

Southern Travel Holdings Limited

Independent Adviser's Report

In Respect of the Proposed Share Buyback

October 2013

Statement of Independence

Simmons Corporate Finance Limited confirms that it:

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

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

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1. Introduction

1.1 Background

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

Southern Travel is a group of companies which provides specialist services in the travel and tourism sectors – primarily in New Zealand and Australia.

The group consists of:

- Southern Travelnet Limited, with offices in New Zealand, Australia and Japan
- The Walshe Group Limited (**The Walshe Group**), with offices in New Zealand, Australia, Hong Kong and Singapore
- Experience New Zealand Travel Limited (**Experience Travel**), with offices in New Zealand.

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

In September 2004, the Company offered 2,500,000 new shares and the founding shareholders offered 2,000,000 existing shares at \$1.30 per share to the public. It listed on the alternative market (**NZAX**) operated by NZX Limited on 1 October 2004.

In June 2007, Southern Travel acquired The Walshe Group for \$3.8 million through a combination of \$1.8 million of cash and the issue of 4,709,302 ordinary shares issued at \$0.43 per share. The Walshe Group is a leading representation company in the New Zealand / Australia travel industry, representing many of the world's most recognised airline and destination brands in the region.

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

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

Today, the Company employs over 100 staff throughout New Zealand, Australia, Japan, Hong Kong and Singapore and has revenue in excess of \$28 million.

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

Southern Travel had a market capitalisation of \$2.8 million as at 17 October 2013 and audited total equity of \$6.5 million as at 30 June 2013.

1.2 Share Buyback

Southern Travel is proposing to make an offer to all shareholders holding 50,000 or less shares at 5:00pm on 17 October 2013 (the **Eligible Shareholders**) to buy back some or all of their shares (but no less than 15%) on a voluntary basis at \$0.14 per share (the **Share Buyback**).

Southern Travel currently has 25,343,741 fully paid ordinary shares on issue held by 210 shareholders.

As at 17 October 2013, there were 187 Eligible Shareholders collectively holding 1,686,937 shares, representing 6.66% of the Company's shares.

The Company's top 10 shareholders as at 17 October 2013 are set out in section 2.6. The 3 largest shareholders are:

- Rodney Walshe Limited (**RWL**) – 6,786,296 shares (26.78%)
- Kiyomi Gunji – 4,526,000 shares (17.86%)
- Kazue Gunji – 3,474,000 shares (13.71%).

RWL is owned by Rodney Walshe and Marlene Walshe. Mr Walshe is a director of Southern Travel.

Kiyomi and Kazue Gunji are married. Together they hold 8,000,000 shares, representing 31.57% of the Company's shares on issue. Mr Gunji is a director of Southern Travel.

Kiyomi and Kazue Gunji and RWL cannot participate in the Share Buyback as they are not Eligible Shareholders. Accordingly, any shares that the Company buys back from the Eligible Shareholders and which are then cancelled will result in an increase in Kiyomi and Kazue Gunji's and RWL's respective levels of voting rights in the Company.

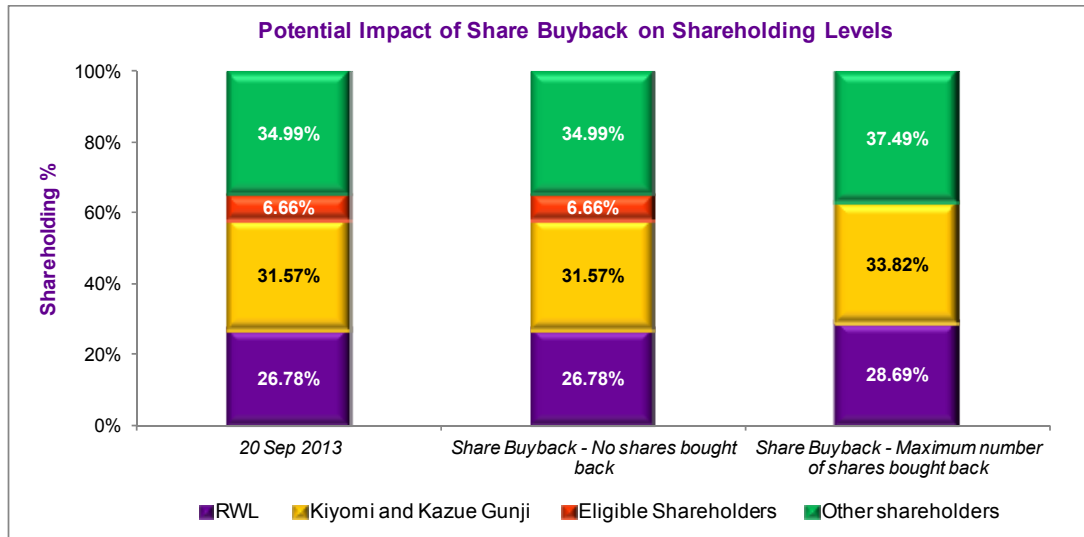
Depending on the number of shares bought back, the Share Buyback will result in Kiyomi and Kazue Gunji holding voting rights in the Company of between:

- 31.57% - assuming no shares are bought back
- 33.82% - assuming the maximum 1,686,937 shares are bought back and cancelled.

The Share Buyback will result in RWL holding voting rights in the Company of between:

- 26.78% - assuming no shares are bought back
- 28.69% - assuming the maximum 1,686,937 shares are bought back and cancelled.

The minimum and maximum shareholding levels for Kiyomi and Kazue Gunji, RWL, the Eligible Shareholders and the Company's other shareholders under the Share Buyback are set out in the graph that follows.



1.3 Regulatory Requirements

Rule 6 of the Code prohibits:

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

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

When a company buys back and cancels its shares, the percentage holding of any shareholder that does not participate in the buyback will increase. Consequently, if a company with a shareholder controlling in excess of 20% wishes to undertake a share buyback, it needs to rely upon an exemption to the Code.

The Takeovers Code (Class Exemptions) Notice (No 2) 2001, as amended by the Takeovers Code (Class Exemptions – Buybacks and Rule 16(b)) Amendment Notice 2010 (the **Class Exemptions**), sets out a general exemption for share buybacks.

Clause 4 of the Class Exemptions provides an exemption for a shareholder controlling (alone or with their associates) in excess of 20% of the voting rights in a code company to increase its voting control via a share buyback, provided the buyback has been approved by an ordinary resolution of shareholders (excluding shareholders who will rely on clause 4 of the Class Exemptions (and their associates) and shareholders who will participate in the share buyback (and their associates)).

Clause 5 of the Class Exemptions provides an exemption that does not require shareholder approval, provided the shareholder reduces its percentage holding to pre-buyback levels within 6 months.

The Share Buyback may result in Kiyomi and Kazue Gunji increasing their shareholding in the Company from 31.57% to up to 33.82% and RWL increasing its shareholding from 26.78% to up to 28.69%.

Accordingly, the Company's shareholders who are not (and are not associated with) Eligible Shareholders, Kiyomi and Kazue Gunji or RWL (the **Non-associated Shareholders**) will vote on an ordinary resolution at the Company's annual meeting on 14 November 2013 in respect of the Share Buyback to permit Kiyomi and Kazue Gunji and RWL to retain any increase in their respective control of voting rights as a result of the Share Buyback (resolution 6) (the **Share Buyback Resolution**).

Kiyomi and Kazue Gunji and their associates, RWL and its associates and the Eligible Shareholders and their associates are not permitted to vote on the Share Buyback Resolution.

Schedule 1, clause 3(g) of the Class Exemptions requires that the notice of meeting containing the resolution in respect of the Share Buyback must include or be accompanied by an Independent Adviser's Report that complies with Rule 18 of the Code.

1.4 Purpose of the Report

The directors of Southern Travel not associated with Kiyomi and Kazue Gunji or RWL, being John King and David Osborne (the **Non-associated Directors**), have engaged Simmons Corporate Finance Limited (**Simmons Corporate Finance**) to prepare an Independent Adviser's Report on the merits of Kiyomi and Kazue Gunji and RWL retaining any increase in their respective control of voting rights as a result of the Share Buyback.

Simmons Corporate Finance was approved by the Takeovers Panel on 24 September 2013 to prepare the Independent Adviser's Report.

Simmons Corporate Finance issues this Independent Adviser's Report to the Non-associated Directors for the benefit of the Non-associated Shareholders and to assist them in forming their own opinion on voting on the Share Buyback Resolution.

We note that each shareholder's circumstances and objectives are unique. Accordingly, it is not possible to report on the merits of Kiyomi and Kazue Gunji and RWL increasing their control of voting rights as a result of the Share Buyback in relation to each shareholder. Our advice and opinions are necessarily general in nature.

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

2. Evaluation of the Merits of the Share Buyback

2.1 Basis of Evaluation

Rule 18 of the Code requires an evaluation of the merits of Kiyomi and Kazue Gunji and RWL retaining any increase in their respective control of voting rights as a result of the Share Buyback.

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

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

- the Takeovers Panel *Guidance Note on Independent Advisers and the Takeovers Code* dated August 2013
- definitions designed to address similar issues within New Zealand regulations which are relevant to the proposed transaction
- overseas precedents
- the ordinary meaning of the term *merits*.

We are of the view that an assessment of the merits of Kiyomi and Kazue Gunji and RWL retaining any increase in their respective control of voting rights as a result of the Share Buyback should focus on:

- the rationale for the Share Buyback
- the terms and conditions of the Share Buyback
- the impact of the Share Buyback on Southern Travel's financial position
- the impact of the Share Buyback on the control of the Company
- the impact of the Share Buyback on Southern Travel's share price
- the benefits and disadvantages to the Non-associated Shareholders of the Share Buyback
- the implications if the Share Buyback Resolution is not approved.

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

2.2 Summary of the Evaluation of the Merits of the Share Buyback

In our opinion, after having regard to all relevant factors, the positive aspects of the Share Buyback outweigh the negative aspects of Kiyomi and Kazue Gunji and RWL retaining any increase in their respective control of voting rights as a result of the Share Buyback from the perspective of the Non-associated Shareholders.

Our evaluation of the merits is set out in detail in sections 2.3 to 2.9. In summary, the key factors leading to our opinion are:

- the rationale for the Share Buyback is sound
- the Share Buyback price of \$0.14 per share is reasonable, taking into account:
 - it is higher than the prices currently available to Eligible Shareholders who wish to sell their shares on Unlisted
 - it is lower than the Company's audited equity per share of \$0.26 as at 30 June 2013
- the other terms of the Share Buyback are reasonable
- the Company's financial position will not change materially. Total equity and cash and cash equivalents will reduce by approximately \$0.3 million if the maximum 1,686,937 shares are bought back
- the Share Buyback will not increase Kiyomi and Kazue Gunji's and RWL's ability to influence the outcome of shareholder voting to any significant degree
- the Share Buyback may have a positive impact on Southern Travel's share price, but this will depend on the level of liquidity in the Company's shares
- the Share Buyback will markedly improve the liquidity of the shares held by Eligible Shareholders over the period of the Share Buyback but may reduce the liquidity of the Company's shares after the Share Buyback is completed
- the Share Buyback is unlikely to reduce the attraction of Southern Travel as a takeover target
- the implications of Kiyomi and Kazue Gunji and RWL not being able to retain any increase in their control of voting rights as a result of the Share Buyback are that they will be required to sell down their shareholdings to return their percentage holdings to pre-buyback levels within 6 months of the Share Buyback. This may place downward pressure on the Company's share price.

2.3 Rationale for the Share Buyback

Board's Rationale

We are advised by the Company's board of directors (the **Board**) that the main reason for the Share Buyback is to provide liquidity for the Eligible Shareholders. The market for the Company's shares is extremely illiquid. Only 0.3% of the Company's shares have traded in the past year. The Board wishes to implement the Share Buyback so that shareholders who hold small or unmarketable parcels of shares will have the opportunity to realise cash for their shareholdings.

The Board considers the Share Buyback to be in the best interests of the Company as:

- it will increase the liquidity of the Eligible Shareholders' shareholdings
- shareholders who do not participate in the Share Buyback will see their proportionate shareholding, economic interest and voting control in the Company increase
- the acquisition of shares under the Share Buyback will assist to rationalise the Company's share register and reduce compliance costs.

Finance Theory

The benefits of share buybacks have long been the focus of academic research and practitioners' debate. It is generally accepted that share buybacks can affect value as follows:

- supporting the share price
- an efficient use of capital
- creating a more efficient capital structure.

In reality however the impacts can be difficult to quantify.

Supporting the Share Price

There is some evidence to suggest that a share buyback has a signalling effect to the market. A share buyback could indicate to the market that a company's management is so confident of the company's prospects that it believes the best investment the company can make is in its own shares. On the other hand, the announcement of a share buyback has in instances been deemed an admission that the company cannot identify any other value creating opportunities in which to invest its capital.

A share buyback can also act to support a company's share price by creating buy-side demand.

Efficient use of Capital

Companies often undertake share buybacks when they are of the view that the market is undervaluing their shares, therefore buying back those shares at the market price is an efficient use of the companies' capital.

Capital Structure

The share buyback is effectively an exchange of equity for debt, thereby increasing a company's leverage. In finance theory, increasing leverage can provide several benefits, such as:

- interest payments on debt are tax deductible, which means that the after-tax cost of debt is generally below shareholders' expected return on equity, hence reducing the company's average cost of capital
- debt supposedly serves as a discipline for a company's managers. Unlike equity, the need to pay cash to bondholders and banks prevents managers from investing in projects that earn returns below the company's cost of capital.

Conclusion

Having considered all of the above, we are of the view that the rationale for the Share Buyback is sound. It is being undertaken primarily to assist the Eligible Shareholders rather than for wider capital management purposes. It will provide liquidity for Eligible Shareholders at a price that they currently cannot achieve on Unlisted.

The Share Buyback should lead to the Company incurring lower administration costs through the reduction in the size of the Company's share register. If all of the Eligible Shareholders accept the Share Buyback in full, then Southern Travel will have less than 50 shareholders and will cease to be a code company, thereby no longer requiring to comply with the provisions of the Code.

2.4 Terms of the Share Buyback

Key Terms

The key terms of the Share Buyback are:

- the Company proposes to make an offer to acquire all of the shares held by Eligible Shareholders at 5:00pm on 17 October 2013 (the **Record Date**) pursuant to section 61 of the Companies Act 1993 (the **Act**)
- Eligible Shareholders will have the option to accept the Share Buyback for all, some or none of the shares they hold at the Record Date. If an Eligible Shareholder chooses to accept the Share Buyback, they must accept it (or ensure it is accepted) in respect of at least 15% of the shares held by them and their counted associates (within the meaning of section CD 22(9) of the Income Tax Act 2007 (**Section CD 22(9)**))
- the Share Buyback is voluntary – no Eligible Shareholder is required to accept it
- the Share Buyback price will be \$0.14 per share, paid in cash
- if approved by the Non-associated Shareholders, the Share Buyback will open on 15 November 2013 and close on 4 December 2013. The Board may, at its discretion, vary or extend the closing date
- Eligible Shareholders will not pay any brokerage costs if they accept the Share Buyback
- in addition to the shareholder approval, the Share Buyback will be conditional on:
 - the Company's ongoing compliance with the solvency requirements under the Act
 - no restraining order being put in place in respect of the Share Buyback
 - the Board remaining satisfied that the acquisition of shares under the Share Buyback will not result in any breach of law, the Company's constitution or otherwise be likely to give rise to adverse tax consequences for the Company or the Eligible Shareholders
- any shares purchased under the Share Buyback will be cancelled.

If the Share Buyback Resolution is approved, an offer document will be sent to all Eligible Shareholders following the annual meeting.

Share Buyback Price

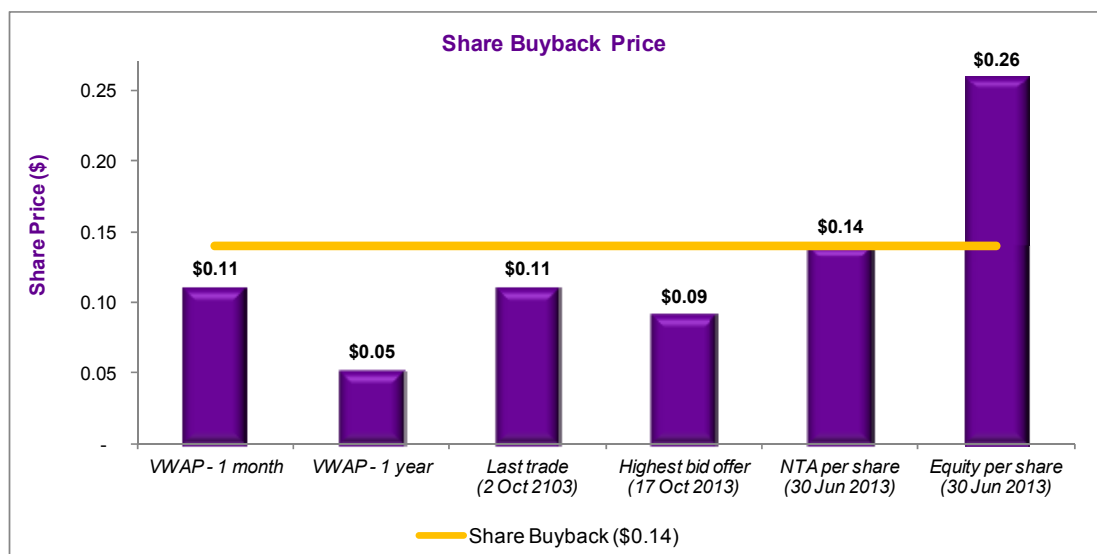
The Share Buyback will be at \$0.14 per share. This price is higher than the prices at which the Company's shares have traded in recent times.

Section 2.7 sets out the Company's daily closing share price and daily volumes of shares traded from 5 January 2011 to 17 October 2013. The analysis shows that only 0.3% of the Company's shares have traded in the past year at a volume weighted average share price (**VWAP**) of \$0.05. The extremely low level of trading may mean that the observed share trading prices are not a totally reliable indicator of the fair market value of the shares.

The last trade was 3,000 shares at \$0.11 on 2 October 2013. As at 17 October 2013, there were 2 bid (buy) offers - 75,000 shares at \$0.09 and 100,000 shares at \$0.08. There were no ask (sell) offers.

Based on the Company's audited financial position as at 30 June 2013, its equity per share was \$0.26 and its net tangible assets (**NTA**) per share was \$0.14 as at that date.

In our view, the Share Buyback price of \$0.14 is reasonable. It is marginally above the last trade price, it is in line with NTA per share as at 30 June 2013 and is significantly below the audited equity per share value as at 30 June 2013.



Taxation

The Share Buyback is structured to be tax efficient by requiring a minimum acceptance level of 15% of the shares held by any Eligible Shareholder and their counted associates (within the meaning of Section CD 22(9)).

Amounts paid to Eligible Shareholders through the Share Buyback may constitute a return of capital and be distributed free of tax if the Eligible Shareholders (and their counted associates (within the meaning of Section CD 22(9))) sell at least 15% of their shares into the Share Buyback.

Other Terms

We consider the other terms of the Share Buyback to be in line with normal commercial terms for a transaction of this nature.

2.5 Impact on Financial Position

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

Summary of Southern Travel Financial Performance				
	Year to 30 Jun 10 (Audited) \$000	Year to 30 Jun 11 (Audited) \$000	Year to 30 Jun 12 (Audited) \$000	Year to 30 Jun 13 (Audited) \$000
Total revenue	21,734	26,695	26,640	28,877
Total expenses	22,810	27,296	26,493	28,120
Profit / (loss) before tax	(1,076)	(601)	147	757
Taxation	(130)	22	37	212
Net profit / (loss) after tax	(946)	(623)	110	545
Earnings per share (\$)	(\$0.042)	(\$0.025)	\$0.004	\$0.021
	As at 30 Jun 10 (Audited) \$000	As at 30 Jun 11 (Audited) \$000	As at 30 Jun 12 (Audited) \$000	As at 30 Jun 13 (Audited) \$000
Current assets	6,112	7,453	7,368	8,749
Non current assets	4,131	4,186	4,016	3,751
Total assets	10,243	11,639	11,384	12,500
Current liabilities	(3,531)	(5,444)	(5,190)	(5,869)
Non current liabilities	(117)	(201)	(103)	(92)
Total liabilities	(3,648)	(5,645)	(5,293)	(5,961)
Total equity	6,595	5,994	6,091	6,539
Equity per share (\$)	\$0.26	\$0.24	\$0.24	\$0.26

Source: Southern Travel audited financial statements

The Company's current assets consist mainly of cash and cash equivalents (\$4.4 million as at 30 June 2013) and trade and other receivables (\$4.4 million as at 30 June 2013). Included in the \$4.4 million cash balance are restricted cash balances of \$0.6 million, representing deposits provided as security for bank facilities in favour of various airlines.

Its non current assets consist mainly of intangible assets (\$3.0 million as at 30 June 2013, including \$2.6 million goodwill arising upon the acquisition of the Walshe Group in June 2007).

Southern Travel's NTA as at 30 June 2013 was \$3.2 million, which equated to \$0.12 per share as at that date.

If the maximum 1,686,937 shares are bought back, the Share Buyback will require a cash outlay of \$236,171.

For illustrative purposes, using the Company's 30 June 2013 financial position and assuming the maximum 1,686,937 shares are bought back and cancelled, the Share Buyback will result in total equity reducing to \$6.3 million, equity per share reducing marginally from \$0.26 to \$0.25 and cash and cash equivalents (including restricted cash) reducing to \$4.1 million.

2.6 Impact on Control

Capital Structure and Shareholders

Southern Travel currently has 25,343,741 fully paid ordinary shares on issue held by 210 shareholders.

The names, number of shares and percentage holding of the 10 largest shareholders as at 17 October 2013 are set out below.

Southern Travel's 10 Largest Shareholders		
Shareholder	No. of Shares Held	%
RWL	6,786,296	26.78%
Kiyomi Gunji	4,526,000	17.86%
Kazue Gunji	3,474,000	13.71%
Argyle Trustee Limited	2,631,061	10.38%
Russell Field and Anthony Palmer	1,700,000	6.71%
Keith Johnston and Judith Johnston	945,986	3.73%
Bancorp Strategic Management Limited	773,382	3.05%
John Richardson	436,787	1.72%
Kerry Graham	421,215	1.66%
Richard Flower	331,478	1.31%
Subtotal	22,026,205	86.91%
Others (200 shareholders)	3,317,536	13.09%
Total	25,343,741	100.00%

Source: Link Market Services Limited (Link)

There were 187 Eligible Shareholders as at 17 October 2013 collectively holding 1,686,937 shares, representing 6.66% of the Company's shares.

Shareholder Voting

Kiyomi and Kazue Gunji together hold 31.57% of the Company's shares and RWL holds 26.78% of the Company's shares.

Any shareholder that does not participate in the Share Buyback will see an increase in their respective percentage of votes held or controlled, even though they will not increase the actual number of shares they hold.

Kiyomi and Kazue Gunji and RWL cannot participate in the Share Buyback as they are not Eligible Shareholders. Accordingly, the Share Buyback will result in Kiyomi and Kazue Gunji holding between 31.57% and 33.82% of the Company's shares and RWL holding between 26.78% and 28.69% of the Company's shares, depending on the number of shares bought back and assuming no other shares are issued during this time.

Kiyomi and Kazue Gunji and RWL each currently hold strategic shareholdings. They each hold the ability to block special resolutions (which require the approval of 75% of the votes cast by shareholders) and influence the outcome of ordinary resolutions (which require the approval of more than 50% of the votes cast by shareholders). Should they vote in the same manner, their combined 58.34% shareholding can control the outcome of ordinary resolutions.

Under the Act, a special resolution is required to:

- adopt, alter or revoke a company's constitution
- approve a major transaction
- approve an amalgamation of a company

- place a company in liquidation.

The increase in shareholding from 31.57% to up to 33.82% for Kiyomi and Kazue Gunji and from 26.78% to up to 28.69% for RWL will not change their respective abilities to block a special resolution or control the outcome of an ordinary resolution to any significant degree.

Board of Directors

The directors of Southern Travel are:

- Kiyomi Gunji
- John King, chairman
- David Osborne
- Rodney Walshe
- Jacqui Walshe, managing director.

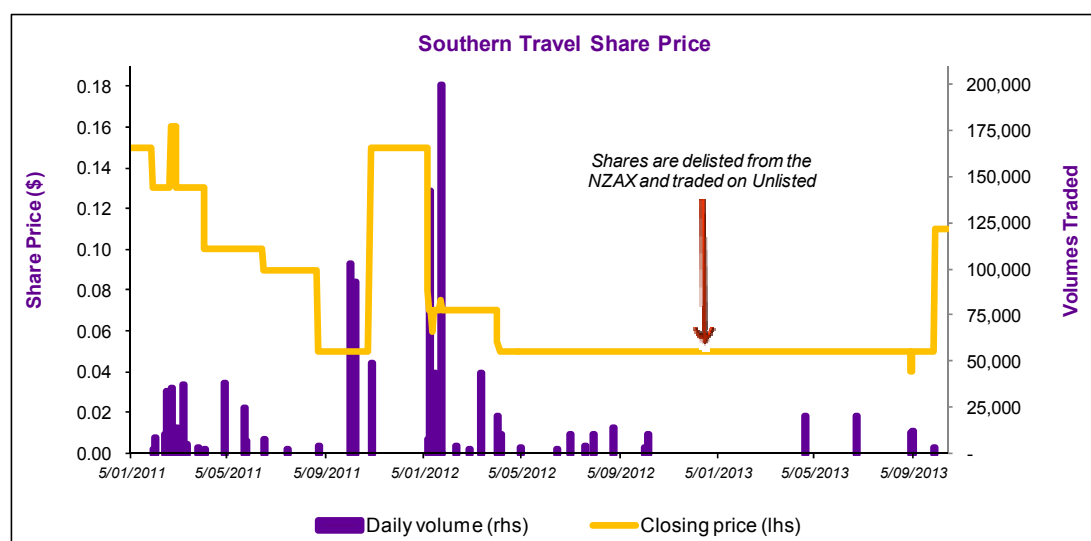
We are advised by the Non-associated Directors that the Share Buyback will not have any impact on the composition of the Board.

Operations

We are advised by the Non-associated Directors that the Share Buyback will not have any impact on the level of influence of Kiyomi and Kazue Gunji and RWL over the Company's operations.

2.7 Impact on Share Price and Liquidity

Set out below is a summary of Southern Travel's daily closing share price and daily volumes of shares traded from 5 January 2011 to 17 October 2013. The Company's shares were delisted from the NZAX on 30 November 2012 and commenced trading on Unlisted on 3 December 2012.



Source: NZX Data and Unlisted

During the period, Southern Travel's shares have traded between \$0.04 (on 3 September 2013) and \$0.16 (on 23 and 24 February 2011) at a VWAP of \$0.08.

The shares last traded at or above the Share Buyback price of \$0.14 almost 2 years ago on 31 October 2011, when they traded at \$0.15.

Trading in the Company's shares is extremely thin, reflecting that 58.34% of the shares are held by cornerstone shareholders Kiyomi and Kazue Gunji and RWL and the top 10 shareholders hold 86.91% of the shares. An analysis of VWAP, traded volumes and liquidity (measured as traded volumes as a percentage of total shares outstanding) is set out below.

Southern Travel Share Trading					
Period	Low ¹ \$	High ¹ \$	VWAP ¹ \$	Volume Traded ¹ (000)	Liquidity ¹
1 month	0.11	0.11	0.11	3	0.0%
3 months	0.04	0.11	0.05	27	0.1%
6 months	0.04	0.11	0.05	67	0.3%
12 months	0.04	0.11	0.05	67	0.3%
<i>¹ To 17 October 2013</i>					
<i>Source: NZX Data and Unlisted</i>					

The Share Buyback may have a positive impact on the Company's share price on the basis that the market may move towards the Board's assessment of \$0.14 being a fair price for the Company's shares.

The Share Buyback will have a positive impact on the liquidity of the shares held by the Eligible Shareholders over the period of the Share Buyback.

However, the Share Buyback will reduce the free float (ie those shares that are available to be freely traded) by up to 1,686,937 shares and therefore, in the longer term, the liquidity of Southern Travel's shares may reduce.

2.8 Benefits and Disadvantages to Non-associated Shareholders

Key Benefits

The key benefit of the Share Buyback to the Eligible Shareholders is that it will provide them with an opportunity to realise cash of \$0.14 per share for some or all of their shares.

The key benefits of the Share Buyback to the Non-associated Shareholders are that it will increase their proportionate shareholding, economic interest and voting control in the Company and it will assist to rationalise the Company's share register and reduce compliance costs, thereby improving Southern Travel's earnings. If all of the Eligible Shareholders accept the Share Buyback in full, then Southern Travel will have less than 50 shareholders and will cease to be a code company, thereby no longer requiring to comply with the provisions of the Code.

Main Disadvantage

The main disadvantage is that the Share Buyback may increase Kiyomi and Kazue Gunji's shareholding in the Company from 31.57% to up to 33.82% and RWL's shareholding from 26.78% to up to 28.69%, thereby marginally increasing their respective abilities to control the outcome of shareholder voting. However, we do not consider those levels of increase to be of any significance.

Company May Cease to be a Code Company

If all of the Eligible Shareholders accept the Share Buyback in full, the Company will have less than 50 shareholders and will cease to be a code company. If Southern Travel ceases to be a code company, it will no longer require to comply with the provisions of the Code.

As Southern Travel is currently a code company, a person holding or controlling 20% or more of the voting rights in the Company can only increase its holding or control of voting rights if:

- they make a full or partial takeover offer or
- the acquisition is approved by way of an ordinary resolution of non-associated shareholders or
- the Company makes an allotment of shares which is approved by way of an ordinary resolution of non-associated shareholders.

These rules would no longer apply if Southern Travel ceases to be a code company and therefore non-associated shareholders would no longer have the ability to vote on ordinary resolutions in respect of these particular share acquisitions or allotments.

If the Company ceased to be a code company, the removal of the need to comply with the Code could reduce administration costs in the event that a person holding or controlling 20% or more of the voting rights in the Company wished to increase its holding or control of voting rights or if a person wished to make a takeover offer for some or all of the Company's shares.

Unlikely to Reduce the Likelihood of a Takeover Offer from Kiyomi and Kazue Gunji and RWL

Assuming the Share Buyback Resolution is approved and Southern Travel remains a code company, Kiyomi and Kazue Gunji and RWL will not be able to increase their shareholding levels beyond 33.82% and 28.69% respectively unless they each comply with the provisions of the Code as discussed above.

We are not aware of any intention on Kiyomi and Kazue Gunji's or RWL's part to make a takeover offer. However, if either of the parties did have such intent, an increase in Kiyomi and Kazue Gunji's shareholding from 31.57% to up to 33.82% and RWL's shareholding from 26.78% to up to 28.69% is unlikely to reduce the likelihood of a takeover offer for the Company as the increase in their respective shareholding levels is not significant.

Likelihood of Other Takeover Offers Does not Change

Assuming Southern Travel remains a code company, any bidder looking to fully take over the Company or make a partial takeover offer for (say) 50.1% of the Company would need to ensure that Kiyomi and Kazue Gunji and RWL would accept its offer, irrespective of whether they collectively held 58.34% or 62.50% of the shares in the Company.

Accordingly, we are of the view that the increase in Kiyomi and Kazue Gunji's shareholding from 31.57% to up to 33.82% and RWL's shareholding from 26.78% to up to 28.69% is unlikely to reduce the attraction of Southern Travel as a takeover target to other parties.

2.9 Implications of the Share Buyback Resolution not Being Approved

In the event that Share Buyback Resolution is not approved, the Company would still be able to proceed with the Share Buyback but Kiyomi and Kazue Gunji and RWL would be required to sell down their shareholdings to return their percentage holdings to pre-buyback levels within 6 months of the Share Buyback in accordance with clause 5 of the Class Exemptions.

Such a scenario is potentially disadvantageous to Non-associated Shareholders as the forced sale of shares by Kiyomi and Kazue Gunji and RWL may place downward pressure on the Company's share price.

2.10 Voting on the Share Buyback Resolution

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

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

3.1 Sources of Information

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

- the draft notice of annual meeting
- the draft Share Buyback offer document
- Board minutes in respect of the Share Buyback
- the Southern Travel annual reports for the years ended 30 June, 2011 to 2013
- share price data and shareholder data in respect of Southern Travel from NZX Data, Unlisted, Link and Capital IQ.

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

The Non-associated Directors have confirmed that we have been provided for the purpose of this Independent Adviser's Report with all information relevant to the Share Buyback that is known to them and that all the information is true and accurate in all material aspects and is not misleading by reason of omission or otherwise.

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

In our opinion, the information to be provided by Southern Travel to the Non-associated Shareholders is sufficient to enable the Non-associated Directors and the Non-associated Shareholders to understand all the relevant factors and to make an informed decision in respect of the Share Buyback.

3.2 Reliance on Information

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

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

3.3 Disclaimer

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

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

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

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

3.4 Indemnity

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

4. Qualifications and Expertise, Independence, Declarations and Consents

4.1 Qualifications and Expertise

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

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

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

4.2 Independence

Simmons Corporate Finance does not have at the date of this report, and has not had, any shareholding in or other relationship with Southern Travel, Kiyomi and Kazue Gunji or RWL or any conflicts of interest that could affect our ability to provide an unbiased opinion in relation to the Share Buyback.

Simmons Corporate Finance has not had any part in the formulation of the Share Buyback or any aspects thereof. Our sole involvement has been the preparation of this report.

Simmons Corporate Finance will receive a fixed fee for the preparation of this report. This fee is not contingent on the conclusions of this report or the outcome of the voting in respect of the Share Buyback. We will receive no other benefit from the preparation of this report.

4.3 Declarations

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

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

4.4 Consents

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



Peter Simmons
Director

Simmons Corporate Finance Limited
18 October 2013