

SOUTHERN HOSPITALITY LIMITED

NOTICE OF SPECIAL MEETING

22 March 2018

NOTICE OF SPECIAL MEETING OF SOUTHERN HOSPITALITY LIMITED

Notice is hereby given that a Special Meeting of shareholders of Southern Hospitality Limited ("**Company**") will be held at 10.00 am on 22 March 2018 at 12 Roberts Street, Dunedin.

The business of the meeting will be to consider the proposed Resolution below.

RESOLUTION – Approval of Increases by way of the Share Buyback Plan

To consider and, if thought fit, to pass the following ordinary resolution in accordance with clause 3 of the Company's constitution, and clause 4 of the Takeovers Code (Class Exemptions) Notice (No 2) 2001:

"That the Company is authorised to acquire up to a maximum of 1,500,000 shares in the Company under its share buyback programme over a period of three years from the date of this Meeting and that Hospo Limited and Andrew Kenneth Rayneau and Bridget Gordon in their capacity as trustees of the Comcater Trust together with their respective associates (as listed below) are authorised to retain any increased percentage of voting rights held or controlled by them as a result of those buybacks.

The associates of Hospo Limited comprise Derryn Fewtrell, Christopher Fewtrell, Kerryn Goodsir, George Goodsir, Charlie Goodsir, Nathan Houston, Portia Houston, Lizzie Houston, Sienna Houston, Hayley Jones, Ella Jones, Flynn Jones and Chris McDowell."

EXPLANATORY NOTES

Explanatory notes to the Resolution accompany this Notice of Special Meeting.

PROCEDURAL MATTERS

All shareholders of the Company are entitled, and encouraged, to attend the Special Meeting.

Proxy/Postal Votes

A shareholder of the Company entitled to attend and vote is entitled to appoint a proxy to attend and vote in his or her place or cast a postal vote. A proxy need not be a shareholder of the Company.

A proxy/postal voting form accompanies this Notice of Special Meeting and, if used, must be lodged with the Company not less than 48 hours before the time for holding the meeting. A proxy/postal voting form will not be valid unless it has been properly completed and received by the Company at PO Box 425, Dunedin, Attn: Deborah Mackay (the forms may also be sent by email to shares@southernhospitality.co.nz, to be received by 10.00 am on 20 March 2018).

Any corporation that is a shareholder of the Company may appoint a person as its representative to attend the meeting and vote on its behalf, in the same manner as that which it could appoint a proxy.

The directors of the Company, other than Roger Fewtrell and Andrew Rayneau (refer to "Disqualification from voting" on this page 3 of the Notice of Special Meeting), are willing to act as proxies for any shareholder who may wish to appoint them for that purpose. Where a direction is not given to a non-disqualified director as to how to cast the vote on a Resolution, then the director intends to vote in favour of that Resolution. See below for further details on directors that are disqualified from voting.

Ordinary Resolution

An ordinary resolution means a resolution passed by a simple majority of votes of the holders of the ordinary shares of the Company which carry votes entitled to vote and voting. Ordinary shares in the Company are the only class of security issued by the Company that carry a right to vote at the Special Meeting of shareholders.

Disqualification from voting

Pursuant to the Takeovers Code and the Takeovers Code (Class Exemptions) Notice (No 2) 2001:

- Hospo Limited and its associates are disqualified from voting on the Resolution.
- Andrew Kenneth Rayneau and Bridget Gordon (being the trustees of the Comcater Trust) and their associates are disqualified from voting on the Resolution.

The Explanatory Notes contain further details in respect of these voting limitations.

A person appointed as a proxy who is disqualified from voting on the Resolution may only vote in accordance with the directions of a shareholder giving a proxy, but may not exercise a discretionary vote where directions are not given. This includes Roger Fewtrell and Andrew Rayneau being the directors associated with the above persons that are disqualified from voting. Both Mr Fewtrell and Mr Rayneau have declined to hold themselves out as potential proxies for shareholders for the purposes of the Special Meeting.

By order of the Board of Directors

Dated 7 March 2018

EXPLANATORY NOTES TO THE RESOLUTION

Introduction

- 1.1 This resolution is required for the purposes of the Takeovers Code in order to permit the Company to continue to acquire shares under its share buyback programme. Under the buyback programme, the Company makes periodic offers to shareholders to purchase shares issued to employees under its employee share purchase scheme up to a certain dollar value ("**Buyback Programme**"). The Company may suspend or close its Buyback Programme at any time and it is not obliged to offer to purchase any shares.
- 1.2 Purchases under the Buyback Programme are made at the current share price at the date of the offer, subject to the Board approving that buyback and the Company satisfying the solvency test in the Companies Act 1993 at the relevant time. In practice the current share price ("**Current Share Price**") is established by:
- (a) The Board of the Company obtaining a valuation report from an independent valuation expert every two years. This report sets out a value range for shares.
 - (b) In the absence of unusual circumstances, the Board (including Roger Fewtrell and Andrew Rayneau) determines, from time to time, the current share price to be a value within the value range set out in the most recent valuation report. In making this determination, the Board has regard to:
 - (i) applicable circumstances at that time and its own views of the value of the shares; and
 - (ii) the performance of the Company and market indicators.
- 1.3 As the Company has more than 50 shareholders it is a 'code company' and therefore is subject to the requirements of the Takeovers Code.

Takeovers Code Issues

- 1.4 The fundamental rule in Rule 6 of the Takeovers Code provides that, subject to certain exceptions, a person (along with their associates) who holds or controls:
- (a) no voting rights, or less than 20% of the voting rights, in a code company may not become the holder or controller of an increased percentage of the voting rights in the code company unless, after that event, that person (along with their associates) hold or control in total not more than 20% of the voting rights in the code company;
 - (b) 20% or more of the voting rights in a code company may not become the holder or controller of an increased percentage of the voting rights in the code company.
- 1.5 This rule is relevant to the Buyback Programme because shareholders that hold or control (together with their associates) near to or over the 20% of the voting rights in a code company may have their control percentage increased as a result of a buy back and could therefore potentially breach the fundamental rule. One of the exceptions to the rule however, is where shareholders approve such increases.
- 1.6 Together with its associates, Hospo Limited ("**Hospo**") currently holds or controls 5,752,624 shares in the Company, representing 49.92% of the voting rights in the Company. The trustees of the Comcater Trust (Andrew Kenneth Rayneau and Bridget Gordon) (the "**Comcater Trust**") currently hold or control 2,283,438 shares in the Company, representing 19.81% of the voting rights in the Company.
- 1.7 Under the Takeovers Code, the criteria for being an "**associate**" include where persons are acting jointly or in concert, where one person acts or is accustomed to act in accordance with the wishes of the other person, where persons are related companies or where persons have

a business relationship, personal relationship, or an ownership relationship such that they should, under the circumstances, be regarded as associates. In this instance, Derryn Fewtrell, Christopher Fewtrell, Kerry Goodsir, George Goodsir, Charlie Goodsir, Nathan Houston, Portia Houston, Lizzie Houston, Sienna Houston, Hayley Jones, Ella Jones, Flynn Jones and Chris McDowell have agreed that they are to be treated as associates of Hospo for the purposes of the Resolution being put to this Special Meeting.

- 1.8 Although neither Hospo nor the Comcater Trust have formally indicated that they would not participate in a share buyback, it is unlikely that they would be a seller into a share buyback. If other shareholders participate in the buy backs and Hospo and the Comcater Trust do not participate, the voting control of each of Hospo and the Comcater Trust will increase.
- 1.9 Under clause 4 of the Takeovers Code (Class Exemptions) Notice (No 2) 2001 ("**Exemption Notice**"), a shareholder is permitted to retain its increased voting rights, if the buyback is approved by an ordinary resolution of shareholders (and subject to other conditions as set out in clause 4 and Schedule 1 of the Exemption Notice including the provision of a report from an independent adviser).

Further extension of Buyback Programme

- 1.10 This Resolution seeks the approval of the shareholders of the Company by ordinary resolution of those entitled to vote (being all shareholders other than Hospo and the Comcater Trust and their respective associates) to further extend the Buyback Programme providing for acquisitions by the Company of up to a further 1,500,000 of its own shares over a period not exceeding 3 years from the date of this Special Meeting ("**Extended Buyback**"). Full particulars of the Extended Buyback (together with assumptions on which the particulars are based) are set out below and in the Explanatory Notes including in Appendix 1 to this Notice of Special Meeting:
- (a) The Company proposes to seek approval to make offers to acquire up to 1,500,000 shares in the Company pursuant to section 60 of the Companies Act 1993.
 - (b) Offers may be made in the period of thirty-six months following 22 March 2018, being the date of this Special Meeting ("**Buyback Period**").
 - (c) The Company will pay the Current Share Price for the shares at the time of purchase – currently \$3 per share.
 - (d) The Company is not obliged to make offers, and reserves the right to cease making offers at any time.
 - (e) Whether shares are bought back at all will depend on market conditions, the Company's cash flow and other factors prevailing at the relevant time.
 - (f) The Company will regularly reassess the situation and seek to purchase shares at prices that in its view represent the best and fairest value for shareholders.
 - (g) The Company will disclose the number of shares, and the price at which it bought them, each year during the Buyback Period in its annual report along with the details required by clause 7 of Schedule 1 of the Exemption Notice. That information will also be posted on the Company's internet website during the course of the Buyback Period (and up to the issue of the first annual report after the end of the Buyback Period) in addition to details of any aggregate increase of 1% or more in the holding or controlling of voting rights by Hospo and the Comcater Trust (and their respective associates) during the Buyback Period in accordance with clause 8 of Schedule 1 of the Exemption Notice.
 - (h) During the Buyback Period, no change of control of either Hospo or the Comcater Trust is permitted where it would result in another person becoming the holder or controller of an increased percentage of the voting rights in the Company unless that change is

approved by an ordinary resolution of shareholders or otherwise permitted under an exemption granted by the Takeovers Panel.

- (i) The Company will not purchase any shares while it possesses any information which is not generally available to shareholders and which, if it were so available would have a material effect on the price of its shares. If the Company acquires such sensitive information, it will cease acquiring shares until the information is disclosed to shareholders.
- (j) The Company intends to cancel any shares acquired under the Extended Buyback rather than hold the shares acquired as Treasury Stock.

Increase in the proportionate voting rights of Hospo and the Comcater Trust

1.11 Table A below shows the shareholding percentages of Hospo (and its associates) and the Comcater Trust as at the date of this Notice of Special Meeting and the maximum shareholding percentages that may result from the buyback of 1,500,000 shares as contemplated by this Resolution, assuming neither Hospo nor the Comcater Trust participate in any of the buybacks.

Table A: Figures in relation to the Buyback Programme are based on current total voting shares of 11,523,943.

Shareholder (with associates)	Number of shares	Pre-Buyback Percentage of Shares (rounded to two decimal places)	Post-Buyback Maximum Percentage of Shares (rounded to two decimal places)
Hospo	4,932,374	42.80	49.21
Derryn Fewtrell	679,500	5.90	6.78
Christopher Fewtrell	6,500	0.06	0.06
Kerryn Goodsir	35,250	0.28	0.35
George Goodsir	4,000	0.03	0.04
Charlie Goodsir	4,000	0.03	0.04
Nathan Houston	57,500	0.50	0.57
Portia Houston	1,000	0.01	0.01
Lizzie Houston	1,000	0.01	0.01
Sienna Houston	1,000	0.01	0.01
Hayley Jones	22,500	0.20	0.22
Ella Jones	2,000	0.02	0.02
Flynn Jones	2,000	0.02	0.02
Chris McDowell	4,000	0.03	0.04
Total for Hospo	5,752,624	49.92	57.39
Total for Comcater Trust	2,283,438	19.81	22.78

Takeovers Code and Exemption Notice

1.12 Approval of the shareholders of the Company is sought to permit Hospo and the Comcater Trust to increase their voting rights as a result of a buyback if the shareholders (other than Hospo, the Comcater Trust and their respective associates) vote in favour of the acquisitions

contemplated by the Extended Buyback. Appendix 1 sets out the information required by the Exemption Notice to be included in this Notice of Special Meeting.

- 1.13 As required by clause 4 and Schedule 1 of the Exemption Notice, it is stated that:
- (a) Hospo and the Comcater Trust are the persons/entities which hold voting securities (Hospo, in conjunction with its associates) and are relying on the buyback exemption granted under the Exemption Notice; and
 - (b) The increase in Hospo's and the Comcater Trust's voting rights that would result from the buyback by the Company of its own voting securities pursuant to the Extended Buyback would, if approved at the Special Meeting, be permitted as an exception to rule 6(1) of the Takeovers Code in reliance on the buyback exemption in clause 4 of the Exemption Notice.

Directors' recommendation

- 1.14 Margaret Haseltine and Deborah Mackay ("**Unaffected Directors**") recommend that the shareholders vote in favour of the Resolution and approve the Extended Buyback. The other directors, being Roger Fewtrell and Andrew Rayneau, both abstain from making a recommendation (refer to "**Disqualification from voting**" on page 3 of this Notice of Special Meeting).

- 1.15 The reasons for the recommendation of the Unaffected Directors are:

- (a) The Company's willingness to buy back shares from shareholders to create liquidity for shareholders should be viewed positively by shareholders. The Unaffected Directors believe that, under existing market conditions, and with the Company's Current Share Price, the extension of the Buyback Programme is a positive way of enabling shareholder value to be improved and is fair to the Company and all shareholders.
- (b) The Board is proposing a three year share buyback programme to avoid the expense and time of obtaining, on an ad-hoc basis, an independent adviser's report and the approval of the Takeovers Panel which also involves significant management time and legal fees in order for the major shareholders to retain any resulting increase in their voting proportions.
- (c) Before undertaking any buyback of shares, the Directors must on each occasion, as required by the Companies Act, determine that the relevant buyback is "in the best interests of the Company and the shareholders".
- (d) The Company continues to assess further expansion opportunities in Australia. Expansion will largely be funded by cash flow from the Australian business and therefore the Board does not consider that this will have a material effect on the capital available for any buyback of shares under the Buyback Programme.
- (e) The Unaffected Directors have concluded that it may not be in the best interests of the Company for the Company to undertake further buybacks under its Buyback Programme knowing that to do so will force its major shareholders (with director representation on the Board) to potentially sell shares that they own or control in an uncertain market in order to comply with the Takeovers Code. The likely effect would be to drive down share price and create uncertainty for the ongoing ownership of the Company.

- 1.16 The reasons noted in paragraphs (a) and (d) above will be relevant, but not determinative of the Company's decision to undertake a non-pro-rata share buyback under the Extended Buyback.

Independent Adviser's Report

- 1.17 The independent adviser's report required by rule 18 of the Takeovers Code has been prepared by Simmons Corporate Finance Limited and approved by the Takeovers Panel. The independent adviser's report is set out in Appendix 2 of this Notice of Special Meeting.
- 1.18 The purpose of the independent adviser's report is to assess the merits of the proposed continuation of the Buyback Programme (refer section 2 of that report).

APPENDIX 1: Takeovers Code (Class Exemption Notice (No 2) 2001: Disclosures in respect of acquisition of own shares

Capitalised terms used in this Appendix have the meanings given to them in the Notice of Special Meeting. Shares represent the only voting rights in the Company therefore a reference to 'voting securities' and "voting rights" also means 'shares' in the Company and vice versa.

Disclosure Requirements	Comments
The buyback must be approved by an ordinary resolution of the shareholders of the code company.	The Resolution is seeking shareholder approval of the Extended Buyback, being the acquisition of up to 1,500,000 of the Company's own shares, over a three year period by way of ordinary resolution.
Neither the persons increasing voting control nor any person who is an associate of those persons may vote in favour of the Resolution concerning the Buyback Programme.	Neither Hospo nor the Comcater Trust nor any of their respective associates will vote in relation to the Resolution.
The Notice of Special Meeting containing the proposed resolution contains, or is accompanied by:	
a. Full particulars of the buyback.	Full particulars of the Extended Buyback are set out in the Explanatory Notes and this Appendix.
b. A statement of the name of the persons who hold or control voting securities and are relying on the Exemption Notice.	See under "Takeovers Code and Exemption Notice" on page 6 of this Notice of Special Meeting. Hospo and the trustees of the Comcater Trust are the persons who hold and control voting securities and are relying on the Exemption Notice.
c. The following particulars of the voting securities that may, if the Resolution is carried, be acquired by the Company under the Buyback Programme (see (i) below for the assumptions on which the below particulars are based):	
i. The maximum number (approved maximum number) of its own voting securities that the Company could acquire under the Extended Buyback;	1,500,000
ii. The percentage of all voting securities of the Company on issue that the approved maximum number represents (calculated at the date of this Notice of Special Meeting);	13.02%
iii. The maximum percentage (approved maximum percentage) of all voting securities on issue that (1) Hospo, (2) the Hospo associates and (3) the Comcater Trust, could hold or control, in aggregate, if the Company acquired the approved maximum number of voting securities;	(1) 49.21% (2) Refer to Table A of paragraph 1.11 of this Notice of Special Meeting for a list of maximum percentages for each of the associates of Hospo Limited. (3) 22.78%
iv. The maximum percentage of all voting securities on issue that (1) Hospo, (2) the Hospo associates and (3) the Comcater Trust, and their respective associates, excluding their exempt associates, could hold or control, in aggregate, if the Company acquired the approved maximum number of voting	(1) 49.21% (2) Refer to Table A of paragraph 1.11 of this Notice of Special Meeting for a list of maximum percentages for each of the associates of Hospo Limited. (3) 22.78%

Disclosure Requirements	Comments
securities;	
v. The maximum percentage of all voting securities on issue that (1) Hospo and each of its associates together with their associates (as referred to in paragraph 1.11 of this Notice of Special Meeting) and (2) the Comcater Trust and its associates, could hold or control, in aggregate, if the Company acquired the approved maximum number of voting securities (calculated at the date of this Notice of Special Meeting).	(1) 57.39% (2) 22.78%

Disclosure Requirements	Comments
d. The consideration for the buyback or the manner in which the consideration will be determined and when the consideration will be payable.	The Company will pay the prevailing Current Share Price (refer paragraph 1.2 of this Notice of Special Meeting). The first payment will be made by 11 May 2018 (following the Board meeting of 3 May 2018) with subsequent payments payable in the month following each Board meeting.
e. The reasons for the buyback.	See paragraph 1.15 of this Notice of Special Meeting.
f. A statement to the effect that the increase in Hospo and the Comcater Trust's voting control that would result from the buyback would, if approved, be permitted as an exception to rule 6(1) of the Code in reliance on the buyback exemption in clause 4 of the Exemption Notice.	See "Takeovers Code and Exemption Notice" on page 6 of this Notice of Special Meeting.
g. A report from an independent adviser in relation to the buyback that complies with Rule 18 of the Code (as if the references in that rule to an acquisition under Rule 7(c) of the Code were references to the Extended Buyback made in accordance with the Exemption Notice and the references to a notice of meeting were references to this Notice of Special Meeting).	An independent report prepared by Simmons Corporate Finance Limited is set out in Appendix 2 of this Notice of Special Meeting.
h. A statement by the directors of the Company in relation to the buyback that complies with Rule 19 of the Code (as if the reference in that rule to acquisition under Rule 7(c) of the Code was a reference to the Extended Buyback made in accordance with the Exemption Notice).	See "Directors' Recommendation" on page 7 of this Notice of Special Meeting.
i. The following assumptions have been applied for the purposes of providing the particulars of voting securities, as specified in (c) above:	<p>a. That the number of voting securities in the Company is the number of voting securities on issue on the calculation date;</p> <p>b. That there is no change in the total number of voting securities on issue between the calculation date and the end of the buyback period, other than as a result of the buyback;</p> <p>c. That none of Hospo, its associates or the Comcater Trust participate in the Buyback Programme;</p> <p>d. That the Company acquires the approved maximum number of its own voting securities;</p> <p>e. That no Treasury Stock is acquired by the Company.</p>
j. The calculation date for determining the particulars of voting securities, as specified in (c)(i)-(v) above.	The calculation date is the date of this Notice of Special Meeting.

APPENDIX 2: Independent Adviser's Report

SPECIAL MEETING: SHAREHOLDER PROXY AND POSTAL VOTING FORM

Shareholder Name(s): _____

Shares held: _____

VOTING BY POSTAL VOTE: (To use if you will not attend the meeting and are not appointing a proxy)

I wish to vote by postal vote (please ✓). My voting intention is indicated in the resolutions section below.
 (If you choose this option please do not complete the proxy section below)

PROXY APPOINTMENT: (Only complete this section if you will not attend the meeting but wish someone to represent you and vote on your behalf and you have not sent a postal vote) **I wish to appoint a proxy (please ✓)**

I/We being a shareholder of Southern Hospitality Limited hereby appoint:

of

(Full name of proxy)

(Full address of proxy)

As my/our proxy to vote for me/us on my/our behalf at the Special Shareholders' Meeting of the Company to be held on 22 March 2018, at 12 Roberts Street, Dunedin at 10.00am and at any continuation of that meeting should it be adjourned.

RESOLUTIONS (FOR POSTAL AND PROXY VOTING)

Cast a Postal Vote, or instruct a proxy to vote, by placing a tick in the relevant box.

Ordinary Resolution	Please vote with a ✓		
	For	Against	Abstain
<p>1. That the Company is authorised to acquire up to a maximum of 1,500,000 shares in the Company under its share buyback programme over a period of three years from the date of this Meeting and that Hospo Limited and Andrew Kenneth Rayneau and Bridget Gordon in their capacity as trustees of the Comcater Trust together with their respective associates (as listed below) are authorised to retain any increased percentage of voting rights held or controlled by them as a result of those buybacks.</p> <p>The associates of Hospo Limited comprise Derryn Fewtrell, Christopher Fewtrell, Kerry Goodsir, George Goodsir, Charlie Goodsir, Nathan Houston, Portia Houston, Lizzie Houston, Sienna Houston, Hayley Jones, Ella Jones, Flynn Jones and Chris McDowell.</p> <p>Notes: Persons and their associates that are excluded from voting on the resolution may only act as proxies and/or voting representatives of non-disqualified shareholders with express instructions.</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Tick only one box. If none of the boxes above is ticked then I/we provide my/our proxy to exercise his/her/their discretion as to whether to vote for or against or abstain from voting for the resolution.

If no proxy/postal voting form is received by the Company within 48 hours of the commencement of the special meeting (being no later than 10.00 am on 20 March 2018) then in the absence of the relevant shareholders attending the meeting the votes attaching to such shares will not be voted at the special meeting.

Signature of Shareholder(s)

Dated: _____ 2018

NOTES ON THE COMPLETION OF YOUR POSTAL VOTE OR PROXY APPOINTMENT & VOTE

Postal Vote

1. As a shareholder entitled to vote at the Special Meeting you are entitled to vote by postal vote.
2. You can cast your postal vote in accordance with the instructions in this form.
3. If you return your postal vote without indicating on the resolution how you wish to vote, you will be deemed to have abstained from voting on the resolution.
4. If you complete the postal vote section and also appoint a proxy, your postal vote will take priority over the proxy appointment.

Proxy Appointment

5. A shareholder entitled to attend and vote at the Special Meeting is entitled to appoint a proxy or, in the case of a corporate shareholder, a representative to attend and vote instead of him/her/it and that proxy or representative need not also be a shareholder.
6. You can appoint your proxy in accordance with the instructions in this form.
7. If this Proxy has been signed under a power of attorney, a copy of the power of attorney and a signed certificate of non-revocation of the power of attorney must be produced with this Proxy.
8. If you wish, you may appoint either the Chair of the Meeting or any of the Directors (other than Roger Fewtrell and Andrew Rayneau) as your proxy. To do so, please write their position in the box marked "full name of proxy" e.g. "Chair of the meeting".
9. Except in the case of the appointment of a person disqualified from voting on the resolution, if you return this form without directing the proxy how to vote on the resolution, you will be deemed to have given your proxy discretion as to whether and how to vote on that resolution. If you appoint a person that is disqualified from voting on the resolution as your proxy without directions as to how they should vote then your votes will not be cast. See the Notice of Special Meeting for details as to the persons that are disqualified from voting on the resolution.

General

10. If you intend to attend the Special Meeting and vote please bring this form intact to the meeting as your admission card and voting paper
11. For your postal vote or proxy appointment to be valid you must return this form completed and signed to be received by Deborah Mackay at one of the addresses below **no later than 10.00 am on 20 March 2018**. Please contact Deborah Mackay should you have any question on how to complete your proxy/postal voting forms on +64 21 872 024

Please return completed Proxy Form to:

By Mail:
PO Box 425
Dunedin
Attn: Deborah Mackay

Scan and email:
shares@southernhospitality.co.nz

At least 48 hours before the meeting (**being no later than 10.00 am on 20 March 2018**).