company's business in Asia.

3.7 Key Issues Affecting Southern Travel

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

- reliance on key relationships and clients – if these relationships are not maintained, the Company's revenue could significantly reduce
- reliance on key markets – the Japanese inbound market accounts for the largest percentage of inbound revenue for Southern Travel
- reliance on tourism to and from New Zealand and Australia – this exposes the Company to region specific risks and to any reduction in tourism to and from the region

- market disruption – the tourism industry can be subject to disruptions (such as the global financial crisis or outbreaks of disease) which may negatively affect Southern Travel’s business
- competition – the tourism industry is highly competitive, which could have an adverse impact on the Company’s financial performance
- changes in the regulatory environment could have an adverse impact on Southern Travel’s operations
- reliance on air traffic volume – any material decrease in air traffic capacity may adversely impact the Company
- exposure to foreign currency fluctuations
- the ability to recruit and retain a suitably experienced workforce
- the ability to adequately finance the Company’s operations.

3.8 Financial Performance

A summary of Southern Travel’s recent financial performance and financial position is set out below.

Summary of Financial Performance					
	Year to 30 Jun 11 (Audited) \$000	Year to 30 Jun 12 (Audited) \$000	Year to 30 Jun 13 (Audited) \$000	Year to 30 Jun 14 (Audited) \$000	Year to 30 Jun 15 (Forecast) \$000
Revenue	26,543	26,502	28,333	28,045	25,570
Cost of sales	<u>(15,408)</u>	<u>(15,117)</u>	<u>(16,355)</u>	<u>(15,717)</u>	<u>(14,269)</u>
Gross profit	11,135	11,385	11,978	12,328	11,301
Other revenue	152	138	544	222	58
Expenses	(11,888)	(11,376)	(11,752)	(11,719)	(11,208)
Share of joint venture profits / (losses)	-	-	(13)	37	19
Profit / (loss) before tax	(601)	147	757	868	170
Taxation	<u>(22)</u>	<u>(37)</u>	<u>(212)</u>	<u>(310)</u>	<u>(35)</u>
Net profit / (loss) after tax	<u>(623)</u>	<u>110</u>	<u>545</u>	<u>558</u>	<u>135</u>
Earnings per share (\$)	(\$0.025)	\$0.004	\$0.022	\$0.044	\$0.011

Source: Southern Travel annual reports and forecast for the year ended 30 June 2015

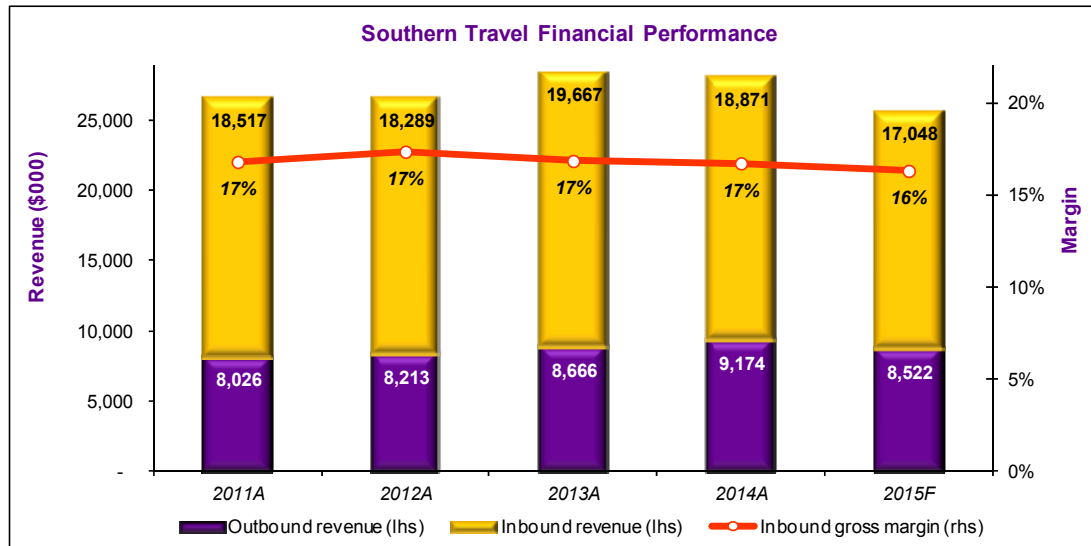
The Inbound Division generates approximately two thirds of Southern Travel’s revenue each year and the Outbound Division approximately one third.

Cost of sales relates to the Inbound Division and represents payments to suppliers such as hotels, transfer providers and restaurants.

The Inbound Division generates approximately one quarter of Southern Travel’s gross profit each year and the Outbound Division approximately three quarters.

Staffing costs are the Company’s main operating expenses, representing approximately 70% of operating expenses each year.

Share of joint venture profits relates to the Company’s 50% share of Pacific Attitude’s earnings.



Southern Travel's historic financial performance has steadily improved from revenue of \$26.5 million and a loss after tax of \$0.6 million in the 2011 financial year to revenue of \$28.0 million and a profit after tax of \$0.6 million in the 2014 financial year. Revenue is forecast to be \$25.6 million in the 2015 financial year, generating a profit after tax of \$0.1 million.

The loss in the 2011 financial year was largely attributable to the Inbound Division, which faced a challenging period in terms of natural disasters in the Company's main inbound source market (Japan) and in New Zealand.

The \$0.7 million improvement in profit after tax in the 2012 financial year was mainly due to the restructuring of the Inbound Division. Revenue remained steady, with a slight increase in Outbound Division revenue offsetting the decrease in Inbound Division revenue. Within the Inbound Division, the decline in revenue from Japan was offset by opportunities created by the Rugby World Cup in New Zealand.

The Company's financial performance continued to improve in the 2013 financial year, with profit after tax increasing by \$0.4 million to \$0.5 million. Both the Inbound and Outbound Divisions improved their performance, with revenue increasing by 7%. The financial results included a one off gain of \$0.4 million in the Inbound Division in respect of a refund of Australian GST.

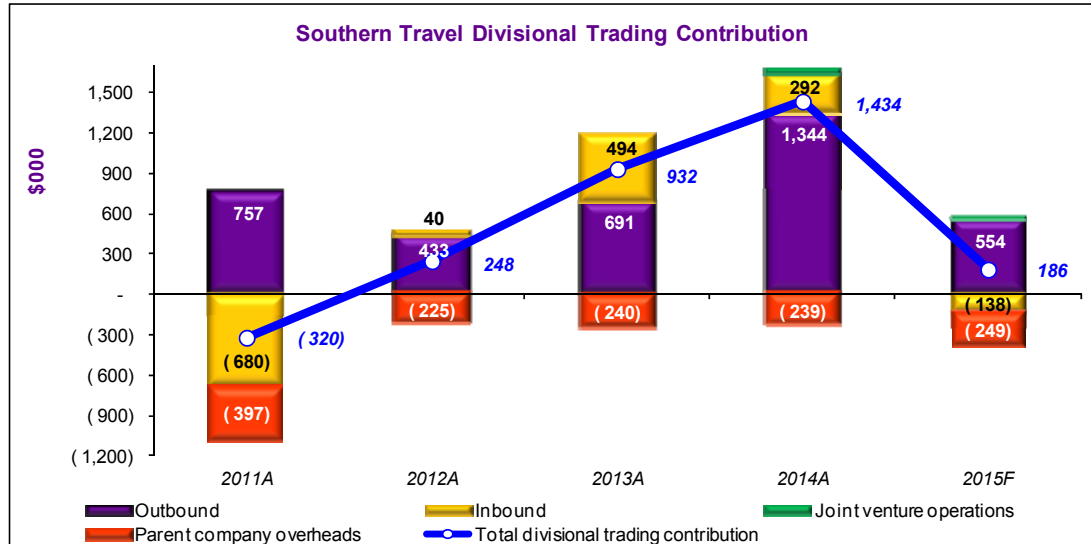
The Company's financial performance was relatively static in the 2014 financial year, being impacted by the continued strengthening of the New Zealand dollar. Both the Inbound and Outbound Divisions improved their performance (after allowing for the one off GST refund in the 2013 financial year). A \$0.2 million impairment charge against intangible assets associated with Experience Travel was recorded.

The Company declared a dividend of \$0.02 per share in the 2014 financial year, which was paid in September 2014.

The Company is forecasting a significant downturn in its financial performance for the 2015 financial year. Inbound Division revenue is forecast to be \$1.8 million lower than the 2014 financial year, primarily due to declining arrivals from Japan. Outbound Division revenue is forecast to be \$0.7 million lower than the 2014 financial year, primarily due to the loss of the Brunei Tourism contract and American Airlines representation.

Divisional Trading Contribution

Historic divisional trading contribution has increased from a loss of \$0.3 million in the 2011 financial year to a profit of \$1.4 million in the 2014 financial year and is forecast to be a profit of \$0.2 million in the 2015 financial year.



Key matters in respect of the Outbound Division trading contribution include:

- the decrease in the 2012 financial year was a result of the loss of Royal Brunei Airlines as a client and underperforming accounts which led to the need to negotiate revised terms
- the improvement in the 2013 financial year was a result of growth across the client portfolio and gaining China Airlines as a new client
- the significant improvement in the 2014 financial year was a result of additional incentive income for exceeding performance targets for one client and gaining Lufthansa Group and Visit Flanders as new clients
- the forecast for the 2015 financial year reverts to a level similar to prior years on the basis that the additional incentive income earned in the 2014 financial year will not be earned in this financial year.

Key matters in respect of the Inbound Division trading contribution include:

- the improvement in the 2012 financial year was partly as a result of the Rugby World Cup in New Zealand
- the 2013 financial year included a one off gain of \$0.4 million in respect of a refund of Australian GST
- cost cutting initiatives and diversifying sales and marketing efforts into markets outside of Japan helped to improve the results for the 2014 financial year (after adjusting for the one off gain in the prior year)
- the forecast decrease in the 2015 financial year is driven by forecast lower visitor numbers from Japan and changes in travel patterns away from group travel to more independent travel.

Parent company overheads have remained relatively steady at \$0.2 million in the last 3 years and are forecast to remain at that level in the 2015 financial year.

Contribution from the Pacific Attitude joint venture has been negligible to date, ranging from a loss of \$13,000 in the 2013 financial year to a profit of \$37,000 in the 2014 financial year.

2015 Forecast

The 2015 forecast is based on the actual results for the 7 months ended 31 January 2015 and the forecast results for the 5 months to June 2015.

Summary of 2015 Financial Year Forecast			
	7 Mths to 31 Jan 15 (Actual) \$000	5 Mths to 30 Jun 15 (Forecast) \$000	Year to 30 Jun 15 (Forecast) \$000
Revenue	15,444	10,126	25,570
Cost of sales	(8,456)	(5,813)	(14,269)
Gross profit	6,988	4,313	11,301
Other revenue	38	20	58
Expenses	(6,365)	(4,843)	(11,208)
Share of joint venture profits / (losses)	-	19	19
Profit / (loss) before tax	661	(491)	170
Taxation	(206)	171	(35)
Net profit / (loss) after tax	455	(320)	135

Source: Southern Travel forecast for the year ended 30 June 2015

The 2015 forecast was prepared on a “bottom-up” basis whereby detailed monthly revenue and expenditure forecasts were prepared for each operating unit in the Company.

The 2015 forecast was approved by the board in February 2015.

The 2015 forecast for the 5 months is based on the following key assumptions:

- average revenue of \$2.0 million each month
- average inbound gross margin of 16%
- operating expenses of \$1.0 million each month.

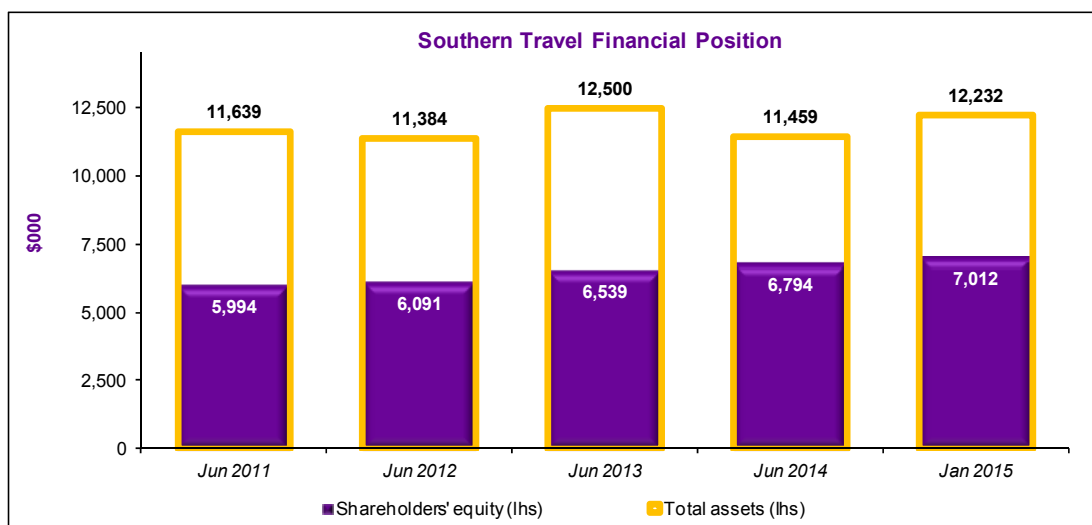
3.9 Financial Position

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

Summary of Financial Position					
	As at 30 Jun 11 (Audited) \$000	As at 30 Jun 12 (Audited) \$000	As at 30 Jun 13 (Audited) \$000	As at 30 Jun 14 (Audited) \$000	As at 31 Jan 15 (Unaudited) \$000
Current assets	7,453	7,368	8,749	7,977	8,910
Non current assets	4,186	4,016	3,751	3,482	3,322
Total assets	11,639	11,384	12,500	11,459	12,232
Current liabilities	(5,444)	(5,190)	(5,869)	(4,450)	(5,040)
Non current liabilities	(201)	(103)	(92)	(215)	(180)
Total liabilities	(5,645)	(5,293)	(5,961)	(4,665)	(5,220)
Total equity	5,994	6,091	6,539	6,794	7,012
Equity per share (\$)	\$0.24	\$0.24	\$0.26	\$0.55	\$0.57
NTA per share (\$)	\$0.11	\$0.12	\$0.14	\$0.33	\$0.35

NTA: Net tangible assets

Source: Southern Travel annual reports and 31 January 2015 management accounts



The Company's current assets consist mainly of cash and cash equivalents (\$5.1 million as at 31 January 2015) and trade and other receivables (\$3.8 million as at 31 January 2015).

Included in the \$5.1 million cash balance are restricted cash balances of \$0.6 million, representing deposits provided as security for bank facilities so that the Company can provide letters of credit in favour of the various airlines which the Company represents.

Non current assets consist mainly of intangible assets (\$2.6 million as at 31 January 2015, representing goodwill arising upon the acquisition of the Walshe Group in June 2007).

As is normal in this sector of the travel industry, trade and other payables are generally higher than receivables and prepayments, allowing the Company to operate on negative working capital.

3.10 Cash Flows

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

Summary of Cash Flows				
	Year to 30 Jun 11 (Audited) \$000	Year to 30 Jun 12 (Audited) \$000	Year to 30 Jun 13 (Audited) \$000	Year to 30 Jun 14 (Audited) \$000
Net cash flows from operating activities	5	457	1,189	516
Net cash flows (used in) investing activities	(133)	(82)	(251)	(60)
Net cash flows (used in) financing activities	-	(16)	(15)	(197)
Net increase / (decrease) in cash and cash equivalents	(128)	359	923	259
Opening balance	2,774	2,662	3,014	3,791
Effect of exchange rate changes	16	(7)	(146)	(225)
Closing balance	<u>2,662</u>	<u>3,014</u>	<u>3,791</u>	<u>3,825</u>

Source: Southern Travel annual reports

The movements in cash flows from operating activities broadly correlate with the Company's profitability.

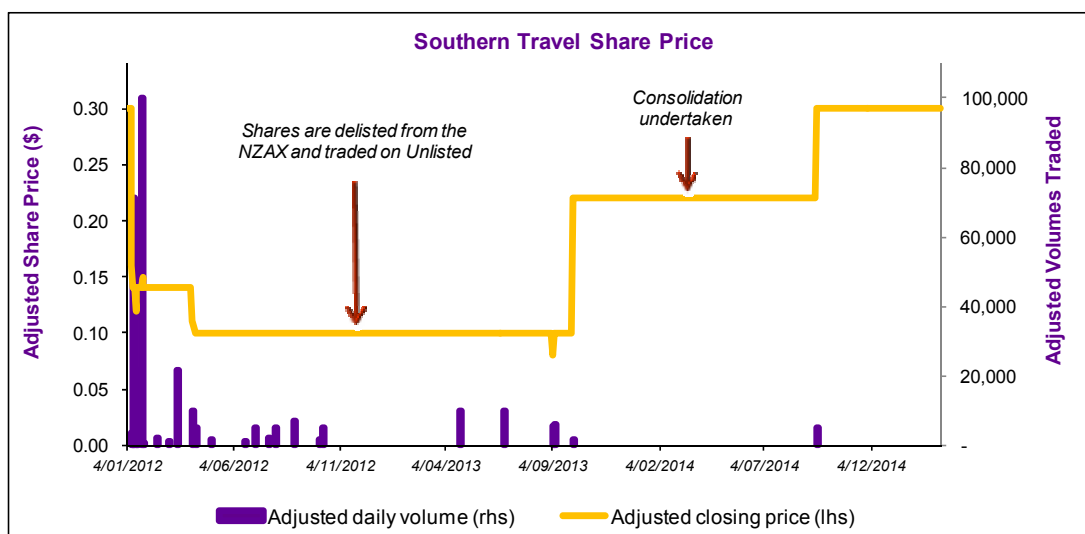
Cash flows used in investing activities relate mainly to capital expenditure in respect of property, plant and equipment.

Cash flows used in financing activities in the 2014 financial year included \$162,000 paid in respect of the Share Buyback.

3.11 Share Price History

Set out below is a summary of Southern Travel's daily closing share price and daily volumes of shares traded from 4 January 2012 to 18 March 2015. The share prices and volumes in the graph prior to the Consolidation on 19 March 2014 have been adjusted for the effect of the 2:1 share consolidation (ie actual share prices have been doubled and actual volumes traded have been halved).

The Company's shares were delisted from the NZAX on 30 November 2012 and commenced trading on Unlisted on 3 December 2012.



Source: NZX Data and Unlisted

During the period, Southern Travel’s shares have traded between \$0.08 on 3 September 2013 (adjusted for the Consolidation) and \$0.30 on 16 September 2014 at a VWAP of \$0.14 (adjusted for the Consolidation).

Trading in the Company’s shares is extremely thin, reflecting that 59.93% of the shares are held by cornerstone shareholders Kiyomi Gunji and Kazue Gunji and RWL and the top 10 shareholders hold 89.32% of the shares.

An analysis of VWAP, traded volumes and liquidity (measured as traded volumes as a percentage of total shares outstanding) is set out below.

Southern Travel Share Trading					
Period	Low ^{1,2} \$	High ^{1,2} \$	VWAP ^{1,2} \$	Volume Traded ^{1,2} (000)	Liquidity ^{1,2}
1 month	n/a	n/a	n/a	n/a	n/a
3 months	n/a	n/a	n/a	n/a	n/a
6 months	0.30	0.30	0.30	5	0.0%
12 months	0.30	0.30	0.30	5	0.0%
Trading on Unlisted	0.08	0.30	0.13	39	0.3%

1 To 18 March 2015
2 Adjusted for the Consolidation

n/a: Not applicable as the shares did not trade

Source: Unlisted

The analysis shows that only 38,500 shares (on an adjusted basis) have traded since the Company’s shares commenced trading on Unlisted on 3 December 2012. The shares traded on only 6 days at prices between \$0.08 (adjusted for the Consolidation) and \$0.30 at a VWAP of \$0.13 (adjusted for the Consolidation).

The shares last traded on Unlisted on 16 September 2014 at \$0.30 – a price equivalent to the STH JV Offer price. The trade was for 5,000 shares and the acquirer was Awatea – a member of STH JV.

The STH JV Offer Document discloses that Awatea also acquired 165,739 shares on 8 September 2014 at a price of \$0.30 per share. It would appear that this transaction was off-market rather than a trade on Unlisted.

The second most recent trade on Unlisted was the sale of 3,000 shares at \$0.11 per share on 2 October 2013. This equates to 1,500 shares at \$0.22 per share when adjusted for the Consolidation.

4. Valuation of Southern Travel

4.1 Introduction

The STH JV Offer is a full takeover offer for all of the Company's shares. In such circumstances, we are of the view that the appropriate basis upon which to evaluate the fairness of the STH JV Offer is to compare the offer price of \$0.30 per share with the full underlying value of Southern Travel on a standalone basis, pro-rated across all shares.

Such an approach attributes full control value to Southern Travel under its current strategic and operational initiatives, but excludes the value of any synergies that may accrue to a specific acquirer. The resulting value exceeds the price at which we would expect minority interests in Southern Travel to trade in the absence of the STH JV Offer.

This approach is in line with one of the Code's core foundations that all shareholders be treated equally and is consistent with Rule 57(4) of the Code (which deals with specific circumstances when an expert determination is required in respect of compulsory acquisition), which seeks to avoid issues of premia or discounts for minority shareholdings.

4.2 Standard of Value

We have assessed the fair market value of 100% of the shares in Southern Travel.

Fair market value is defined as the price that a willing but not anxious buyer, with access to all relevant information and acting on an arm's length basis, would be prepared to pay to a willing but not anxious seller in an open, unrestricted and stable market.

4.3 Basis of Valuation

In general terms it is recognised that the value of a share represents the present value of the net cash flows expected therefrom. Cash flows can be in the form of either dividends and share sale proceeds or a residual sum derived from the liquidation of the business.

There are a number of methodologies used in valuing shares and businesses. The most commonly applied methodologies include:

- discounted cash flow (**DCF**)
- capitalisation of earnings
- net assets or estimated proceeds from an orderly realisation of assets.

Each of these valuation methodologies is applicable in different circumstances. The appropriate methodology is determined by a number of factors including the future prospects of the business, the stage of development of the business and the valuation practice or benchmark usually adopted by purchasers of the type of business involved.

The DCF method is the fundamental valuation approach used to assess the present value of future free cash flows (**FCF**), recognising the time value of money and risk. The value of an investment is equal to the value of FCF arising from the investment, discounted at the investor's required rate of return.

The capitalisation of earnings method is an adaptation of the DCF method. It requires an assessment of the maintainable earnings of the business and a selection of a capitalisation rate (or earnings multiple) appropriate to that particular business for the purpose of capitalising the earnings figure.

An assets based methodology is often used in circumstances where the assets of a company have a market value independent of the profitability of the company that owns them. A valuation based on an orderly realisation of assets is normally restricted to instances where the investor holds sufficient control to effect a sale of the assets and/or there is some indication that an orderly realisation is contemplated.

4.4 Valuation Approach

We have assessed the fair market value of Southern Travel using the capitalisation of earnings method.

The capitalisation of earnings method that we have applied derives an assessment of the value of the core operating business, prior to considering how the business is financed or whether it has any significant surplus assets. This ungeared business value is commonly referred to as the enterprise value and represents the market value of the operating assets (i.e. operating working capital, fixed assets and intangible assets such as brand names, licences, know-how and general business goodwill) that generate the operating income of the business.

In order to assess the value of Southern Travel's shares, we have added the value of freely distributable cash and cash equivalents to the Company's enterprise value. The Company has no interest bearing debt.

4.5 Capitalisation of Earnings Valuation

Overview

We have assessed the Company's future maintainable earnings and have reviewed the market valuation and operational performance of comparable companies to derive a range of earnings multiples to apply to our assessed level of maintainable earnings.

Future Maintainable Earnings

The evaluation of maintainable earnings involves an assessment of the level of profitability which (on average) the business can expect to generate in the future, notwithstanding the vagaries of the economic cycle.

The assessment of maintainable earnings is made after considering such factors as the risk profile of the business, the characteristics of the market in which it operates, its historical and forecast performance, non-recurring items of income and expenditure and known factors likely to impact on future operating performance.

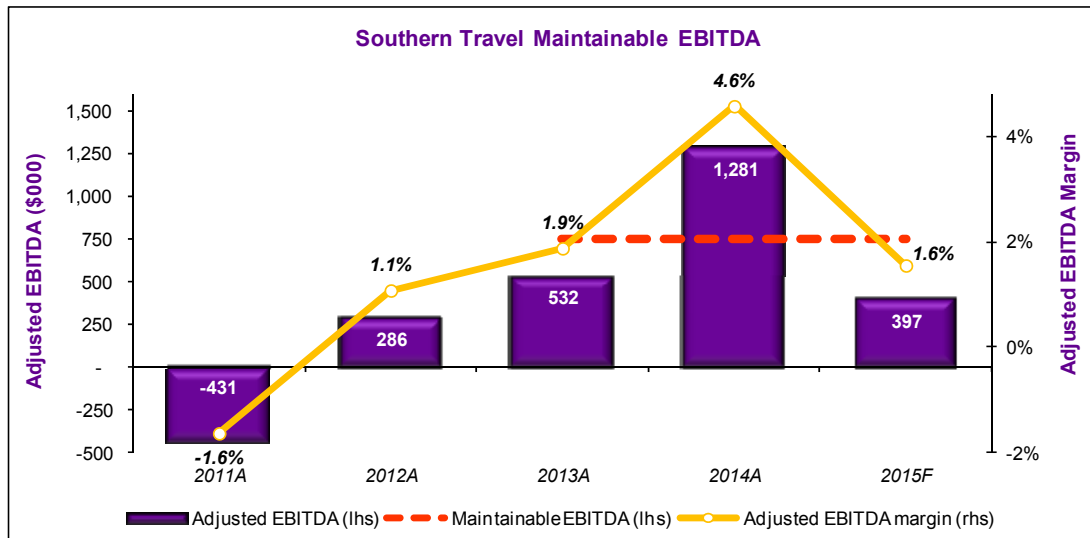
We have used earnings before interest, tax, depreciation and amortisation (**EBITDA**) as the measure of earnings. The use of EBITDA and EBITDA multiples is common in valuing businesses for acquisition purposes as it eliminates the effect of financial leverage which is ultimately in the control of the acquirer and also eliminates any distortions from the tax position of the business and differing accounting policies in respect of depreciation and the amortisation of intangible assets.

The table below sets out Sothern Travel’s reported EBITDA for the past 4 years and its forecast EBITDA for the 2015 financial year. We have adjusted reported EBITDA for material non-recurring items.

Southern Travel EBITDA					
	Year to 30 Jun 11 (Audited) \$000	Year to 30 Jun 12 (Audited) \$000	Year to 30 Jun 13 (Audited) \$000	Year to 30 Jun 14 (Audited) \$000	Year to 30 Jun 15 (Forecast) \$000
Divisional trading contribution	(320)	248	932	1,434	186
Foreign currency gains / (losses)	(111)	38	(34)	(153)	211
Reported EBITDA	(431)	286	898	1,281	397
Non recurring items: Australian GST refund			(366)		
Adjusted EBITDA	(431)	286	532	1,281	397

Source: Southern Travel annual reports and forecast for the year ended 30 June 2015

Southern Travel’s adjusted EBITDA (including its 50% share of Pacific Attitude’s earnings) has ranged from a loss of \$0.4 million in the 2011 financial year to \$1.3 million in the 2014 financial year and it is forecasting EBITDA of \$0.4 million in the 2015 financial year.



Given the Company’s fluctuating earnings, we have assessed maintainable EBITDA based on Southern Travel’s adjusted EBITDA for the 2013 and 2014 financial years and forecast EBITDA for the 2015 financial year.

Based on this approach, we assess Southern Travel’s future maintainable EBITDA to be in the vicinity of \$750,000.

Earnings Multiple

Actual sales of comparable businesses can provide reliable support for the selection of an appropriate earnings multiple. In addition, we can infer multiples from other evidence such as minority shareholding trades for listed companies in New Zealand and overseas with similar characteristics to Southern Travel or transactions involving businesses in the same industry.

However, there are a limited number of companies that are truly comparable with Southern Travel who operate both inbound and outbound businesses and these companies are not listed, meaning that any earnings multiple data is not readily available.

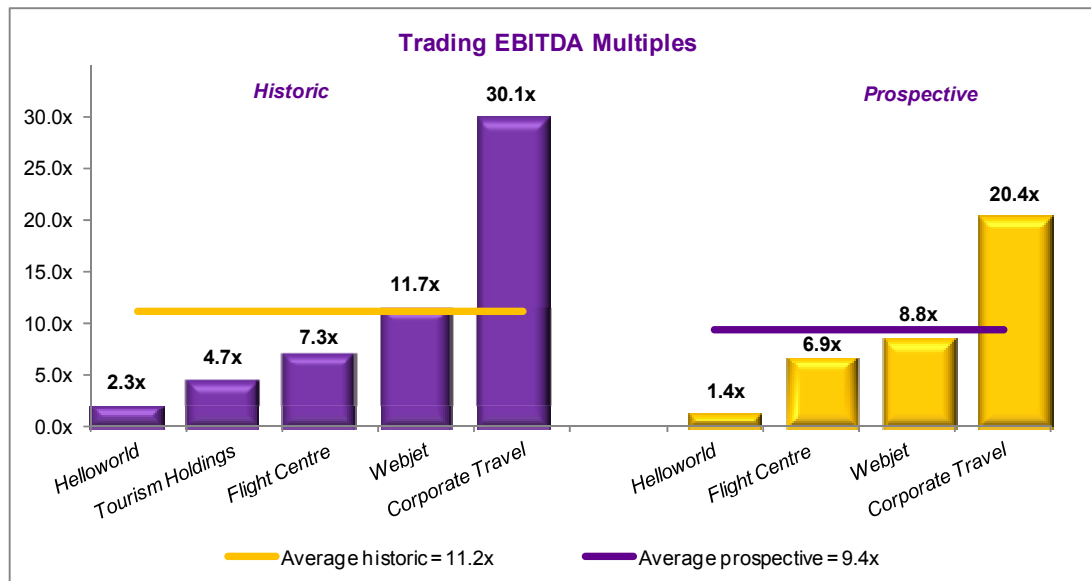
Transaction Multiples

We were not able to identify any recent transactions involving businesses that are truly comparable with Southern Travel.

Trading Multiples

In the absence of truly comparable listed companies, we have reviewed the historic and prospective EBITDA multiples for Australasian companies operating in the tourism industry that are listed on the NZX and ASX. This data is set out in Appendix I.

The tourism sector companies' multiples are based on minority trades and as such do not include any premium for control.



Source: Capital IQ, data as at 18 March 2015

The analysis shows that the historic EBITDA trading multiples range from 2.3x to 30.1x at an average of 11.2x and the prospective EBITDA trading multiples range from 1.4x to 20.4x at an average of 9.4x.

Conclusion

The tourism sector companies are significantly larger than Southern Travel, have a more diverse range of operations, report much higher EBITDA margins and are a much more liquid investment. Accordingly, we are of the view that an appropriate EBITDA multiple for Southern Travel would be lower than that observed for the tourism sector companies on average.

We note that Helloworld Limited represents the closest comparable company based on its size, nature of operations and EBITDA margin. Its observed EBITDA multiples are considerably lower than the average observed EBITDA multiples.

We consider an appropriate prospective EBITDA multiple for Southern Travel to be in the range of 2.5x to 3.5x.

Valuation Conclusion

We assess the value of Southern Travel’s existing business to be in the range of \$1.9 million to \$2.6 million as at the present date based on the capitalisation of earnings method.

Valuation of Southern Travel Business		
	Low \$000	High \$000
Future maintainable EBITDA	750	750
EBITDA multiple	2.5x	3.5x
Value of Southern Travel business	<u>1,875</u>	<u>2,625</u>

4.6 Valuation of Southern Travel Shares

To derive the value of the Southern Travel shares, the Company’s freely distributable cash and cash equivalents are added to the enterprise value.

The Company held unrestricted cash and cash equivalents of \$4.5 million as at 31 January 2015. In addition, it had \$0.6 million of restricted cash as at 31 January 2015.

Given the nature of Southern Travel’s business and its assets, the Company is not able to finance its operations with bank loan facilities as it cannot provide adequate security to meet lenders’ requirements. Accordingly, the Company maintains significant cash balances to ensure that it can meet its obligations to creditors as and when they fall due.

We have reviewed the Company’s monthly levels of cash, receivables and payables from July 2013 to January 2015. Based on this analysis, we are of the view that prudent management would require the Company to hold, on average, \$2.9 million to \$3.3 million of cash to ensure that it could always meet its financial obligations as and when they fell due. This is in addition to the restricted cash balances that the Company must hold.

On this basis, we are of the view that \$1.2 million to \$1.6 million of the \$4.5 million of unrestricted cash as at 31 January 2015 represents freely distributable cash and cash equivalents for the purposes of our valuation.

We assess the fair market value of 100% of the shares in Southern Travel to be in the range of \$3.1 million to \$4.2 million as at the present date. This equates to a value of \$0.25 to \$0.34 per share.

Valuation of Southern Travel Shares		
	Low \$000	High \$000
Value of Southern Travel business	1,875	2,625
Freely distributable cash and cash equivalents	1,200	1,600
Value of Southern Travel shares	<u>3,075</u>	<u>4,225</u>
Number of ordinary shares currently on issue	12,336,071	12,336,071
Value per ordinary share	<u>\$0.25</u>	<u>\$0.34</u>

The valuation represents the full underlying standalone value of Southern Travel based on its current strategic and operational initiatives. The value exceeds the price at which we would expect minority interests in Southern Travel to trade at the present time in the absence of a takeover offer.

4.7 Implied Multiples

The value range of \$0.25 to \$0.34 per share implies EBITDA, EBIT, price earnings (PE) and NTA multiples as set out below. The earnings multiples are based on Southern Travel's actual results for the 2014 financial year and its forecast for the 2015 financial year.

Implied Multiples				
	30 Jun 14 (Actual)		30 Jun 15 (Forecast)	
	Low	High	Low	High
EBITDA multiple	1.5x	2.0x	4.7x	6.6x
EBIT multiple	2.3x	3.2x	16.7x	23.4x
PE multiple	5.5x	7.6x	22.8x	31.3x
NTA multiple ¹	0.7x	1.0x		

¹ Based on NTA as at 31 January 2015

We consider the implied multiples to be reasonable.

An NTA multiple of less than 1.0x may suggest that greater value could be extracted by liquidating the Company. We have undertaken a high level assessment of the potential return to shareholders if the Company was liquidated. This suggests that the value would be lower than the values assessed above, due to the likelihood of some assets realising values lower than their carrying values and the incurrence of costs associated with the liquidation.

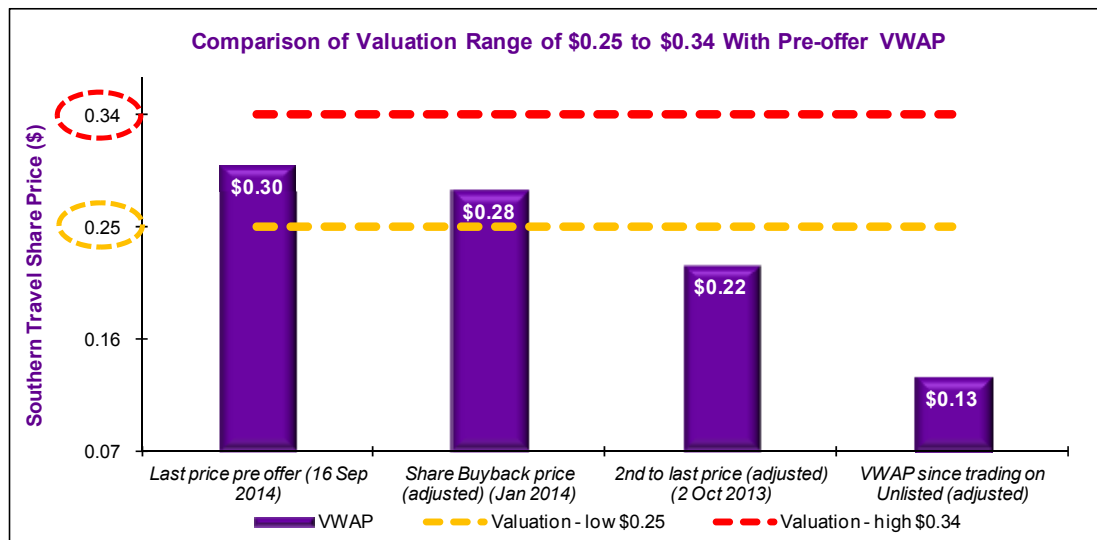
4.8 Implied Premium for Control

Purchasers may be prepared to pay a premium in an acquisition that will give them control of a company. Frequently, purchasers will pay more for control of a business where they perceive they can add substantial value to the business operations through synergies with other operations, changed management practices, reduced or eliminated competition, ensured sources of material supply or sales or other means.

Gaining control in itself does not create value - real value enhancement can only flow from factors that either increase future cash flows or reduce the risk of the combined entity. All rational bidders will have made some assessment of the value of the synergies that are available and the proportion of that value that they are prepared to pay away in order to complete the acquisition.

The bottom end of our valuation range of \$0.25 represents premia ranging from negative 17% (ie a discount) to 92% over recent share prices.

The top end of our valuation range of \$0.34 represents premia ranging from 13% to 162% over recent share prices.



In respect of the premia over the recent share prices, we note:

- STH JV already holds 90.98% of the shares in the Company and has significant board representation. Accordingly, STH JV already has significant control over Southern Travel and therefore may not feel that it needs to pay a premium of any significance
- the potential level of synergies available to STH JV arising from its full ownership of the Company is unlikely to be significant
- trading in the Company's shares is extremely thin and hence may not necessarily provide a strong indication of the fair market value of the Company's shares.

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 STH JV takeover notice dated 24 February 2015
- the STH JV Offer Document dated 11 March 2015
- the STH JV dominant owner notice dated 13 March 2015
- the draft Southern Travel Target Company Statement
- the Southern Travel *3 Year Strategic Plan 2014 – 2017* dated April 2014
- the Southern Travel board minutes from February 2012 to December 2014
- the Southern Travel annual reports for the years ended 30 June, 2012 to 2014
- the Southern Travel monthly management accounts for July 2013 to January 2015
- the Southern Travel forecast for the year ended 30 June 2015
- shareholder data from Link
- share price data from NZX Data and Unlisted
- data from NZX Data and Capital IQ in respect of comparable companies
- publicly available information regarding the travel industry.

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

The Independent Directors have confirmed that we have been provided for the purpose of this Independent Adviser's Report with all information that the Independent Directors consider relevant to the STH JV Offer that is known to them and that all the factual information provided by the Company contained in this report 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 necessary for the purpose of preparing this Independent Adviser's Report.

In our opinion, the information set out in this Independent Adviser's Report is sufficient to enable the Independent Directors and the shareholders to understand all the relevant factors and to make an informed decision in respect of the STH JV Offer.

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 Southern Travel 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 Southern Travel. 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 Southern Travel 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 Southern Travel 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 Target Company Statement issued by Southern Travel and have not verified or approved the contents of the Target Company Statement. We do not accept any responsibility for the contents of the Target Company Statement except for this report.

5.4 Indemnity

Southern Travel 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 fraud, bad faith, negligence, misconduct or breach of law. Southern Travel has also agreed to indemnify Simmons Corporate Finance and its directors and employees for time incurred and any reasonable costs in relation to any inquiry or proceeding initiated by any person as a result of or in connection with the preparation of this report (subject to the exceptions in the previous sentence).

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 Southern Travel or STH JV or any conflicts of interest that could affect our ability to provide an unbiased opinion in relation to the STH JV Offer.

Simmons Corporate Finance has not had any part in the formulation of the STH JV Offer 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 STH JV Offer. 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 Independent Directors for their comments as to the 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 Target Company Statement to be sent to Southern Travel'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.



Peter Simmons
Director

Simmons Corporate Finance Limited

19 March 2015

Appendix I

Tourism Sector Company Trading Multiples

Trading Multiples						
Company	Market Capitalisation (\$m)	Enterprise Value (\$m)	EBITDA Multiple		PE Multiple	
			Hist.	Pros.	Hist.	Pros.
Corporate Travel Management Limited	A\$1,184	A\$1,112	30.1x	20.4x	56.1x	34.3x
Flight Centre Travel Group Limited	A\$4,122	A\$3,051	7.3x	6.9x	21.0x	15.1x
Helloworld Limited	A\$148	A\$34	2.3x	1.4x	n/m	20.4x
Tourism Holdings Limited	NZ\$198	NZ\$285	4.7x	n/a	14.4x	n/a
Webjet Limited	A\$302	A\$272	11.7x	8.8x	15.5x	14.7x
Minimum			2.3x	1.4x	14.4x	14.7x
Average			11.2x	9.4x	26.8x	21.1x
Maximum			30.1x	20.4x	56.1x	34.3x

n/m: not meaningful
n/a: not available

Source: Capital IQ, data as at 18 March 2015

Corporate Travel Management Limited

Corporate Travel Management Limited provides travel management solutions to the corporate market. The company operates through 3 segments - Travel Services Australia and New Zealand, Travel Services North America and Travel Services Asia. It manages the purchase and delivery of travel services for corporate clients. The company offers a range of travel tools, roster management and travel booking platforms. It also provides a one-stop-shop solution for various corporate travel needs such as airfares, accommodation, ground transportation, travel insurance, visas and discounted business lounge membership. In addition, the company offers resource travel management services and event management solutions for corporate events, meetings, group travel and conference travel and school tour services. Further, it provides travel services that cover flights, accommodation, transfers, transportation, guided tours, cruises, ski holidays, insurance and visas for corporate and leisure clients. Corporate Travel Management Limited was founded in 1994 and is headquartered in Brisbane, Australia.

Flight Centre Travel Group Limited

Flight Centre Travel Group Limited provides travel retailing services in Australia, the United States, the United Kingdom and internationally. It offers travel retailing services in the leisure, corporate, wholesale and other sectors. The company provides its services under the *Flight Centre*, *Escape Travel*, *Student Flights*, *Travel Associates*, *Cruiseabout*, *Liberty Travel*, *Infinity Holidays*, *GOGO Vacations*, *FCm Travel Solutions*, *Corporate Traveller*, *Stage and Screen*, *cievents* and *Campus Travel* brands. Flight Centre Travel Group Limited offers its services through a network of 2,500 stores. Flight Centre Travel Group Limited is based in Brisbane, Australia.

Helloworld Limited

Helloworld Limited operates as an integrated travel company. It sells international and domestic travel products and services and operates a franchised network of travel agents. The company operates in 3 segments - Retail, Wholesale and Travel Management. The Retail segment operates as a franchisor for multiple retail travel agency networks, including *helloworld*, *Jetset Travel*, *Travelworld*, *Travelscene American Express*, *Harvey World Travel* and *Concorde Agency Network* in Australia, as well as for *United Travel* and *The Travel Brokers* in New Zealand. This segment also owns and operates *Air Tickets*, a ticketing facility that services the company's travel agency networks and independent travel agents. The Wholesale segment is engaged in the arrangement of tours and travel and provision of override services. Its wholesale brands include *Qantas Holidays*, *Viva! Holidays*, *Harvey's Choice Holidays*, *Ready Rooms*, *Travel Indochina*, *GO Holidays* and *Qantas Vacations*. The Travel Management segment offers a range of travel management services including a 24 hour booking facility for air, land and cars for corporate customers, as well as reporting and expense management under the *QBT* and *Atlantic & Pacific American Express* brands. Helloworld Limited has operations in Australia, New Zealand, Asia, the United States, South Africa and the United Kingdom. The company was formerly known as *Jetset Travelworld Limited* and changed its name to *Helloworld Limited* in December 2013. Helloworld Limited is headquartered in North Sydney, Australia.

Tourism Holdings Limited

Tourism Holdings Limited operates as a tourism company in Australia, New Zealand and the United States. It engages in the manufacture, rental and sale of motor homes, campervans and caravans and other tourism related activities. The company offers its vehicles under the *Maui*, *Britz*, *Mighty*, *KEA Australia* and *Motek Vehicle Sales* brands, as well as owns and operates the *Road Bear RV Rentals and Sales* brand. It also operates hop on and hop off busses under the *Kiwi Experience* name, offers interactive walking tours through Waitomo Glowworm caves, Ruakuri caves, and Aranui caves and provides adventure tours for thrill seekers. Tourism Holdings Limited is headquartered in Auckland, New Zealand.

Webjet Limited

Webjet Limited provides online travel booking services in Australia, New Zealand and internationally. It operates in 2 segments - Business to Consumer Travel and Business to Business Travel. The company enables its customers to compare, combine and book travel flights, travel insurance, car hire, holiday package deals and hotel accommodation. Webjet Limited is based in Melbourne, Australia.