Shotover Jet Limited

INDEPENDENT ADVISER'S REPORT

Prepared by

GRANT SAMUEL & ASSOCIATES LIMITED

Auckland ■ Sydney ■ Melbourne

October 2002

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8 October 2002

The Directors
Shotover Jet Limited
Arthurs Point
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Dear Directors

Full Takeover Offer by Ngäi Tahu

1. Introduction

On 10 September 2002 Ngäi Tahu Holdings Corporation Limited ("Ngäi Tahu") gave notice that it intended to make a full offer (the "Ngäi Tahu Offer") under the Takeovers Code for all of the shares in Shotover Jet Limited ("Shotover Jet"). The notice specified a consideration of $0.60 per share payable in cash and a number of conditions to the offer. On 7 October 2002, Ngäi Tahu declared the offer unconditional and increased the price to $0.70 per share. The Ngäi Tahu Offer is open for acceptance up until the closing date of 7 November 2002 or such other date as Ngäi Tahu may determine if it decides to extend the offer.

Ngäi Tahu is the parent company of Ngäi Tahu Tourism Limited ("NTTL") which currently owns 82.75% of Shotover Jet.

The Ngäi Tahu Offer constitutes a full takeover offer under Rule 8 of the Takeovers Code. Accordingly, the Independent Directors of Shotover Jet have engaged Grant Samuel & Associates Limited ("Grant Samuel") to prepare the Independent Adviser's Report required under Rule 21 of the Takeovers Code setting out an assessment of the merits of the Ngäi Tahu Offer to assist Shotover Jet shareholders in forming an opinion on the Ngäi Tahu Offer. Grant Samuel is independent of Shotover Jet and Ngäi Tahu and has no involvement with, or interest in, the outcome of the proposed acquisition of shares in Shotover Jet by Ngäi Tahu.

2. Evaluation of the Merits of the Ngäi Tahu Offer

2.1 The Ngäi Tahu Offer is Not Fair

In Grant Samuel's opinion the full underlying value of Shotover Jet is in the range of $0.82 to $0.94 per share. This value range assumes that the final dividend of 1.25 cents per share declared by the Board on 3 September 2002 has been paid, such that the value range is comparable to the Ngäi Tahu Offer. The Ngäi Tahu Offer is $0.70 cash for each ordinary share. Under the Ngäi Tahu Offer shareholders will also receive the 1.25 cents per share final dividend. As the Ngäi Tahu Offer price is below Grant Samuel's assessment of the underlying value of Shotover Jet it is considered to be not fair.

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A summary of Grant Samuel's valuation of Shotover Jet is set out below:

Shotover Jet – Summary of Value		
$ million	**Value Range**	
	Low	**High**
Value of business operations	40.0	45.5
Capital expenditure adjustment	(1.5)	(1.5)
Enterprise value	**38.5**	**44.0**
Other assets	1.0	1.0
Dividend paid	(0.5)	(0.5)
Net borrowings at 31 August 2002	(3.6)	(3.6)
Equity value	**35.4**	**40.9**
Number of shares on issue (million)	43.3	43.3
Equity value per share ($)	**$0.82**	**$0.94**

When considering the fairness of the Ngäi Tahu Offer the following points should be considered:

- the Ngäi Tahu Offer represents a premium of 40% to the closing price of $0.50 per share on 9 September 2002, being the day prior to the announcement that Ngäi Tahu intended making a takeover offer for Shotover Jet. This premium is broadly consistent with premiums for control observed in takeovers;
- in some takeovers there are factors that might suggest that even if an offer is not fair shareholders should consider accepting the offer. In this instance, there do not appear to be any compelling reasons for shareholders to accept a takeover offer that is in a range of 15% to 25% below the full underlying value. Notwithstanding this conclusion it is likely that the share price for Shotover Jet shares as traded on the NZSE may not reach the valuation as determined by Grant Samuel; and
- value can only be properly judged in the context of current circumstances. The price of $0.70 per share is not considered fair in today's circumstances. It could be that, by waiting for some period, a better price could be achieved for Shotover Jet. Any future price would reflect the future operating performance of Shotover Jet and the outlook and equity market conditions at the time. These may or may not reflect conditions as they are at present.

2.2 Other Merits of the Ngäi Tahu Offer

In assessing the merits of the Ngäi Tahu Offer, Grant Samuel considered the following factors:

- the Ngäi Tahu Offer is being made to all shareholders of Shotover Jet. Ngäi Tahu and interests associated with Ngäi Tahu already own or control in excess of 82.7% of the ordinary shares in Shotover Jet. If Ngäi Tahu is not successful in achieving the 90% compulsory acquisition threshold at its current offer price it may or may not choose to increase its offer. If Ngäi Tahu chooses to increase its offer the increased price will be available to all shareholders even if they have already accepted the $0.70 per share offer. Acquisition of 100% is likely to be Ngäi Tahu's preferred outcome, as this will give Ngäi Tahu access to all of the cash flow of Shotover Jet and will enable Ngäi Tahu to fully control the strategy and operations of Shotover Jet going forward. In addition, it is believed that tax advantages may be available to Ngäi Tahu from 100% ownership of Shotover Jet. Delisting Shotover Jet from the NZSE will also result in cost savings to Shotover Jet. A valid strategy for minority shareholders may be to resist the Ngäi Tahu Offer such that if Ngäi Tahu does not appear likely to be able to achieve the 90% threshold it may consider increasing its offer to more than $0.70 per share. However this strategy carries risks for current shareholders. Whilst it may be desirable there is no evidence that Ngäi Tahu will definitely seek to obtain 100% of Shotover Jet. Ngäi Tahu may be content to leave Shotover Jet as a separate listed company under its control. In any event, even if it did want 100%, Ngäi Tahu may be content to "creep" towards the 90% threshold over time by buying a further 5% per annum or by making partial takeovers. It could take Ngäi Tahu less than two years to reach the 90% threshold (and probably considerably less) if it adopted this strategy;

- the rules under the Takeovers Code will impact the outcome of the Ngäi Tahu Offer. The Takeovers Code specifies that for Ngäi Tahu to effect the compulsory acquisition procedure under the current offer it must achieve acceptance of a minimum of 50% of the remaining shares in Shotover Jet thereby taking its holding to 91.4%. In the event that the current Ngäi Tahu Offer expires and Ngäi Tahu achieves acceptances of less than 50% of the outstanding shares, but enough to take their holding to 90%, then Ngäi Tahu will be in a position to issue an Acquisition Notice under the Takeovers Code in respect of the balance of the shares outstanding in Shotover Jet.

  Through an Acquisition Notice, Ngäi Tahu may make an offer for the balance of the shares in Shotover Jet at a price that differs from its current offer. If an objection to any new price is received Ngäi Tahu is required to have Shotover Jet's shares valued by an independent third party. Ngäi Tahu will be required, under the Takeovers Code, to pay the value as determined by that valuation to all remaining shareholders.

  This is a key distinction to the compulsory acquisition scenario where the price for the remaining shares must be equal to the takeover offer price.

  Whilst the above scenario is complex, specific to the current Ngäi Tahu/Shotover Jet position and dependent on a number of conditions being satisfied, it does offer an opportunity under which shareholders who reject the current offer may receive a better value at some point in the future;

- if insufficient shareholders accept the offer and Ngäi Tahu does not achieve the 90% compulsory acquisition threshold then Shotover Jet will remain a listed company controlled by Ngäi Tahu. In these circumstances:

  - liquidity of Shotover Jet shares is likely to contract further as Ngäi Tahu continues to acquire shares on the market by way of the "creep" provisions inherent in the Takeovers Code. Ngäi Tahu has advised that it will continue to buy on market under those provisions during the period of the Ngäi Tahu Offer. If Ngäi Tahu were to purchase all of the shares that it is entitled to under the "creep" provisions on market, it could increase its shareholding to no more than 85.5% of the issued shares in Shotover Jet at any time up to 8 April 2003;
  - there is no guarantee that Ngäi Tahu will maintain the current dividend policy of Shotover Jet being 40% of the tax paid surplus subject to certain conditions being maintained;
  - the trading price of Shotover Jet shares could be further impacted by the reduced liquidity, and any change in dividend policy. In the three months prior to the announcement of the Ngäi Tahu Offer, Shotover Jet shares traded in the range of $0.45 to $0.58 per share with a weighted average daily closing price over the period of $0.44 per share;
  - remaining shareholders will be exposed to risks associated with future performance of the Shotover Jet business; and
  - remaining shareholders will also continue to be exposed to the future state of local and international equity markets, economic conditions and interest rates each of which could affect the market price of securities;

- Ngäi Tahu has, through various subsidiary companies, purchased significant shareholdings in Shotover Jet on two previous occasions without making a full takeover offer. In August 1999 Ngäi Tahu purchased 17.7 million shares from Hokonui Investment Limited at a price of $1.05 per share, and in March 2001 Ngäi Tahu purchased 13.2 million shares from Armada Holdings Limited at $0.99 per share. Both transactions were effected at prices significantly above the then prevailing share price for Shotover Jet. Whilst each of these transactions were part of an original agreement in July 1999 for Ngäi Tahu to invest in Shotover Jet, these were not full or partial takeover offers capable of being accepted by other shareholders. If the Takeovers Code had been in existence at the time that Ngäi Tahu entered into the agreements to acquire these shares, Ngäi Tahu would have been required to make an offer to all shareholders at the same price;

- in the financial year to 30 June 2000 Shotover Jet reported EBITDA[1] of $2.4 million and for the following year EBITDA was $3.8 million. On September 3, 2002 Shotover Jet announced its results for the period to 30 June 2002. These results demonstrate a significant improvement in earnings with an EBITDA of $5.1 million, a strengthening balance sheet and, in particular, an improved cash position supporting the resumption of the payment of dividends by the company. The final dividend to be paid for the year ended 30 June 2002 represents the first dividend to be paid by the Company since 1999. The Directors of Shotover Jet believe that the company is well positioned to meet its future capital expenditure and debt funding requirements and to continue to pay dividends at levels of up to 40% of after tax surpluses subject to certain conditions going forward. Shotover Jet has undergone significant changes in strategy since its inception in 1993, and these changes have contributed in part to the volatility in the financial performance of the company over that period. Following the appointment of its new Chief Executive Officer, Shotover Jet has now settled on a strategy for growth of its core businesses. In Grant Samuel's opinion the most recent operational and strategic developments within Shotover Jet are yet to be fully reflected in the share price of Shotover Jet;

- it is unlikely that an offer from another party will eventuate for all of the shares in Shotover Jet unless Ngäi Tahu is prepared to sell its current stake in the company. Furthermore there are no other shareholders in the company with a shareholding that exceeds 1% of the issued capital of the company. There are approximately 1,200 individual shareholders with relatively small holdings. A third party is unlikely to pay a premium to buy these small shareholdings on the market when Ngäi Tahu controls such a large stake in the company, unless Ngäi Tahu was prepared to sell its stake to that third party;

- the price for shares of Shotover Jet as traded on the NZSE has remained at levels below the Grant Samuel valuation for a significant period of time. This can be attributed to a number of reasons:

  - there is limited liquidity in the stock due to the fact that Ngäi Tahu controls in excess of 82.7% of the total shares outstanding. As less than 18% of the shares are held by other investors there are few shares available to provide a robust market on a daily basis;
  - the results for Shotover Jet over many years have been impacted by poorly performing assets, poor economic conditions and investments away from Shotover Jet's core business activities; and
  - Shotover Jet has a current market capitalisation of approximately $27 million. The company has been too small to attract the ongoing interest of the major institutional investors and the major research analysts in New Zealand who tend to concentrate on stocks that make up the main NZSE share indices. Therefore the market does not receive timely, updated research analysis on Shotover Jet and there is no demand for Shotover Jet shares from institutional investors.

  In Grant Samuel's opinion, apart from the fact that financial results are clearly improving, the limited liquidity, lack of size and limited institutional interest in the company will continue to impact on share price performance of Shotover Jet should it remain as a listed company. Furthermore, there is a high likelihood that the price for Shotover Jet shares on the NZSE will not reach the level of the valuation; and

- the ongoing operations of the Shotover Jet business are subject to a number of risks in respect of the tourism and leisure sector. As well as being exposed to changes in world and local economic conditions, the change in value of the New Zealand dollar relative to the currencies of the tourists that visit New Zealand, weather and visitor numbers, Shotover Jet is particularly exposed to the risk of not having its river concessions renewed and the risk of accidents on any of its high action jet boat attractions.

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[1] EBITDA = Earnings before interest, tax, depreciation and amortisation

2.3 Acceptance or Rejection of the Ngäi Tahu Offer

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

3. Other Matters

3.1 Limitations and Reliance on Information

The report is based upon financial and other information provided by Shotover Jet. Grant Samuel has considered and relied upon this information. Grant Samuel believes that the information provided was reliable, complete and not misleading and has no reason to believe that any material facts have been withheld. The information provided has been evaluated through analysis, enquiry, and review for the purposes of forming an opinion as to the underlying value of Shotover Jet.

3.2 Qualifications

Grant Samuel and its related companies provide financial advisory services to corporate and other clients in relation to mergers and acquisitions, capital raisings, corporate restructuring, property and financial matters generally in Australia and New Zealand. One of its activities is the preparation of company and business valuations and the provision of independent advice and expert's reports in connection with mergers and acquisitions, takeovers and capital reconstructions. Since its inception in 1988, Grant Samuel and its related companies have prepared more than 250 public expert or appraisal reports. The persons responsible for preparing this report on behalf of Grant Samuel are Michael Lorimer, BCA, CA, Simon Cotter, BCom, DipAppFin, Peter Fredricson, BCom, ACA and Nicola Taplin, BE (Chem), DipBus(Fin). Each has a significant number of years experience in relevant corporate advisory matters.

3.3 Independence

Grant Samuel does not have at the date of this report, and has not had within the previous two years, any shareholding in or other relationship with Shotover Jet or Ngäi Tahu, that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Ngäi Tahu Offer. Grant Samuel had no part in the formulation of the proposed transaction. Its only role has been the preparation of this report and its summary.

Grant Samuel's opinion is made at the date of this letter and reflects circumstances and conditions as at that date. This letter is a fair summary of Grant Samuel's full report and is not misleading. The full report from which this summary has been prepared is attached and should be read in conjunction with and as an integral part of this summary.

This letter is for the benefit of the holders of Shotover Jet shares (other than Ngäi Tahu and its associated persons). Neither this letter nor the report should be used for any other purpose other than as an expression of Grant Samuel's opinion as to the merits of the Ngäi Tahu Offer.

Yours faithfully
GRANT SAMUEL & ASSOCIATES LIMITED

Grant Samuel + Associates

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1. Terms of the Takeover Offer

On 10 September 2002 Ngäi Tahu Holdings Corporation Limited ("Ngäi Tahu") gave notice that it intended to make a full offer (the "initial Offer") under the Takeovers Code for all of the shares in Shotover Jet Limited ("Shotover Jet"), at a price of $0.60 per share.

On 7 October 2002, Ngäi Tahu delivered an altered offer ("the Ngäi Tahu Offer") to the directors of Shotover Jet. The changes to the initial Offer include:

- an increase in the price consideration offered to $0.70 in cash for each share in Shotover Jet;
- confirmation that shareholders of Shotover Jet who accept the Ngäi Tahu Offer would also be entitled to receive the final dividend of 1.25 cents per share, declared by Shotover Jet;
- removal of all conditions that were outlined in the initial Offer; and
- extending the initial closing date for the Ngäi Tahu Offer to 7 November 2002.

Ngäi Tahu is the parent company of Ngäi Tahu Tourism Limited ("NTTL") which currently owns 82.75% of Shotover Jet.

Ngäi Tahu further advised Shotover Jet that it had no present intention to acquire shares in Shotover Jet on the open market during the offer period, although Ngäi Tahu has advised that there is a possibility that it may do so. Ngäi Tahu declared its offer unconditional.

2. Scope of the Report

2.1 Requirements of the Takeovers Code

The Takeovers Code came into effect on 1 July 2001, replacing the New Zealand Stock Exchange ("NZSE") Listing Rule requirements governing the conduct of listed company takeover activity in New Zealand. The Takeovers Code seeks to ensure that all shareholders are treated equally and on the basis of proper disclosure, are able to make an informed decision in relation to offers and resolutions put to them in conjunction with a takeover offer or other action regulated by the Takeovers Code. Shotover Jet is a "code" company and therefore subject to the rules and regulations incorporated within the Takeovers Code.

The Takeovers Code specifies the responsibilities and obligations for both Ngäi Tahu and Shotover Jet as "bidder" and "target" respectively. Shotover Jet's response to the Ngäi Tahu Offer, known as a "target company statement", must contain the information prescribed in the Second Schedule of the Takeovers Code, and is to include or be accompanied by an Independent Adviser's Report (or summary thereof). If only a summary report is included within the target company statement, the full report must be available to Shotover Jet shareholders for inspection upon request.

2.2 Purpose of the Report

The Ngäi Tahu Offer constitutes a full takeover offer under Rule 8 of the Takeovers Code. Accordingly, the Independent Directors of Shotover Jet have engaged Grant Samuel & Associates Limited ("Grant Samuel") to prepare the Independent Adviser's Report required under Rule 21 of the Takeovers Code setting out an assessment of the merits of the Ngäi Tahu Offer to assist Shotover Jet shareholders in forming an opinion on the Ngäi Tahu Offer. Grant Samuel is independent of Shotover Jet and Ngäi Tahu and has no involvement with, or interest in, the outcome of the proposed acquisition of shares in Shotover Jet by Ngäi Tahu.

Grant Samuel has been approved by the Takeovers Panel to prepare the Independent Adviser's Report. The report is for the benefit of the holders of Shotover Jet shares (other than Ngäi Tahu and its associated persons including NTTL). The report should not be used for any purpose other than as an expression of Grant Samuel's opinion as to the merits of the Ngäi Tahu Offer.

2.3 Basis of Assessment

Rule 21 of the Takeovers Code requires the Independent Adviser to assess "the merits of an offer". The term "merits" has no definition either in the Takeovers Code itself or in any statute dealing with securities or commercial law in New Zealand. The Takeovers Panel has not issued guidelines as to the interpretation of the term "merits".

Under the compulsory acquisition rules of the Takeovers Code, where the 90% threshold is reached as a result of a Takeovers Code offer and 50% of the shares not held by the offeror prior to the offer commencing have been acquired as a result of the offer, the price for the remaining shares is set at the price offered. In other circumstances the compulsory acquisition price is a cash price specified by the dominant owner and certified as "fair and reasonable" by an independent adviser. The Takeovers Code provides no guidance as to the definition of "fair and reasonable".

In Australia, the phrase "fair and reasonable" appears in legislation and the Australian Stock Exchange Listing Rules as a basis for assessing takeover and similar transactions. The terms "fair" and "fair and reasonable" are both widely used tests or frameworks for analysing corporate transactions. However, there is very little useful legal or regulatory guidance as to the meaning of these terms.

For the purposes of this report, Grant Samuel is of the opinion that an assessment of the merits of an offer is a broader test than "fair and reasonable" and encompasses a wider range of issues associated with a takeover offer. Grant Samuel has assessed the merits of the Ngäi Tahu Offer after taking into consideration the following factors:

- the estimated value of Shotover Jet and the fairness of the Ngäi Tahu Offer;

- the existing shareholding structure of Shotover Jet and Ngäi Tahu's shareholding in Shotover Jet;
- the background to the Ngäi Tahu Offer including earlier prices paid by Ngäi Tahu for shares in Shotover Jet;
- the attractions of the Shotover Jet business including recent operating performance and strategic initiatives;
- any disadvantages for Shotover Jet shareholders of accepting the Ngäi Tahu Offer;
- the likelihood, and the effects, of Ngäi Tahu achieving 90%;
- the likelihood of an alternative offer and alternative transactions that could realise fair value;
- the likely market price and liquidity of Shotover Jet shares in the absence of the Ngäi Tahu Offer; and
- the risks of the Shotover Jet business.

Grant Samuel's opinion on the merits of the Ngäi Tahu Offer is to be considered as a whole. Selecting portions of the analyses or factors considered by it, without considering all the factors and analyses together, could create a misleading view of the process underlying the opinion. The preparation of an opinion is a complex process and is not necessarily susceptible to partial analysis or summary.

2.4 Approach to Evaluation of Fairness

The Ngäi Tahu Offer is for all the outstanding shares in Shotover Jet and accordingly is a full takeover offer. In Grant Samuel's opinion the price to be paid under a full takeover should reflect the full underlying value of the company. The support for this opinion is two fold:

- the Takeovers Code's compulsory acquisition provisions apply when the threshold of 90% of voting rights has been reached. In such a case the Takeovers Code seeks to avoid issues of premiums or discounts for minority holdings by providing that a class of shares is to be valued as a whole with each share then being valued on a pro-rata basis. In other words, the minority shareholders are to receive the full underlying value. Grant Samuel believes that the appropriate test for fairness under a full takeover offer is the full underlying value, pro-rated across all shares. The underlying rationale is that it would be inconsistent for one group of shareholders, those selling under compulsory acquisition, to receive a different price under the same offer from those who accepted the offer earlier; and

- under the old takeover provisions of the NZSE Listing Rules a controlling shareholding could have been transferred to another party without a full takeover offer being made to the remaining shareholders. Under the Takeovers Code it is now a requirement that the acquisition of more than 20% of the voting rights in a "code" company can only be made under an offer to all shareholders unless the shareholders otherwise give approval. As a result, a controlling shareholding (generally accepted to be no less than 40% of the voting rights) cannot be transferred without the acquirer making an offer on the same terms and conditions to all shareholders (unless target company shareholders consent). Prior to the introduction of the Takeovers Code some market commentators held the view that where a major shareholder had a controlling shareholding, any control premium attached only to that shareholding. One of the core foundations of the Takeovers Code is that all shareholders be treated equally. In this context any available control premium is now available to all shareholders under a takeover offer regardless of the size of their shareholding, or the size of the offeror's shareholding at the time the offer is made. Accordingly, Grant Samuel is of the opinion that not only because shares acquired under compulsory acquisition will receive a price equivalent to full underlying value, but because the control premium is now available to all shareholders, the share price under a takeover offer should be equal to or exceed the pro-rated full underlying value of the company.

Grant Samuel has considered whether the Ngäi Tahu Offer price is fair by comparing the consideration of $0.70 per share with an assessment of the full underlying value of Shotover Jet shares. A takeover offer consideration that falls within or exceeds a valuation range estimated on this basis is fair. The estimated value was determined by:

- assessing the ungeared valuation of the Shotover Jet operating businesses;

- adding the value of other assets; and
- deducting the net debt of Shotover Jet.

Shotover Jet has been valued at fair market value, which is defined as the estimated price that could be realised in an open market over a reasonable period of time assuming that potential buyers have full information. The analysis attributes the full control value to Shotover Jet. The aggregate therefore represents the full underlying value of Shotover Jet. The resulting value exceeds the price at which Grant Samuel expects portfolio interests in Shotover Jet would trade in the sharemarket.

2.5 Sources of Information

The following information on Shotover Jet was used and relied upon in preparing this report:

- annual reports of Shotover Jet for the years ended 30 June 2000, 2001 and 2002;
- unaudited management accounts for the months of July and August 2002. August 2002 management accounts had not been adopted by the Board of Shotover Jet at the date of this report;
- forecasts and budgets for the year to 30 June 2003;
- independent valuations of identifiable intangible assets of Shotover Jet dated August 2002;
- an independent valuation of the Rainbow Springs and Farm Show properties as at 30 June 2002;
- other confidential reports and working papers prepared by Shotover Jet management including strategic marketing plans for each of the operating businesses of Shotover Jet for the 3 years to 30 June 2005 approved by the Board at its April 2002 Board Meeting;
- various Board papers as provided to the Directors of Shotover Jet; and
- other information on the leisure, entertainment and tourism industries and public listed companies operating in these industries including annual reports, interim financial results, price reports, industry studies and brokers' reports, and information regarding the prospective financial performance of those companies.

Grant Samuel has also had discussions with and obtained information from senior management and the Independent Directors of Shotover Jet.

2.6 Limitations and Reliance on Information

The opinion of Grant Samuel is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time. The report is based upon financial and other information provided by Shotover Jet. Grant Samuel has considered and relied upon this information. Grant Samuel believes that the information provided was reliable, complete and not misleading and has no reason to believe that any material facts have been withheld.

The information provided has been evaluated through analysis, enquiry, and review for the purposes of forming an opinion as to the underlying value of Shotover Jet. However, in such assignments time is limited and Grant Samuel does not warrant that these inquiries have identified or verified all of the matters which an audit, extensive examination or 'due diligence' investigation might disclose.

The time constraints imposed by the Takeovers Code are tight. This timeframe restricts the ability to undertake a detailed investigation of Shotover Jet. In any event, an analysis of the merits of the offer is in the nature of an overall opinion rather than an audit or detailed investigation. Grant Samuel has not undertaken a due diligence investigation of Shotover Jet. In addition, preparation of this report does not imply that Grant Samuel has audited in any way the management accounts or other records of Shotover Jet. It is understood that, where appropriate, the accounting information provided to Grant Samuel was prepared in accordance with generally accepted accounting practice and in a manner consistent with methods of accounting used in previous years.

An important part of the information base used in forming an opinion of the kind expressed in this report is the opinions and judgement of the management of the relevant enterprise. Grant Samuel held discussions with the management and Independent Directors of Shotover Jet and that information was also evaluated through analysis, enquiry and review to the extent practical. However, it must be recognised that such information is not always capable of external verification or validation.

The information provided to Grant Samuel included forecasts of future revenues, expenditures, profits, cash flows and strategic marketing plans of the existing business units of Shotover Jet prepared by the management of Shotover Jet. Grant Samuel has assumed that these forecasts were prepared fairly and honestly based on information available to management at the time and within the practical constraints and limitations of such forecasts. It is assumed that the forecasts do not reflect any material bias, either positive or negative. Grant Samuel has no reason to believe otherwise. Based on these forecasts, input from management and the actual performance of Shotover Jet in the first two months of the year to 30 June 2003, Grant Samuel has completed an estimate of the financial performance and position of Shotover Jet for 2003.

However, Grant Samuel in no way guarantees or otherwise warrants the achievability of the estimates prepared. Forecasts are inherently uncertain and this is particularly so in the case of the tourism and leisure sector which is particularly sensitive to external forces such as adverse weather and changing political and economic conditions. The estimates are based on predictions by management of future events that cannot be assured and are necessarily based on assumptions, many of which are beyond the control of management. The actual future results may be significantly more or less favourable.

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations, and policies, Grant Samuel assumes no responsibility and offers no legal opinion or interpretation on any issue. In forming its opinion, Grant Samuel has assumed, except as specifically advised to it, that:

- the title to all such assets, properties, or business interests purportedly owned by Shotover Jet is good and marketable in all material respects, and there are no material adverse interests, encumbrances, engineering, environmental, zoning, planning or related issues associated with these interests, and that the subject assets, properties, or business interests are free and clear of any and all material liens, encumbrances or encroachments;
- there is compliance in all material respects with all applicable national and local regulations and laws, as well as the policies of all applicable regulators, and that all required licences, rights, consents, or legislative or administrative authority from any government, private entity, regulatory agency or organisation have been or can be obtained or renewed for the operation of the business of Shotover Jet;
- various contracts in place and their respective contractual terms will continue and will not be materially and adversely influenced by potential changes in control; and
- there are no material legal proceedings regarding the business, assets or affairs of Shotover Jet, other than as publicly disclosed.

3. Profile of Shotover Jet

3.1 Background and History

Jet boats began operating on the Shotover River in Queenstown in 1970. Shotover Jet Limited was incorporated in July 1993 to own and operate jet boat services in Queenstown and at the Huka Falls, and to develop and promote a newly established jet boat operation in Fiji. In October 1993 a total of $7.1 million in new capital was raised by way of an initial public offering and Shotover Jet was listed on the NZSE.

In July 1999 Ngäi Tahu agreed to acquire a substantial shareholding in Shotover Jet by way of two separate transactions. Ngäi Tahu agreed to:

- acquire an interest in Armada Holdings Limited ("Armada") which at the time owned 38.3% of Shotover Jet. Armada was associated with the then Managing Director of Shotover Jet, Mr James Boult; and
- acquire 17.7 million (41.3%) of the ordinary shares in Shotover Jet from interests associated with Hokonui Investments Limited ("Hokonui").

Ultimately, the transactions did not proceed as envisaged, however NTTL purchased a total of 14.4 million Shotover Jet shares from Armada and 19.9 million Shotover Jet shares from Hokonui. Subsequently, through NTTL, Ngäi Tahu has grown its holding in Shotover Jet to 35.85 million shares being 82.75% of the total issued capital of the company.

Over the past nine years Shotover Jet has been developed to the extent that its current operations include:

- Shotover Jet in Queenstown, including Goldfields Jet;
- Dart River Safaris at Glenorchy in the South Island;
- Huka Jet at the Huka Falls in Taupo in the North Island;
- Jet Fiji, at Denerau in the Fiji Islands;
- Rainbow Springs and Farm Park at Rotorua in the North Island; and
- a 50% interest in each of The Station Limited and The Sightseeing Shop both located in Queenstown.

Each of the main Shotover Jet business units is profiled below:

3.1.1 Shotover Jet - Queenstown

Shotover Jet operates a year round adventure tourism business offering jet boat rides exclusively in the Shotover River canyons. In March 2001 Shotover Jet was granted a right to take up a 25 year exclusive concession on the Shotover River to run from the expiry of its current concession in 2004. Renewal of the concessions in 2004 is subject to a number of conditions which Shotover Jet has still to meet.

The Shotover Jet is positioned as "*the World's most exciting jet boat ride*". The branding has recently been enhanced by the introduction of a new marketing concept of "*thrill therapy*". The jet boat ride is famous for the "*Shotover Jet Turn*" where the boat spins through a full 360 degrees.

Shotover Jet estimates that it captures approximately 7% of the $140 million Queenstown tourism activity market. Its product is targeted at the approximately 1.2 million visitors to Queenstown each year who stay an average of 2.8 nights in and around the township. The business has carried close to 2 million passengers since 1970 and catered for approximately 1 in every 5 visitors to Queenstown in 2002. Key competition in the Queenstown activity market includes Kawarau Jet, AJ Hackett Bungy and the Milford Sounds tourism attractions.

Shotover Jet also owns and operates the Goldfields Jet, based on the outskirts of Queenstown in the Kawarau Gorge. The Goldfields Jet is targeted at a different market segment, and is a unique blend of jet boating in the gorge, combined with a guided historic adventure discovering the rich gold mining history of the region.

3.1.2 Dart River Safaris

Dart River Safaris is based in Glenorchy in the South Island. There are three specific product offerings available to customers; the ***Dart River Safari***, the ***Dart River Funyaks*** and ***The Heritage Trail***. Each of these is based on a jet boating experience on the Dart River:

- the ***Dart River Safari*** offers jet boating both ways on the upper reaches of the Dart River and one way on the lower reaches. Its four wheel drive (4WD) coach provides access and the experience includes a short guided forest walk;

- the ***Dart River Funyaks*** includes an upstream jet boat ride to a funyak (an inflatable Canadian canoe) put-in point from where customers are guided in a gentle downstream paddle in three person funyaks exploring the Rockburn Chasm along the way; and

- ***The Heritage Trail*** is a fully catered luxury option, with limited passenger numbers. It includes a jet boat ride, a walk and 4WD experience retracing the steps of early Maori and Dart River pioneers through the ancient forests of the area.

Dart River Safaris has resource consent for 20 jet boat departures per day and to carry up to 60 funyak passengers per day. The Dart River product range is marketed to high end, free independent travellers (FITs) as a premium product and is not volume dependent. The opportunity exists for Shotover Jet to use the Dart River as a base for further development of its corporate strategy to expand eco-tourism. There is currently only a limited competitive offering to Shotover Jets' Dart River operations.

3.1.3 Huka Jet

Huka Jet operates 30 minute jet boat trips modelled on the form and style of Shotover Jet's Queenstown operations on the Huka River to the Huka Falls on the northern outskirts of Taupo. Huka Jet currently operates three jet boats per day with no restrictions on the number of trips daily.

Applications from Huka Jet are currently being considered by the relevant local and national authorities in respect of continuing land and river access rights for Huka Jet.

Shotover Jet is looking to further develop the product offering to customers of Huka Jet over time. There are a number of possible additional products and alternatives that are currently under consideration.

3.1.4 Jet Fiji

Shotover Jet launched its Fiji venture in 1994. Jet Fiji operates a fleet of jet boats from the wharf at Denerau, located adjacent to the major arrival and departure area for tourists travelling to and from the main resort islands in Fiji. The Jet Fiji facilities are located some ten minutes drive from the major hotels at Nadi on Fiji's mainland.

Jet Fiji provides customers with a jet boat experience from Denerau Marina through the inland waterways and narrow green mangrove channels of the Nadi River.

In the year to 30 June 2002 Jet Fiji continued the process of rebuilding the business following the downturn that all tourism related businesses in Fiji suffered as a result of the May 2000 coup. Management are following a strategic plan to progressively build numbers back up to pre-coup levels.

3.1.5 Rainbow Springs and Farm Park at Rotorua

The Rainbow Springs and Farm Park business is located on the northern edge of Rotorua, one of New Zealand's leading tourism destinations. Shotover Jet purchased Rainbow Springs and Farm Park in 1995.

Rainbow Springs provides visitors with the opportunity to view a wide range of native New Zealand flora and fauna and observe and experience a rainbow trout farm. Over 2 million litres of fresh spring water well up naturally into Rainbow Springs each day. Wild rainbow trout from Lake Rotorua swim up stream to Rainbow Springs each winter to spawn. One of New Zealand's longest artificial fish-ladders connects the Waiwhero Stream to Rainbow Springs. Rainbow Springs also boasts the only live tuatara display in Rotorua, live kiwi in a special nocturnal house, and a haven for many native New Zealand birds including kaka, weka, kea, paradise shelduck, kareru and tui. The venue also incorporates a substantial retail facility.

Rainbow Springs benefits in particular from a close relationship with and proximity to the adjacent attractions, Skyline Gondola and Rotorua Luge.

The Rainbow Farm Park is located on a separate site opposite Rainbow Springs. Rainbow Farm Park offers visitors an opportunity to experience typical New Zealand farm life by way of a 50 minute farm show.

Management's immediate objective is to continue a process of upgrading the facilities by investing in both Rainbow Springs and Farm Park people and infrastructure. Rainbow Springs and Farm Park intend building on their ecological image and the uniqueness of the facilities and surrounds whilst maintaining a high quality retail environment for their customers.

3.1.6 Other Assets

Shotover Jet owns 50% interests in two tourist information and booking services based in the main shopping precinct in Queenstown, The Station and The Sightseeing Shop. Both offer a range of services from providing basic information to developing customised itineraries for visitors to Queenstown.

3.2 Financial Performance

The audited financial performance of Shotover Jet for the three years to 30 June 2002 and Grant Samuel's estimate of financial performance for the year to 30 June 2003 are summarised below:

Shotover Jet – Statement of Financial Performance

$000s	**Audited**			**Estimate**
for the year ended 30 June	**2000**	**2001**	**2002**	**2003**
Operating Revenue	22,878	24,970	24,496	25,005
Operating Expenses	(20,439)	(21,220)	(19,347)	(18,513)
EBITDA[1] before Non Trading Items	2,439	3,750	5,149	6,492
Depreciation & Amortisation	(1,283)	(936)	(1,063)	(1,192)
EBIT[2] before Non Trading Items	1,156	2,814	4,086	5,300
Net Interest Expense	(672)	(637)	(448)	(841)
Earnings before Tax & Non Trading Items	484	2,177	3,638	4,459
Non Trading Items	-	2,324	666	-
Net Surplus Before Tax	484	4,501	4,304	4,459
Taxation	-	-	(252)	(1,471)
Net Surplus After Tax	**484**	**4,501**	**4,052**	**2,988**

Source: Shotover Jet Annual Reports, Management Accounts and Budget

[1] EBITDA = Earnings before interest, tax, depreciation and amortisation

[2] EBIT = Earnings before interest and tax

The following notes should be considered when reviewing the financial performance of Shotover Jet:

- Grant Samuel has estimated the financial performance for 2003 based on an assessment of the first two months of trading for the year, the budgets provided by Shotover Jet and management's view of current trading conditions;
- revenue for the year to 30 June 2002 was impacted by a decline in visitor numbers following the September 11 terrorist attacks in the US. Comparative 2001 revenue includes income from the Christchurch Tramway which was sold in the second half of the 2001 financial year;
- revenue in 2002 includes $37,000 (2001, nil) in dividends received from The Station Limited;
- operating expenses for 2002 have benefited from a targeted focus on a cost management programme, implemented as part of a "back-to-basics" approach;
- until 2002 the company had significant tax losses available to offset against assessable income. As a result of using the last of these in the period to 30 June 2002, the company will be in a full tax paying position in the 2003 financial year; and
- non-trading items reflect the following:

Shotover Jet – Non Trading Items		
for the year to 30 June ($000s)	**2001**	**2002**
Profit on Sale of Christchurch Tramway	107	-
Write Up of Shotover River Rights	2,631	-
Jet Boat Research & Development	(583)	
Revaluation of Rainbow Springs land, building and plant	169	666
Total	**2,324**	**666**

  - freehold land and buildings at Rainbow Springs and Farm Park have been revalued based on an independent valuation as at 30 June 2002, with revaluations reflected in the accounts as non-trading items.

3.3 Financial Position

The audited financial position of Shotover Jet for the three years to 30 June 2002 and Grant Samuel's estimate of financial position as at 30 June 2003 are summarised below:

Shotover Jet – Statement of Financial Position				
$000s		**Audited**		**Estimate**
as at 30 June	**2000**	**2001**	**2002**	**2003**
Current Assets	3,145	2,729	2,464	2,880
Investments	50	107	169	169
Intangible Assets	7,960	11,207	11,147	11,081
Fixed Assets	12,924	12,798	13,526	15,310
Total Assets	24,079	26,841	27,306	29,440
Current Liabilities	(2,492)	(2,398)	(2,362)	(1,620)
Net Borrowings	(8,466)	(6,868)	(3,259)	(4,083)
Net Assets	**13,121**	**17,575**	**21,685**	**23,737**
Total Tangible Assets	***16,119***	***15,634***	***16,159***	***18,359***
Borrowings/Total Tangible Assets	***52.5%***	***43.9%***	***20.2%***	***22.2%***

Source: Shotover Jet Annual Reports, Management Accounts and Budget

The following notes should be considered when reviewing the financial position of Shotover Jet:

- Grant Samuel has estimated the financial position for 2003 based on an assessment of the first two months of trading for the year, the budgets provided by Shotover Jet and management's view of current trading conditions;
- investments include Shotover Jet's 50% holding in The Station Limited and its 50% share of The Sightseeing Shop;
- intangible assets primarily reflects the cost to Shotover Jet of brand names and river rights. Deloitte Touche Tohmatsu valued the company's brand names including ***Shotover Jet, Huka Jet*** and ***Dart River Safaris*** at $10.5 million, and the river rights for the Shotover, Huka and Dart Rivers at $12.1 million as at 30 June 2002;

- fixed assets includes land, buildings and certain plant at Rainbow Springs and Farm Park ($8 million, in 2002) recorded at independent valuation;
- net borrowings includes all cash and short term deposits, bank overdrafts, the current portion of term liabilities and term borrowings outstanding as at balance date; and
- the borrowings to total tangible assets ratio has been shown to highlight the improvement in financial position over the past two years as the company has benefited from focussing on its core New Zealand based operations and Fiji Jet.

3.4 Statement of Operating Cash Flows

Shotover Jet cash flows for the three years ended 30 June 2002 and Grant Samuel's estimate of cash flows for the year to 30 June 2003 are summarised below:

Shotover Jet – Statement of Cash Flows

$000s	Audited			Estimate
for the year ended 30 June	**2000**	**2001**	**2002**	**2003**
Net Surplus after Tax	484	4,501	4,052	2,988
Add Back Non Cash Items				
Profit/Loss Sale of Assets	44	(107)	26	-
Revaluation of Assets	242	(2,800)	(666)	-
Amortisation & Depreciation	1,283	936	1,063	1,192
Movements in Working Capital	83	168	161	(390)
Other Items	11	577	64	-
Cash Flow from Operations	2,147	3,275	4,700	3,790
Add Proceeds from Sale of Assets[3]	79	672	6	120
Less Purchase of Fixed Assets/Intangibles	(1,399)	(2,465)	(1,099)	(3,250)
Less Payment of Dividends	-	-	-	(1,191)
Net Cash Flows	**827**	**1,482**	**3,607**	**(531)**

Source: Shotover Jet Annual Reports, Management Accounts and Budget

The following notes should be considered when reviewing the cash flows of Shotover Jet:

- Grant Samuel has estimated the cash flows for 2003 based on an assessment of the first two months of trading for the year, the budgets provided by Shotover Jet and managements view of current trading conditions. Grant Samuel has assumed an interim dividend of 1.5 cents per share will be paid for the 2003 year based on Shotover Jet's dividend policy to distribute 40% of tax paid surpluses;
- except for the 2003 year where capital expenditure includes replacement of the jet boat fleet in Queenstown and 2004, the company expects ongoing depreciation and amortisation to fund required capital expenditure for the foreseeable future;
- other items in 2001 includes the write off of prototype jet boat research costs ($512,000); and
- the company's overall cash position has improved significantly over the past two years providing a strong position from which to fund further capital expenditure programmes in 2003 and to pay dividends.

[3] Includes sale of investments, and fixed assets

3.5 Capital Structure and Ownership

There are approximately 43.3 million Shotover Jet shares on issue. The Top 10 ordinary shareholders as at 2 September 2002 are shown in the following table:

Shotover Jet – Top 10 Shareholders		
as at 2 September 2002	**Number of Shares**	**% on issue**
Ngäi Tahu Tourism Limited	35,806,876	82.6
M Quickfall & J Quickfall & McCulloch Trustees	350,000	0.8
LJ Christie	302,000	0.7
RA McKenzie	178,400	0.4
DJ Stock	150,000	0.4
SO Chin	116,000	0.3
PA Wincenstovich	114,400	0.3
Mawhera Trustee Limited	111,566	0.3
BJ Chesney	110,000	0.3
Wiedeman Trustee Limited	107,500	0.3
Total Top 10	**37,346,742**	**86.2**
Other Shareholders	5,979,925	13.8
Total Shares Issues	**43,326,667**	**100.0**

It should be noted that:

- Shotover Jet listed on the NZSE in October 1993 with a total of 17.0 million shares on issue at $1.00 each;
- in the year to 31 March 1996, 5.91 million shares were issued at $1.10 each to finance the purchase of the of Rainbow Springs and Farm Park businesses. The consideration for Rainbow Springs and Farm Park also included $6.5 million in convertible notes, which converted into ordinary shares in 1998;
- in the year to 31 March 1997, 1.67 million shares were issued at $0.60 each to partially finance the acquisition of the Dart River jet boat business;
- in the year to 31 March 1998, 2.5 million shares were issued at $0.40 each;
- in the year to 31 March 1999, 16.25 million shares were issued at $0.40 each on the conversion of $6.5 million of convertible notes into fully paid ordinary shares; and
- in the period between 10 September 2002 and 7 October 2002 Ngäi Tahu has purchased a further 46,900 shares in Shotover Jet at between $0.60 and $0.61 per share. These shares are not included in the table above. In the Ngäi Tahu Offer documentation of 7 October 2002, Ngäi Tahu disclosed that it owned a total of 35,853,776 (82.75%) shares in Shotover Jet.

3.6 Share Price History

The table below summarises the trading in Shotover Jet shares since early 1999, when Ngäi Tahu originally became a shareholder in the company:

Shotover Jet – Share Price and Trading Volume History

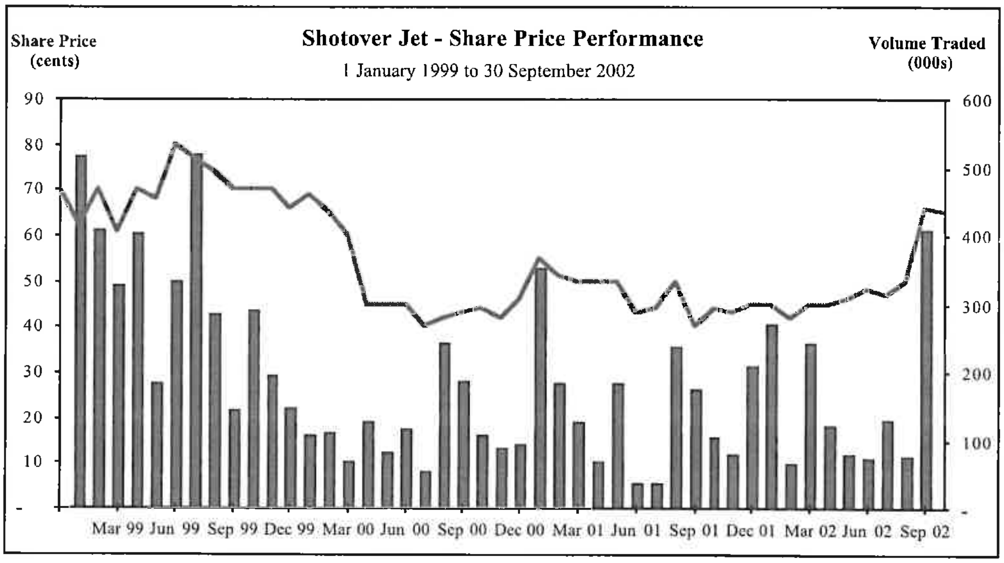
	Share Price ($)			Volume
	High	Low	Close	(000s)
1999 (quarter ended)				
March	0.74	0.55	0.61	1,249.4
June	0.80	0.61	0.80	1,020.2
September	0.95	0.70	0.70	944.1
December	0.72	0.65	0.66	629.1
2000 (quarter ended)				
March	0.72	0.50	0.60	282.4
June	0.60	0.40	0.45	321.7
September	0.48	0.40	0.43	483.2
December	0.46	0.38	0.46	287.6
2001 (quarter ended)				
March	0.60	0.41	0.50	665.2
June	0.53	0.43	0.43	287.5
September	0.56	0.36	0.40	446.2
December	0.48	0.38	0.45	389.6
2002 (month ended)				
January	0.45	0.40	0.45	270.0
February	0.46	0.42	0.42	63.8
March	0.53	0.42	0.45	242.5
April	0.50	0.42	0.50	120.8
May	0.49	0.45	0.46	78.6
June	0.49	0.46	0.48	74.0
July	0.48	0.46	0.46	128.5
August	0.50	0.45	0.50	76.9
September (week ended)				
6 September	0.58	0.50	0.50	74.1
13 September	0.64	0.60	0.62	141.5
20 September	0.62	0.62	0.62	2.6
27 September	0.66	0.61	0.66	191.5
October (week ended)				
4 October	0.69	0.65	0.65	8.0

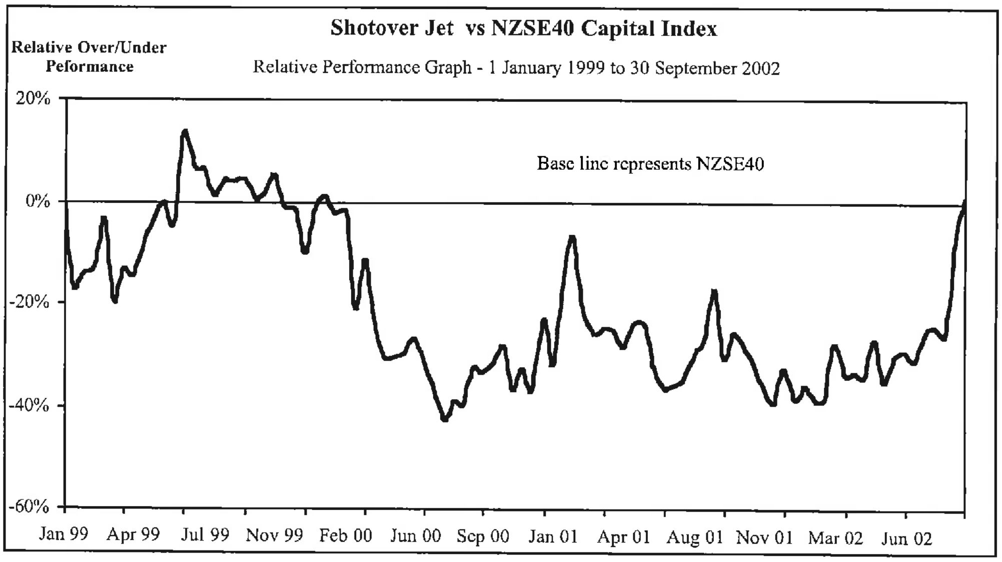
Source: Datex

The following notes should be considered when reviewing the price history of the above table:

- in August 1999 NTTL purchased 17.69 million shares in Shotover Jet from Hokonui at $1.05 per share;
- in July 2000 NTTL purchased a further 2.2 million Shotover Jet shares from interests associated with Hokonui;
- in November 2000 NTTL purchased 1.2 million Shotover Jet shares from Armada, a company associated with the then Managing Director of Shotover Jet, Mr James Boult, at $1.00 per share;
- in March 2001 NTTL purchased the remaining 13.2 million Shotover Jet shares owned by Armada at $0.993 per share;
- between August 1999 and July 2002 NTTL purchased approximately 1.5 million shares in Shotover Jet at various prices on the market;
- Ngäi Tahu delivered an original Takeover Notice to Shotover Jet on 10 September 2002 advising of its intention to offer $0.60 for all of the shares in Shotover Jet that it did not own; and
- on 7 October 2002, Ngäi Tahu delivered additional information in respect of the Takeover Notice of 10 September, including notice of an increase in the offer price to $0.70 per share.

The share price performance of Shotover Jet shares is illustrated in the following graphs:





4. Valuation of Shotover Jet

4.1 Summary

Shotover Jet has been valued in the range of $35.4 million to $40.9 million. This value range corresponds to a value of $0.82 to $0.94 per share, assuming that the final dividend of 1.25 cents per share has been paid to shareholders.

4.2 Methodology

Grant Samuel has assessed the value of Shotover Jet by estimating the fair market value of its operating divisions and other assets and deducting external borrowings. The valuation is on the basis of full value as a going concern in an open market over a reasonable period of time assuming potential buyers have full information.

This value is appropriate for the acquisition of the company as a whole and accordingly incorporates a premium for control. The value is in excess of the level at which, under current market conditions, shares in Shotover Jet could be expected to trade on the sharemarket. Shares in a company normally trade at a discount of 15 to 25 per cent to the underlying value of the company.

The most reliable evidence as to the value of a business is the price at which the business or a comparable business has been bought and sold in an arm's length transaction. In the absence of direct market evidence of value, estimates of value are made using methodologies that infer value from other available evidence. There are four primary valuation methodologies commonly used for valuing businesses:

- capitalisation of earnings or cash flows;
- discounting of projected cash flows;
- industry rules of thumb; and
- estimation of the aggregate proceeds from an orderly realisation of assets.

Each of these valuation methodologies has application in different circumstances. The primary criterion for determining which methodology is appropriate is the actual practice adopted by purchasers of the type of business involved.

Industry rules of thumb are commonly used in some industries. These are generally used by a valuer as a "cross check" of the result determined by a capitalised earnings valuation or by discounting cash flows. While they are only used as a "cross check" in most cases, industry rules of thumb can be the primary basis on which buyers determine prices in some industries. In any event, it must be recognised that rules of thumb are usually relatively crude and prone to misinterpretation.

Valuations based on an estimate of the aggregate proceeds from an orderly realisation of assets are commonly applied to businesses that are not going concerns. They effectively reflect liquidation values and typically attribute no value to any goodwill associated with ongoing trading.

Grant Samuel has assessed the value of Shotover Jet using a capitalisation of earnings approach, supported by a discounted cash flow analysis.

4.2.1 Capitalisation of Earnings

Capitalisation of earnings or cash flows is the most commonly used method for valuation of operating businesses. This methodology is most appropriate for businesses with a substantial operating history and a consistent earnings trend that is sufficiently stable to be indicative of ongoing earnings potential. This methodology is not particularly suitable for start-up businesses, businesses with an erratic earnings pattern or businesses that have unusual expenditure requirements. This methodology involves capitalising the earnings or cash flows of a business at a multiple that reflects the risks of the business and the stream of income that it generates. These multiples can be applied to a number of different earnings or cash flow measures including EBITDA, EBITA, EBIT or net profit after tax. These are referred to respectively as EBITDA multiples, EBITA multiples, EBIT multiples and price earnings multiples. Price earnings multiples are commonly used in the context of the sharemarket. EBITDA, EBITA and EBIT multiples are more commonly used in valuing whole businesses for acquisition purposes where gearing is in the control of the acquirer.

Where an ongoing business with relatively stable and predictable cash flows is being valued, Grant Samuel uses capitalised earnings or operating cash flows as a primary reference point. Application of this valuation methodology involves:

- estimation of earnings or cash flow levels that a purchaser would utilise for valuation purposes having regard to historical and forecast operating results, non-recurring items of income and expenditure and known factors likely to impact on operating performance; and

- consideration of an appropriate capitalisation multiple having regard to the market rating of comparable businesses, the extent and nature of competition, the time period of earnings used, the quality of earnings, growth prospects and relative business risk.

The choice between EBITDA, EBITA or EBIT is usually not critical and should give a similar result. All are commonly used in the valuation of operating businesses. EBITDA can be preferable if depreciation or non-cash charges distort earnings or make comparisons between companies difficult.

In determining a value for Shotover Jet, Grant Samuel has placed primary reliance on EBITDA multiples. The implied multiples for Shotover Jet have been compared with the EBITDA multiples derived from an analysis of comparable listed companies and transactions involving comparable businesses.

Selection of the appropriate earnings multiple is usually the most judgemental element of a valuation. Definitive or even indicative offers for a particular asset or business can provide the most reliable support for selection of an appropriate earnings multiple. In the absence of meaningful offers, it is necessary to infer the appropriate multiple from other evidence. The primary approach used by valuers is to determine the multiple that other buyers have been prepared to pay for similar businesses in the recent past. However, each transaction will be the product of a unique contribution of factors, including:

- economic factors (such as economic growth, inflation and interest rates) affecting the markets in which the company operates;
- strategic attractions of the business - its particular strengths and weaknesses, market position of the business, strength of competition and barriers to entry;
- rationalisation or synergy benefits available to the acquirer;
- the structural and regulatory framework;
- investment and sharemarket conditions at the time; and
- the number of competing buyers for a business.

A pattern may emerge from transactions involving similar businesses with sales typically taking place at prices corresponding to earnings multiples within a particular range. This range will generally reflect the growth prospects and risks of those businesses. Mature, low growth businesses will, in the absence of other factors, attract lower multiples than those businesses with potential for significant growth in earnings.

An alternative approach used by valuers is to review the multiples at which shares in listed companies in the same industry sector trade on the sharemarket. This gives an indication of the price levels at which portfolio investors are prepared to invest in these businesses. Share prices reflect trades in small parcels of shares (portfolio interests) rather than whole companies. To convert sharemarket data to meaningful information on the valuation of companies as a whole, it is market practice to add a "premium for control" to allow for the premium which is normally paid to obtain control through a takeover offer. This premium in terms of equity values (ie. share prices) is typically in the range 20 to 35 per cent (but is lower based on ungeared values).

The premium for control paid in takeovers is observable but caution must be exercised in assessing the value of a company or business based on the market rating of comparable companies or businesses. The premium for control is an outcome of the valuation process, not a determinant of value. Premiums are paid for reasons which vary from case to case and may be substantial due to synergy or other benefits available to the acquirer. In other situations premiums may be minimal or even zero. It is inappropriate to apply an average of 20 to 35 per cent without having regard to the circumstances of each case. In some situations there is no premium. There are transactions where no corporate buyer is prepared to pay a price in excess of the prices paid by institutional investors through an initial public offering.

Acquisitions of listed companies in different countries can be analysed for comparative purposes, but it is necessary to give consideration to differences in overall sharemarket levels and ratings between countries, economic factors (such as economic growth, inflation and interest rates) and market structures and the regulatory framework. It is not appropriate to adjust multiples in a mechanistic way for differences in interest rates or sharemarket levels.

The analysis of comparable transactions and sharemarket prices for comparable companies will not always lead to an obvious conclusion as to which multiple or range of multiples will apply. There will often be a wide spread of multiples and the application of judgement becomes critical. Moreover, it is necessary to consider the particular attributes of the business being valued and decide whether it warrants a higher or lower multiple than the comparable companies. This assessment is essentially a judgement.

4.2.2 Discounted Cash Flow

Discounting of projected cash flows has a strong theoretical basis. It is the most commonly used method for valuation in a number of sectors and for the valuation of start-up projects where earnings during the first few years can be negative. Discounted cash flow valuations involve calculating the net present value of projected cash flows. The cash flows are discounted using a discount rate which reflects the risk associated with the cash flow stream. Considerable judgement is required in estimating future cash flows and the valuer generally places great reliance on medium to long term projections prepared by management. In addition, even where cash flow forecasts are available for up to, say, ten years, the terminal or continuing value is usually a high proportion of value. Accordingly, the multiple used in assessing this terminal value becomes the critical determinant in the valuation (ie, it is a "de facto" cash flow capitalisation valuation). The net present value is typically extremely sensitive to relatively small changes in underlying assumptions, few of which are capable of being predicted with accuracy, particularly beyond the first two or three years. The arbitrary assumptions that need to be made and the width of any value range mean the results are often not meaningful or reliable. Notwithstanding these limitations, discounted cash flow valuations are commonly used in valuing companies and can at least play a role in providing a check on alternative methodologies, not least because of the explicit and relatively detailed assumptions as to expected future performance that need to be made. In this case, they can capture some of the critical issues such as price cyclicality and capital expenditure timing and implementation of price increases.

4.3 Analysis

Shotover Jet has been valued in the range of $35.4 million to $40.9 million. This value range corresponds to a value of $0.82 to $0.94 per share, assuming that the final dividend of 1.25 cents per share has been paid to shareholders. The valuation represents the full underlying value of Shotover Jet assuming 100 per cent of the company is available to be acquired and includes a premium for control which shareholders should expect to receive in a full takeover offer. The value exceeds the price at which, based on current market conditions, Grant Samuel would expect Shotover Jet shares to trade on the stock exchange in the absence of a takeover offer.

The valuation is summarised below:

Shotover Jet – Summary of Value		
$ million	**Value Range**	
	Low	**High**
Value of business operations	40.0	45.5
Capital expenditure adjustment	(1.5)	(1.5)
Enterprise value	**38.5**	**44.0**
Other assets	1.0	1.0
Dividend paid	(0.5)	(0.5)
Net borrowings at 31 August 2002	(3.6)	(3.6)
Equity value	**35.4**	**40.9**
Number of shares on issue (million)	43.3	43.3
Equity value per share ($)	**$0.82**	**$0.94**

When considering the value attributed to Shotover Jet in the above table the following points should be considered:

- Grant Samuel has valued the business operations of Shotover Jet using capitalisation of earnings and discounted cash flow analysis as described above;

- the capital expenditure adjustment reflects the fact that in 2003 and 2004 Shotover Jet is budgeting a higher level of capital expenditure than:

  - has been historically experienced;
  - is forecast for future years beyond 30 June 2004; and
  - current levels of depreciation.

  Any purchaser of the company would take this temporary increase in capital expenditure into account. The quantum of the adjustment is judgemental and inevitably arbitrary. Some of the capital expenditure is related to building the infrastructure for the expanded business and some is related to new business ventures or improvements to services provided. Capital expenditure will facilitate future earnings growth by allowing budgeted increases in prices. On balance a $1.5 million adjustment is considered appropriate;

- Shotover Jet's only significant non-operating asset is surplus farmland surrounding the Rainbow Farm Park complex. Shotover Jet has advised that the estimated market value of the surplus land is approximately $1.0 million;

- Shotover Jet announced a final dividend of 1.25 cents per share on 3 September 2002. The dividend will be paid on 25 October 2002 based on the share register at the close of business on 11 October 2002. On 10 September 2002 Ngäi Tahu notified the company of its intention to make an offer for all of the shares of Shotover Jet. Ngäi Tahu confirmed in the additional information provided on 7 October 2002 that the dividend will be received by all shareholders regardless of whether they accept the Ngäi Tahu Offer or not; and

- the net borrowings of Shotover Jet as at 31 August 2002 of $3.6 million is the aggregate of all borrowings of the company less cash on hand.

4.3.1 Capitalisation of Earnings

The estimated value implies the following capitalisation multiples:

Shotover Jet – Multiples implied by Valuation			
		Low	High
Value range (per share)		$0.82	$0.94
Enterprise value (millions)		$38.5	$44.0
EBITDA multiples	- 2002 actual	7.5	8.5
	- 2003 estimate	5.9	6.8
EBIT multiples	- 2002 actual	9.4	10.8
	- 2003 estimate	7.3	8.3

The 2003 estimates of EBITDA and EBIT used to calculate the implied multiples in the above table are based on Grant Samuel's estimate of the results for Shotover Jet for the year ending 30 June 2003 based on an assessment of trading for the months of July and August 2002 and the Shotover Jet budget for the remainder of the year. As both estimated EBITDA and EBIT are significantly greater than those achieved in 2002 the implied multiples based on 2002 EBITDA and EBIT are high.

The future levels of Shotover Jet's earnings may be influenced by a number of factors both within and outside the control of the company. Tourism businesses are subject to changing demands of customers, the actions of competitors, adverse weather conditions, the value of the New Zealand dollar and changes in the New Zealand and foreign economies. More specific risk factors include:

- in June 2001 Shotover Jet employed a new Chief Executive Officer. Since this time a detailed strategic plan has been developed based on thorough analysis of the profitability of each market segment for each operation. The strategic plans for each of the companies were approved by the Board at its April 2002 Board Meeting. The financial performance of the company throughout 2002 improved significantly and the budget for 2003 incorporates further objectives developed as part of the plan. The improved performance to some extent can be attributed to the current management team. As with any business there is no guarantee that the current management team will remain intact and/or continue to perform;

- an adverse change in local and/or world economic conditions, including the value of the New Zealand dollar against the currencies of New Zealand's major trading partners, may have a negative impact on tourism;

- an adverse change in local and/or world tourism demand as a result of extraordinary events such as the September 11 terrorist attacks in the US may have a negative impact on overall consumer confidence and current trends in leisure spending and therefore impact on revenues earned from Shotover Jet's assets;

- issues in respect of competition for tourism revenue from current and emerging competitive product offerings may have a future negative impact on Shotover Jet generally;

- any decline in passenger numbers when Shotover Jet introduces its planned price increases;

- Shotover Jet's jet boat experiences, as with other adventure tourism attractions, contain an element of risk. While the company is continually working to improve the safety of its rides it is impossible to mitigate all risk associated with the adventure tourism industry. Future earnings may be negatively impacted by any injury or fatality within the industry; and

- adverse weather conditions in any of the localities in which Shotover Jet operates.

Market Evidence from Comparable Listed Companies

The following table summarises the market evidence derived from prices at which shares in selected companies are trading:

Sharemarket Ratings of Selected Comparable Listed Companies

	Year End	Market Cap ($m)	EBITDA Multiple		EBIT Multiple	
			Actual	Forecast	Actual	Forecast
Shotover Jet - pre offer	30 Jun	21.7	4.8	3.8	6.1	4.7
Shotover Jet - Ngäi Tahu Offer	30 Jun	26.0	5.7	4.5	7.2	5.5
New Zealand ($NZ)						
New Zealand Experience	30 Jun	8.9	5.3	nc	9.0	nc
Tourism Holdings	30 Jun	94.3	3.1	2.8	13.0	7.7
Australia ($A)						
Aircruising Australia	30 Jun	1.0	1.9	nc	4.4	nc
Macquarie Leisure Trust	30 Jun	94.8	8.7	9.1	10.5	10.2
Macro Corporation	31 Dec	4.6	7.3	nc	nc	nc
Sydney Aquarium	30 Jun	104.4	9.3	8.4	12.0	10.5
Sydney Aquarium - see note	30 Jun	87.0	7.8	7.0	10.1	8.8
Average			**5.7**	**6.3**	**9.6**	**8.9**

Source: Annual Reports, Brokers' Reports

In reviewing the above information it should be noted that:

- the trading multiples of Shotover Jet have been calculated using Grant Samuel's estimate of earnings for 2003 based on an assessment of the first two months of trading for the year, the budgets provided by Shotover Jet and management's view of current trading conditions and a price of $0.50 per share, being the closing share price on 9 September 2002, the day prior to Ngäi Tahu's notice of offer being received by the company;

- the multiples implied by the Ngäi Tahu Offer have been calculated for comparable purposes;

- the trading multiples for all other companies are based on the closing share prices on 20 September 2002. The share prices, and therefore the multiples, do not include a premium for control. Shares in a company normally trade at a discount to the underlying value of the company as a whole;

- the balance dates vary across the selection of comparable companies. Caution needs to be exercised in comparing the implied earnings multiples over different financial periods;

- the calculated average shown across New Zealand and Australia excludes the trading multiples of Shotover Jet, Tourism Holdings and those calculated for Sydney Aquarium at its current share price;

- New Zealand Experience owns and operates the Rainbow's End theme park in Manukau City. Since the sale of the Christchurch Gondola and Function Centre in June 2001 Rainbow's End has been the company's only significant asset. Emerald Capital holds 82.23% of the company's shares and trading in its shares is relatively limited;

- Tourism Holdings provides campervan rental services (through Maui and Britz) and package bus tours (including Johnstons and Kiwi Experience) around New Zealand. The company also owns the Kelly Tarton's Underwater World, Waitomo Glow Worm Cave and Milford Sound Red Boat Cruises tourist attractions. In Australia, the company is the largest motorhome fleet operator and operates Oz Experience backpacker coach tours. In South Africa and Namibia, the company operates its Maui and Britz motorhome fleet services. Tourism Holdings has high levels of depreciation and amortisation which distorts the EBIT multiples calculated;

- Aircruising Australia operates luxury air travel trips across Australia and internationally. The company was founded by an Australian television travel journalist, Bill Peach, and subsequently listed in 1986 when it acquired its first aircraft (rather than relying on leased aircraft). Despite revenue of A$7.3 million for the year to 30 June 2002 the company performed poorly with an EBIT of approximately A$0.2 million. Early in 2002 the company introduced Focus Journeys utilising a combination of travel modes including air flights and 4WD road travel;

- Macquarie Leisure Trust owns the Dreamworld theme park located on the Gold Coast in Queensland, together with four marinas throughout New South Wales. Dreamworld provided over 70% of the companies EBIT in the year to 30 June 2002;

- Macro Corporation operates Ocean Spirit Cruises and Ocean Spirit Dive and Vagabond Cruises. The company commenced operations in 1988 and conducts sailing and catamaran cruises in Sydney, Melbourne and Cairns;

- Sydney Aquarium owns and operates an aquarium located at Darling Harbour in Sydney. In May 2002 the company announced that it will expand its site by developing a native wildlife park to be called Australia's Animal World. As a result of the announcement Sydney Aquarium's share price increased from around A$4.00 per share to the current level of around A$4.80 per share, suggesting that the market has already built into the company's value some portion of the expected earnings increase. Grant Samuel has calculated multiples of earnings for Sydney Aquarium at both the current share price and at A$4.00 per share;

- there are few listed companies comparable to Shotover Jet in New Zealand or Australia. New Zealand Experience is the owner of Rainbow's End which although in the leisure and tourism industry is not exposed to the tourist market to the same extent as Shotover Jet. Tourism Holdings owns campervan rental businesses and bus tour operations in New Zealand, Australia and South Africa. In particular, the campervan business has high capital expenditure relative to revenue compared with Shotover Jet's operation. Similarly in Australia there are few truly comparable companies with businesses of similar size and diversity to Shotover Jet; and

- the multiples calculated are in line with ABN Amro's forecast EBITDA multiple for Australian smaller companies operating in the tourism and leisure sector of 6.7 times for Autumn 2002.

Market Evidence from Comparable Transactions

The following table summarises the market evidence derived from comparable transactions in New Zealand and Australia:

Recent Comparable Transaction Evidence

Date	Target	Transaction	Price ($m)	EBITDA Multiple		EBIT Multiple	
				Actual	Forecast	Actual	Forecast
New Zealand ($NZ)							
May 01	Christchurch Gondola	Sold to Armada	1.4	3.7	nc	5.5	nc
Australia ($A)							
Feb 02	Sea World	Takeover by Consortium	187.2	9.1	7.1	13.9	nc

Source: Annual Reports, Independent Expert Reports

In reviewing the above information the following points should be considered:

- in May 2001 New Zealand Experience sold the Christchurch Gondola to Armada for approximately $1.4 million. New Zealand Experience retained the land surrounding the base station and has entered into a lease of that land to the new owner. Multiples calculated are based on earnings for the eleven months prior to the sale pro-rated to give estimated actual earnings for that year;

- Sea World Property Trust owned the Sea World theme park, a 33% interest in the Movie World and Wet'n'Wild theme parks and a film studio, and a 50% interest in the Sea World Nara Resort. All assets are based on the Gold Coast in Queensland. In April 2001 Warner Bros and Village Roadshow jointly announced their intention to make an offer of A$0.72 per unit of the Sea World Property Trust. The offer was actually made at A$0.82 per unit in May 2001. Through this offer the consortium increased its holding of the trust from 68.4% to 85.7%. In December 2001 a new offer was made at A$0.90 per unit and by 23 January 2002 the consortium announced it held 97.4% of the units and intended to proceed to compulsory acquisition;

- there are few transactions in the tourism and leisure industry in New Zealand or Australia for which details are publicly disclosed. For example Tourism Holdings has recently announced the sales of a number of assets including the Treble Cone Ski Area and 50% holdings in the Helicopter Line and Milford Sound Flightseeing. Each would be a comparable transaction and provide earnings multiples applicable to the valuation of Shotover Jet, however no financial details were provided in any of the announcements relating to these sales; and

- the Christchurch Gondola transaction is of significantly lower value than the combined assets of Shotover Jet resulting in lower multiples than those implied by Grant Samuel's valuation of Shotover Jet. Conversely Sea World is significantly larger with the implied multiples by the transaction greater than those Grant Samuel has calculated for Shotover Jet.

4.3.2 Discounted Cash Flow

Grant Samuel has prepared a financial model to forecast the future cash flows for Shotover Jet. The cash flows have been forecast for the ten years to 30 June 2013 on an ungeared nominal basis after allowing for notional corporate tax. The primary assumptions used in developing the discounted cash flow model are outlined below:

- ***Revenue Growth*** - Shotover Jet's assets performed well during the past financial year despite a general downturn in tourism during the early part of the year and the later effects of the September 11 attacks in the US. Shotover Jet management have forecast growth of passenger/visitor numbers over the next two years but, more significantly, growth of prices. The following table summarises the range of growth scenarios assumed by Grant Samuel to determine the low and high range of the discounted cash flow valuation:

Shotover Jet Limited – Growth and Tariff Forecasts

	First two years		Years
	Low	High	3 to 10
Jets			
Passenger Numbers	2.0%	3.0%	1.0%
Prices	4.8%	7.3%	2.0%
Rainbow Springs			
Visitor Numbers	2.6%	3.9%	1.0%
Prices	5% and 2.5%	7.5% and 3.8%	2.0%

Source: Grant Samuel Assumptions

- ***Direct Costs*** - Shotover Jet's management are forecasting increases in gross margin over the period of the three year strategic marketing plans. Beyond this period Grant Samuel has assumed that gross margin will remain constant;

- ***Other Costs*** - All other costs are forecast to grow in line with inflation which is assumed to be 2%. Taxation has been calculated at the corporate tax rate of 33%;

- ***Capital Expenditure*** - Shotover Jet has a number of capital projects underway or planned over the three years of its strategic plan. These projects have been planned to improve customer satisfaction by the provision of a superior "experience" or to cater for increased passenger/visitor numbers. For example, Shotover Jet is in the process of purchasing new jet boats for the Shotover operation, the retail complex at the Queenstown Shotover base is to be refitted and a new walkway bridge and aviary are planned for Rainbow Springs. Long term capital expenditure is assumed to be in line with depreciation; and

- ***Discount Rate*** - The discount rate of 12.2% has been calculated using a weighted average cost of capital ("WACC") with the cost of equity calculated using the Capital Asset Pricing Model ("CAPM").

The discounted cash flow model establishes a range of values for the operating assets of Shotover Jet of between $41.9 million and $49.1 million. Discounted cash flow analysis is heavily dependent on the assumptions adopted and the net present value is typically sensitive to small changes in assumptions. The discounted cash flow valuation of Shotover Jet is no exception, exhibiting significant variability to changes in passenger and/or visitor growth, price increases and discount rates.

5. Evaluation of the Merits of the Ngäi Tahu Offer

5.1 The Ngäi Tahu Offer is Not Fair

In Grant Samuel's opinion the full underlying value of Shotover Jet is in the range of $0.82 to $0.94 per share. This value range assumes that the final dividend of 1.25 cents per share declared by the Board on 3 September 2002 has been paid, such that the value range is comparable to the Ngäi Tahu Offer. The Ngäi Tahu Offer is $0.70 cash for each ordinary share. Under the Ngäi Tahu Offer shareholders will also receive the 1.25 cents per share final dividend. As the Ngäi Tahu Offer price is below Grant Samuel's assessment of the underlying value of Shotover Jet it is considered to be not fair.

The Ngäi Tahu Offer represents a premium of 40% to the closing price of $0.50 per share on 9 September 2002, being the day prior to the initial announcement that Ngäi Tahu intended making a takeover offer for Shotover Jet. This premium is broadly consistent with premiums for control observed in takeovers.

In some takeovers there are factors that might suggest that even if an offer is not fair shareholders should consider accepting the offer. In this instance, there do not appear to be any compelling reasons for shareholders to accept a takeover offer that is between 15% and 25% below the full underlying value. Notwithstanding this conclusion it is likely that the share price for Shotover Jet shares as traded on the NZSE may not reach the valuation as determined by Grant Samuel.

Value can only be properly judged in the context of current circumstances. The price of $0.70 per share is not considered fair in today's circumstances. It could be that, by waiting for some period, a better price could be achieved for Shotover Jet. Any future price would reflect the future operating performance of Shotover Jet and the outlook and equity market conditions at the time. These may or may not reflect conditions as they are at present.

5.2 Other Merits of the Ngäi Tahu Offer

In assessing the merits of the Ngäi Tahu Offer, Grant Samuel considered the following factors:

- the Ngäi Tahu Offer is being made to all shareholders of Shotover Jet. Ngäi Tahu and interests associated with Ngäi Tahu already own or control in excess of 82.7% of the ordinary shares in Shotover Jet. If Ngäi Tahu is not successful in achieving the 90% compulsory acquisition threshold at its current offer price it may or may not choose to increase its offer. If Ngäi Tahu chooses to increase its offer the increased price will be available to all shareholders even if they have already accepted the $0.70 per share offer. Acquisition of 100% is likely to be Ngäi Tahu's preferred outcome, as this will give Ngäi Tahu access to all of the cash flow of Shotover Jet and will enable Ngäi Tahu to fully control the strategy and operations of Shotover Jet going forward. In addition, it is believed that tax advantages may be available to Ngäi Tahu from 100% ownership of Shotover Jet. Delisting Shotover Jet from the NZSE will also result in cost savings to Shotover Jet. A valid strategy for minority shareholders may be to resist the Ngäi Tahu Offer such that if Ngäi Tahu does not appear likely to be able to achieve the 90% threshold it may consider increasing its offer to more than $0.70 per share. However this strategy carries risks for current shareholders. Whilst it may be desirable there is no evidence that Ngäi Tahu will definitely seek to obtain 100% of Shotover Jet. Ngäi Tahu may be content to leave Shotover Jet as a separate listed company under its control. In any event, even if it did want 100%, Ngäi Tahu may be content to "creep" towards the 90% threshold over time by buying a further 5% per annum or by making partial takeovers. It could take Ngäi Tahu less than two years to reach the 90% threshold (and probably considerably less) if it adopted this strategy;

- the rules under the Takeovers Code will impact the outcome of the Ngäi Tahu Offer. The Takeovers Code specifies that for Ngäi Tahu to effect the compulsory acquisition procedure under the current offer it must achieve acceptance of a minimum of 50% of the remaining shares in Shotover Jet thereby taking its holding to 91.4%. In the event that the current Ngäi Tahu Offer expires and Ngäi Tahu achieves acceptances of less than 50% of the outstanding shares, but enough to take their holding to 90%, then Ngäi Tahu will be in a position to issue an Acquisition Notice under the Takeovers Code in respect of the balance of the shares outstanding in Shotover Jet.

Through an Acquisition Notice, Ngäi Tahu may make an offer for the balance of the shares in Shotover Jet at a price that differs from its current offer. If an objection to any new price is received Ngäi Tahu is required to have Shotover Jet's shares valued by an independent third party. Ngäi Tahu will be required, under the Takeovers Code, to pay the value as determined by that valuation to all remaining shareholders.

This is a key distinction to the compulsory acquisition scenario where the price for the remaining shares must be equal to the takeover offer price.

Whilst the above scenario is complex, specific to the current Ngäi Tahu/Shotover Jet position and dependent on a number of conditions being satisfied, it does offer an opportunity under which shareholders who reject the current offer may receive a better value at some point in the future;

- if insufficient shareholders accept the offer and Ngäi Tahu does not achieve the 90% compulsory acquisition threshold then Shotover Jet will remain a listed company controlled by Ngäi Tahu. In these circumstances:

  - liquidity of Shotover Jet shares is likely to contract further as Ngäi Tahu continues to acquire shares on the market by way of the "creep" provisions inherent in the Takeovers Code. Ngäi Tahu has advised that it will continue to buy on market under those provisions during the period of the Ngäi Tahu Offer. If Ngäi Tahu were to purchase all of the shares that it is entitled to under the "creep" provisions on market, it could increase its shareholding to no more than 85.5% of the issued shares in Shotover Jet at any time up to 8 April 2003;
  - there is no guarantee that Ngäi Tahu will maintain the current dividend policy of Shotover Jet being 40% of the tax paid surplus subject to certain conditions being maintained;
  - the trading price of Shotover Jet shares could be further impacted by the reduced liquidity, and any change in dividend policy. In the three months prior to the announcement of the Ngäi Tahu Offer, Shotover Jet shares traded in the range of \$0.45 to \$0.58 per share with a weighted average daily closing price over the period of \$0.44 per share;
  - remaining shareholders will be exposed to risks associated with future performance of the Shotover Jet business; and
  - remaining shareholders will also continue to be exposed to the future state of local and international equity markets, economic conditions and interest rates each of which could affect the market price of securities;

- Ngäi Tahu has, through various subsidiary companies, purchased significant shareholdings in Shotover Jet on two previous occasions without making a full takeover offer. In August 1999 Ngäi Tahu purchased 17.7 million shares from Hokonui at a price of \$1.05 per share, and in March 2001 Ngäi Tahu purchased 13.2 million shares from Armada at \$0.99 per share. Both transactions were effected at prices significantly above the then prevailing share price for Shotover Jet. Whilst each of these transactions were part of an original agreement in July 1999 for Ngäi Tahu to invest in Shotover Jet, these were not full or partial takeover offers capable of being accepted by other shareholders. If the Takeovers Code had been in existence at the time that Ngäi Tahu entered into the agreements to acquire these shares, Ngäi Tahu would have been required to make an offer to all shareholders at the same price;

- in the financial year to 30 June 2000 Shotover Jet reported EBITDA of \$2.4 million and for the following year EBITDA was \$3.8 million. On September 3, 2002 Shotover Jet announced its results for the period to 30 June 2002. These results demonstrate a significant improvement in earnings with an EBITDA of \$5.1 million, a strengthening balance sheet and, in particular, an improved cash position supporting the resumption of the payment of dividends by the company. The final dividend to be paid for the year ended 30 June 2002 represents the first dividend to be paid by the Company since 1999. The Directors of Shotover Jet believe that the company is well positioned to meet its future capital expenditure and debt funding requirements and to continue to pay dividends at levels of up to 40% of after tax surpluses subject to certain conditions going forward. Shotover Jet has undergone significant changes in strategy since its inception in 1993, and these changes have contributed in part to the volatility in the financial performance of the company over that period. Following the appointment of its new Chief Executive Officer, Shotover Jet has now settled on a strategy for growth of its core businesses. In Grant Samuel's opinion the most recent operational and strategic developments within Shotover Jet are yet to be fully reflected in the share price of Shotover Jet;

- it is unlikely that an offer from another party will eventuate for all of the shares in Shotover Jet unless Ngäi Tahu is prepared to sell its current stake in the company. Furthermore there are no other shareholders in the company with a shareholding that exceeds 1% of the issued capital of the company. There are approximately 1,200 individual shareholders with relatively small holdings. A third party is unlikely to pay a premium to buy these small shareholdings on the market when Ngäi Tahu controls such a large stake in the company, unless Ngäi Tahu was prepared to sell its stake to that third party;

- the price for shares of Shotover Jet as traded on the NZSE has remained at levels below the Grant Samuel valuation for a significant period of time. This can be attributed to a number of reasons:

  - there is limited liquidity in the stock due to the fact that Ngäi Tahu controls in excess of 82.7% of the total shares outstanding. As less than 18% of the shares are held by other investors there are few shares available to provide a robust market on a daily basis;
  - the results for Shotover Jet over many years have been impacted by poorly performing assets, poor economic conditions and investments away from Shotover Jet's core business activities; and
  - Shotover Jet has a current market capitalisation of approximately $27 million. The company has been too small to attract the ongoing interest of the major institutional investors and the major research analysts in New Zealand who tend to concentrate on stocks that make up the main NZSE share indices. Therefore the market does not receive timely, updated research analysis on Shotover Jet and there is no demand for Shotover Jet shares from institutional investors.

  In Grant Samuel's opinion, apart from the fact that financial results are clearly improving, the limited liquidity, lack of size and limited institutional interest in the company will continue to impact on share price performance of Shotover Jet should it remain as a listed company. Furthermore, there is a high likelihood that the price for Shotover Jet shares on the NZSE will not reach the level of the valuation; and

- the ongoing operations of the Shotover Jet business are subject to a number of risks in respect of the tourism and leisure sector. As well as being exposed to changes in world and local economic conditions, the change in value of the New Zealand dollar relative to the currencies of the tourists that visit New Zealand and weather and visitor numbers, Shotover Jet is particularly exposed to the risk of not having its river concessions renewed and the risk of accidents on any of its high action jet boat attractions.

5.3 Acceptance or Rejection of the Ngäi Tahu Offer

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

6. Qualifications, Declarations and Consents

6.1 Qualifications

Grant Samuel and its related companies provide financial advisory services to corporate and other clients in relation to mergers and acquisitions, capital raisings, corporate restructuring, property and financial matters generally in Australia and New Zealand. One of its activities is the preparation of company and business valuations and the provision of independent advice and expert's reports in connection with mergers and acquisitions, takeovers and capital reconstructions. Since its inception in 1988, Grant Samuel and its related companies have prepared more than 250 public expert or appraisal reports.

The persons responsible for preparing this report on behalf of Grant Samuel are Michael Lorimer, BCA, CA, Simon Cotter, BCom, DipAppFin, Peter Fredricson, BCom, ACA and Nicola Taplin BE (Chem), DipBus(Fin). Each has a significant number of years experience in relevant corporate advisory matters.

6.2 Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than as an expression of Grant Samuel's opinion on the fairness and merits of the Ngäi Tahu Offer. Grant Samuel expressly disclaims any liability to any Shotover Jet shareholder that relies or purports to rely on this report for any other purpose and to any other party who relies or purports to rely on this report for any purpose.

This report has been prepared by Grant Samuel with care and diligence and the statements and opinions given by Grant Samuel in this report are given in good faith and in the belief on reasonable grounds that such statements and opinions are correct and not misleading. However, no responsibility is accepted by Grant Samuel or any of its officers or employees for errors or omissions however arising in the preparation of this report, provided that this shall not absolve Grant Samuel from liability arising from an opinion expressed recklessly or in bad faith.

6.3 Independence

Grant Samuel does not have at the date of this report, and has not had within the previous two years, any shareholding in or other relationship with Shotover Jet or Ngäi Tahu, that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Ngäi Tahu Offer. Grant Samuel had no part in the formulation of the proposed transaction. Its only role has been the preparation of this report and its summary.

Grant Samuel will receive a fixed fee for the preparation of this report. This fee is not contingent on the outcome of the Ngäi Tahu Offer. Grant Samuel will receive no other benefit for the preparation of this report. Accordingly, Grant Samuel considers itself to be independent for the purposes of the NZSE Listing Rules and the Takeovers Code.

6.4 Information

Grant Samuel has obtained all information, which it believes is desirable for the purposes of preparing this report, including all relevant information which is or should have been known to any Director of Shotover Jet and made available to the Directors. Grant Samuel confirms that in its opinion the information provided by Shotover Jet and contained within this report is sufficient to enable Shotover Jet shareholders to understand all relevant factors and make an informed decision, in respect of the Ngäi Tahu Offer.

6.5 Declarations

Shotover Jet has agreed that to the extent permitted by law, it will indemnify Grant Samuel and its employees and officers in respect of any liability suffered or incurred as a result of or arising out of the preparation of this report. This indemnity will not apply in respect of the proportion of liability found by a court to be attributable to any conduct involving negligence or wilful misconduct by Grant Samuel. Shotover Jet has also agreed to indemnify Grant Samuel and its employees and officers for time spent and reasonable legal costs and expenses incurred in relation to any inquiry or proceeding initiated by any person except where Grant Samuel or its employees and officers are found to have been negligent or engaged in wilful misconduct in which case Grant Samuel shall bear such costs.

Advance drafts of this report (and parts of it) were provided to Shotover Jet. Certain changes were made to this report as a result of the circulation of the draft report. However, there was no alteration to the methodology, conclusions or recommendations made to Shotover Jet shareholders as a result of issuing the drafts.

Grant Samuel's terms of reference for its engagement did not contain any term which materially restricted the scope of this report.

6.6 Consents

Grant Samuel consents to the issuing of this report in the form and context in which it is to be included in the information to be sent to Shotover Jet shareholders. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of Grant Samuel as to the form and context in which it appears.

6.7 Other

The accompanying letter dated 8 October 2002 forms part of this report.

GRANT SAMUEL & ASSOCIATES LIMITED
8 October 2002

Grant Samuel + Associates