

# Southern Hospitality Limited

## Independent Adviser's Report

### In Respect of the Continuation of the Buyback Programme

*March 2018*

#### 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; and
- has no direct or indirect pecuniary or other interest in the proposed transaction considered in the 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 Panel, that it is independent under the Takeovers Code for the purposes of preparing this report.

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## 1. Introduction

### 1.1 Background

Southern Hospitality Limited (**Southern Hospitality** or the **Company**) was incorporated on 7 August 1989.

The Company is the largest supplier of hospitality equipment in New Zealand and the Pacific Islands. Its key target customers in New Zealand, Australia and the Pacific Islands are hospitality providers including restaurants, hotels, cafes and bars, catering providers including prisons, institutional caterers and student residences, residential health care providers including aged care providers, food manufacturers and food retailers including supermarkets.

Almost all of the Company's sales staff are fully trained chefs that have worked in the food service industry. This experience, complemented by the ability of the sales staff to meet with the customers and be responsible for the complete sales process, assists the Company to achieve its goal to supply goods on time and within budget.

The Company's expansion plans are currently centred on Australia. Southern Hospitality opened its first Sydney branch in May 2011, its second Sydney branch in September 2012 and its third branch and distribution centre in Sydney in May 2013. The Company's board of directors (the **Board**) believes that the characteristics in the New Zealand marketplace also exist in the Australian marketplace. With the favourable position it holds in the New Zealand market, the Board considers that further expansion into Australia is the next logical step for the Company.

### 1.2 Major Shareholders

Southern Hospitality currently has 11,523,943 ordinary shares on issue held by 145 shareholders.

Southern Hospitality's 2 largest shareholders are:

- Hospo Limited (**Hospo**) – 4,932,374 shares (representing 42.80% of the total number of shares on issue)
- Andy Rayneau and Bridget Gordon as trustees of the Comcater Trust – 2,283,438 shares (19.81%).

Hospo is wholly owned by Roger Fewtrell. Mr Fewtrell is the founding director of Southern Hospitality and has recently stepped back into the managing director role.

Mr Rayneau is a trustee of the Comcater Trust. He is an executive director of the Company and its export manager.

Hospo and its associates (the **Hospo Associates**) collectively hold 5,752,624 shares (representing 49.92% of the total number of shares on issue).

Hospo Associates		
Shareholder	No. of Shares	%
Hospo	4,932,374	42.80%
Derryn Fewtrell	679,500	5.90%
Christopher Fewtrell	6,500	0.06%
Kerryn Goodsir	35,250	0.28%
George Goodsir	4,000	0.03%
Charlie Goodsir	4,000	0.03%
Nathan Houston	57,500	0.50%
Portia Houston	1,000	0.01%
Lizzie Houston	1,000	0.01%
Sienna Houston	1,000	0.01%
Hayley Jones	22,500	0.20%
Ella Jones	2,000	0.02%
Flynn Jones	2,000	0.02%
Chris McDowell	4,000	0.03%
	5,752,624	49.92%

*Source: Southern Hospitality*

### 1.3 Buyback Programme

Southern Hospitality has from time to time since 2004 offered selected employees the opportunity to participate in the Company's employee share purchase scheme (the **Scheme**). Under the Scheme, the Board offers selected employees the opportunity to purchase a certain number of shares at a price determined by the Board based on a biannual independent valuation assessment (the **Current Share Price**). The selected employees are able to apply to the Company for a loan equal to the full purchase price of the shares allocated to them. The loan is interest free and repayable in monthly instalments over a term not exceeding 10 years.

The Company has operated a buyback programme since 2004 whereby it has made periodic offers to shareholders to purchase shares issued under the Scheme up to a certain dollar value (the **Buyback Programme**). However, the Company may suspend or close the Buyback Programme at any time.

If the employee shareholder does not have an outstanding loan with the Company in respect of the shares, then they may offer their shares to the Company under the Buyback Programme in respect of some or all of their shares.

If the employee shareholder has an outstanding loan with the Company in respect of the shares, they are permitted to participate in the Buyback Programme, but only in respect of all (rather than just some) of the relevant shares.

Although employee shareholders who cease employment are not required to sell their shares back to the Company on ceasing employment, if they wish to do so voluntarily, the Company currently makes arrangements to repurchase those shares through the Buyback Programme.

Purchases under the Buyback Programme are made at the Current Share Price, which is currently \$3.00.

The Company wishes to extend the Buyback Programme for a further 3 years and to acquire up to a further 1,500,000 shares over that period.

## 1.4 Impact on Voting Rights

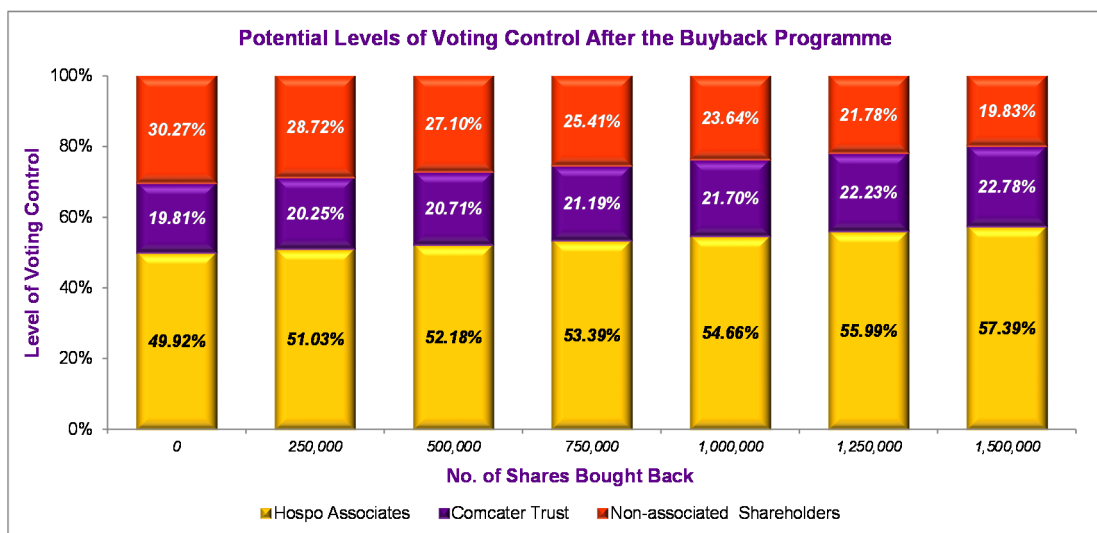
The continuation of the Buyback Programme may result in:

- the Hospo Associates increasing their control of voting rights from 49.92% to up to 57.39%
- the Comcater Trust controlling between 19.81% and up to 22.78% of the voting rights in the Company
- the 30.27% of the voting rights collectively controlled by the Company's shareholders not associated with the Hospo Associates or the Comcater Trust (the **Non-associated Shareholders**) decreasing to 19.83%.

Impact on Voting Rights Levels				
	Hospo Associates	Comcater Trust	Non-associated Shareholders	Total
Current	5,752,624	2,283,438	3,487,881	11,523,943
- %	49.92%	19.81%	30.27%	100.00%
Buyback Programme	-	-	(1,500,000) <sup>1</sup>	(1,500,000) <sup>1</sup>
Post the Buyback Programme	<u>5,752,624</u>	<u>2,283,438</u>	<u>1,987,881</u>	<u>10,023,943</u>
- %	57.39%	22.78%	19.83%	100.00%

<sup>1</sup> Assumes the maximum 1,500,000 shares are bought back from the Non-associated Shareholders

The graph below shows the potential voting rights levels for the Hospo Associates, the Comcater Trust and the Non-associated Shareholders, depending on the number of shares acquired by the Company under the Buyback Programme.



## 1.5 Regulatory Requirements

Southern Hospitality is a code company as defined by the Takeovers Code (the **Code**) and is subject to the provisions of the Code.

Rule 6 of the Code prohibits:

- a person and that person's associates who hold or control no voting rights or less than 20% of the voting rights in a code company from increasing their holding or control of voting rights beyond 20%
- a person and that person's associates holding or controlling 20% or more of the voting rights in a code company from increasing their 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 holding or controlling in excess of 20% of the voting rights (or a shareholder holding or controlling near to 20% of the voting rights) 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 **Buyback Exemptions**), sets out a general exemption for share buybacks.

Clause 4 of the Buyback Exemptions provides an exemption for a shareholder holding or controlling (alone or with their associates):

- less than 20% of the voting rights in a code company to increase its holding or control of voting rights beyond 20%
- 20% or more of the voting rights in a code company to increase its holding or control of voting rights

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 Buyback Exemptions (and their associates)).

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

As set out in section 1.4, the continuation of the Buyback Programme may result in the Hospo Associates increasing their voting rights in the Company from 49.92% to up to 57.39% and the Comcater Trust increasing its voting rights from 19.81% to up to 22.78% if neither participate in the Buyback Programme.

We understand that neither the Hospo Associates nor the Comcater Trust have given any indication to Southern Hospitality at this point in time that they wish to participate in the continuation of the Buyback Programme.

Accordingly, the Non-associated Shareholders will vote on an ordinary resolution at the Company's special meeting on 22 March 2018 in respect of the continuation of the Buyback Programme for a further 3 years and permitting the Hospo Associates and the Comcater Trust to retain any increase in their voting rights in the Company as a result of the continuation of the Buyback Programme up to a maximum of 57.39% and 22.78% respectively (the **Buyback Resolution**).

In accordance with Clause 2(2) of Schedule 1 of the Buyback Exemptions, the Hospo Associates and the Comcater Trust and their respective associates are not permitted to vote on the Buyback Resolution.

Clause 3(g) of Schedule 1 of the Buyback Exemptions requires that the notice of meeting containing the resolution in respect of the continuation of the Buyback Programme must include or be accompanied by an Independent Adviser's Report that complies with Rule 18 of the Code as if:

- references in that rule to an acquisition under Rule 7(c) of the Code were references to the buyback by the code company made in accordance with the buyback exemption and
- the references to a notice of meeting were references to the notice of meeting referred to in this clause.

## 1.6 Purpose of the Report

The directors of Southern Hospitality not associated with the Hospo Associates and the Comcater Trust, being Margaret Haseltine and Deborah Mackay (the **Non-associated Directors**), have engaged Simmons Corporate Finance Limited (**Simmons Corporate Finance**) to prepare an Independent Adviser's Report on the merits of the continuation of the Buyback Programme and of the Hospo Associates and the Comcater Trust retaining any increase in their respective voting rights in the Company.

Simmons Corporate Finance was approved by the Takeovers Panel on 12 February 2018 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 the Buyback Resolution.

We note that each shareholder's circumstances and objectives are unique. Accordingly, it is not possible to report on the merits of the continuation of the Buyback Programme and of the Hospo Associates and the Comcater Trust retaining any increase in their respective voting rights 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 Continuation of the Buyback Programme

### 2.1 Basis of Evaluation

Clause 3(g) of Schedule 1 of the Buyback Exemptions requires an evaluation of the merits of the continuation of the Buyback Programme and of the Hospo Associates and the Comcater Trust retaining any increase in their respective voting rights in the Company, having regard to the interests of the Non-associated Shareholders. There is no legal definition of the term *merits* in either the Code or in any statute dealing with securities or commercial law in New Zealand.

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 1 March 2018
- definitions designed to address similar issues within New Zealand regulations which are relevant to the proposed transaction
- overseas precedents
- the ordinary meaning of the term *merits*.

We are of the view that an assessment of the merits of the continuation of the Buyback Programme and of the Hospo Associates and the Comcater Trust retaining any increase in their respective voting rights in the Company should focus on:

- the rationale for the continuation of the Buyback Programme
- the terms and conditions of the Buyback Programme
- the financial impact of the continuation of the Buyback Programme
- the impact of the continuation of the Buyback Programme on the control of the Company
- the impact of the continuation of the Buyback Programme on Southern Hospitality's share price
- the benefits and disadvantages to the Non-associated Shareholders of the continuation of the Buyback Programme
- the implications if the 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 Continuation of the Buyback Programme

**In our opinion, after having regard to all relevant factors, the positive aspects of the continuation of the Buyback Programme outweigh the negative aspects of the Hospo Associates and the Comcater Trust retaining any increase in their respective voting rights as a result of the continuation of the Buyback Programme 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 continuation of the Buyback Programme is sound. It continues the Buyback Programme that commenced in 2004 and creates liquidity for the Company's shareholders who wish to sell some or all of their shares
- the terms of the Buyback Programme are reasonable. The Buyback Programme is open to all shareholders and shares are purchased at the Current Share Price at the date of purchase (currently \$3.00)
- the financial impact of the Buyback Programme is relatively significant. Based on a Current Share Price of \$3.00, total equity will reduce by approximately \$4.5 million if the maximum 1,500,000 shares are bought back, with a corresponding increase in debt. Earnings per share (**EPS**) would increase by 6% but net tangible assets (**NTA**) per share would decrease by 22%. However, the Board has the right to suspend the Buyback Programme if it considers that it is not in the Company's best interests
- the continuation of the Buyback Programme will not increase the Hospo Associates or the Comcater Trust's ability to influence the outcome of shareholder voting to any significant degree. At most, their voting rights will increase by 7.47% and 2.97% respectively
- the continuation of the Buyback Programme should provide support for Southern Hospitality's share price at the Current Share Price of \$3.00
- the continuation of the Buyback Programme will improve the liquidity of the shares held by Non-associated Shareholders over the period of the Buyback Programme
- the continuation of the Buyback Programme is unlikely to reduce the attraction of Southern Hospitality as a takeover target
- in the event of the Buyback Resolution not being approved, the continuation of the Buyback Programme would not proceed. The Board could subsequently decide to continue the Buyback Programme without seeking shareholder approval but the Hospo Associates and the Comcater Trust would be required to sell down their shareholdings to return their respective percentage holdings to the pre-buyback level within 6 months of the increase. This may place downward pressure on the Company's share price and / or may reduce the Company's inclination to undertake buybacks.

## 2.3 Rationale for the Continuation of the Buyback Programme

### *Board's Rationale*

The Board's key reason for continuing the Buyback Programme is to create liquidity for the Company's shareholders who wish to sell some or all of their shares.

As discussed in section 2.7, trading in the Company's shares is extremely illiquid. The Buyback Programme provides an opportunity for those shareholders who wish to sell shares to do so at the Current Share Price (which is currently \$3.00).

### *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:

- by supporting the share price
- by being an efficient use of capital
- by 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 company's 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 continuation of the Buyback Programme is sound.

## 2.4 Terms of the Buyback Programme

The key terms of the Buyback Programme are:

- the Company proposes to acquire up to 1,500,000 shares
- purchases may be made in the 3 year period from 22 March 2018
- the Company will pay the Current Share Price for the shares at the time of the purchase – which is currently \$3.00
- the Company is not obliged to make offers and reserves the right to cease making offers at any time
- the Company intends to cancel any shares acquired under the Buyback Programme.

We consider the terms of the Buyback Programme to be reasonable:

- all shareholders may participate in the Buyback Programme
- the buyback price is the Current Share Price (currently \$3.00) which is set by the Board based on a biannual independent valuation.

## 2.5 Financial Impact of the Continuation of the Buyback Programme

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

Summary of Southern Hospitality's Financial Performance				
	Year to 31 Mar 14 (Audited) \$000	Year to 31 Mar 15 <sup>1</sup> (Audited) \$000	Year to 31 Mar 16 (Audited) \$000	Year to 31 Mar 17 (Audited) \$000
Operating revenue	107,357	116,155	125,136	136,185
Operating surplus before tax	4,462	4,589	4,617	4,427
Net profit after tax	2,444	2,374	2,438	1,854
Dividends paid	2,568	1,082	-	-
EPS (\$)	\$0.21	\$0.21	\$0.21	\$0.16
DPS (\$)	\$0.21	\$0.09	-	-
	As at 31 Mar 14 (Audited) \$000	As at 31 Mar 15 <sup>1</sup> (Audited) \$000	As at 31 Mar 16 (Audited) \$000	As at 31 Mar 17 (Audited) \$000
Current assets	28,115	34,119	36,062	38,627
Non current assets	11,223	10,631	11,610	10,870
Total assets	39,338	44,750	47,672	49,497
Current liabilities	(16,076)	(21,897)	(21,196)	(20,439)
Non current liabilities	(8,028)	(8,196)	(9,625)	(11,111)
Total liabilities	(24,104)	(30,093)	(30,821)	(31,550)
Shareholder equity	15,234	14,657	16,851	17,947
NTA per share (\$)	\$1.03	\$0.96	\$1.10	\$1.23
Shareholder equity / total assets	39%	33%	35%	36%
<i>DPS: Dividend per share</i>				
<i>1 Restated</i>				
<i>Source: Southern Hospitality audited financial statements</i>				

The illustrative financial impact of the continuation of the Buyback Programme on the Company's financial results for the year ended 31 March 2017 is set out below, based on the following assumptions:

- Southern Hospitality repurchases the maximum 1,500,000 shares at a price of \$3.00 per share, being the Current Share Price at a total cost of \$4.5 million
- the Buyback Programme is funded by interest bearing debt (IBD)
- the buy back effectively occurred on 1 April 2017, so that Southern Hospitality carried the additional debt burden for the full year ended 31 March 2018
- an interest rate of 4.4% on the additional IBD, resulting in additional annual interest of \$0.14 million (post-tax).

Illustrative Financial Impact of the Buyback Programme			
	Year to 31 Mar 17 (Audited)	Buyback Programme	Illustrative Post Buyback Programme
Net surplus after tax (\$000)	1,854	(143)	1,711
EPS (\$)	\$0.16		\$0.17
Total equity (\$000)	17,947	(4,500)	13,447
NTA per share (\$)	\$1.23		\$0.96
Shareholder equity / total assets	36%		27%

The illustrative analysis shows:

- EPS would increase by 6% to \$0.17
- NTA per share would reduce by 22% to \$0.96
- shareholder equity / total assets would decrease from 36% to 27%.

The analysis above is illustrative only. We understand that if the Board considers that there is insufficient cash flow from the Company's operations, then it will consider suspending the Buyback Programme.

## 2.6 Impact on Control

### *Capital Structure and Shareholders*

Southern Hospitality currently has 11,523,943 fully paid ordinary shares on issue held by 145 shareholders.

The names, number of shares and percentage holding of the 10 largest shareholders as at 6 February 2018 are set out below.

### Southern Hospitality's 10 Largest Shareholders

Shareholder	No. of Shares Held	% of Shares
Hospo <sup>1</sup>	4,932,374	42.80%
Comcater Trust	2,283,438	19.81%
Derryn Fewtrell <sup>1</sup>	679,500	5.90%
Mozeley Trust	600,000	5.21%
John Journee	501,280	4.35%
Deborah Mackay	263,000	2.28%
Gareth McCulloch	184,250	1.60%
Tony Bakewell	172,500	1.50%
Christopher Burgess	167,187	1.45%
Philip Llewellyn	157,687	1.37%
Subtotal	9,941,216	86.27%
Others (135 shareholders)	1,582,727	13.73%
Total shares on issue	11,523,943	100.00%

<sup>1</sup> Part of the Hospo Associates  
Source: Southern Hospitality

Derryn Fewtrell is Roger Fewtrell's wife.

The Mozeley Trust is the Company's fourth largest shareholder. Brian Wheeler is a trustee of the Mozeley Trust. Mr Wheeler is a former director of the Company.

John Journee is the Company's former managing director.

Deborah Mackay is the sixth largest shareholder in the Company. Mrs Mackay is a Company director and is its general manager technology and project deployment.

### Shareholder Voting

Any shareholder that does not participate in the Buyback Programme 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.

We understand that neither the Hospo Associates nor the Comcater Trust has given any indication to the Company at this point in time that they wish to participate in the continuation of the Buyback Programme. Assuming neither participate, the continuation of the Buyback Programme will result in:

- the Hospo Associates' controlling between 49.92% and up to 57.39% of the voting rights in the Company
- the Comcater Trust's controlling between 19.81% and up to 22.78% of the voting rights

depending on the number of shares bought back and assuming no other shares are issued during this time.

The Hospo Associates hold a strategic shareholding as they have the ability to singlehandedly block special resolutions.

We note that while a 49.92% interest is technically not sufficient to singlehandedly determine the outcome of an ordinary resolution, in reality, most probably can due to the fact that a number of shareholders in widely held companies tend not to vote on resolutions and hence the relative weight of the 49.92% interest increases.

The potential 7.47% increase in voting rights for the Hospo Associates to up to 57.39% will not enhance their ability to block a special resolution or control the outcome of an ordinary resolution to any significant degree.

The Comcater Trust currently controls 19.81% of the voting rights in the Company. While in theory this cannot block a special resolution, in reality the Comcater Trust most probably can. The potential 2.97% increase in voting rights for the Comcater Trust to up to 22.78% will reinforce the Comcater Trust’s ability to singlehandedly block special resolutions but will not have any significant impact on its ability to control the outcome of an ordinary resolution.

**Board of Directors**

The directors of Southern Hospitality are:

- Roger Fewtrell – managing director, Hospo representative
- Margaret Haseltine – independent chair
- Deborah Mackay – executive director, general manager technology and project deployment
- Andy Rayneau – executive director, export manager, Comcater representative.

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

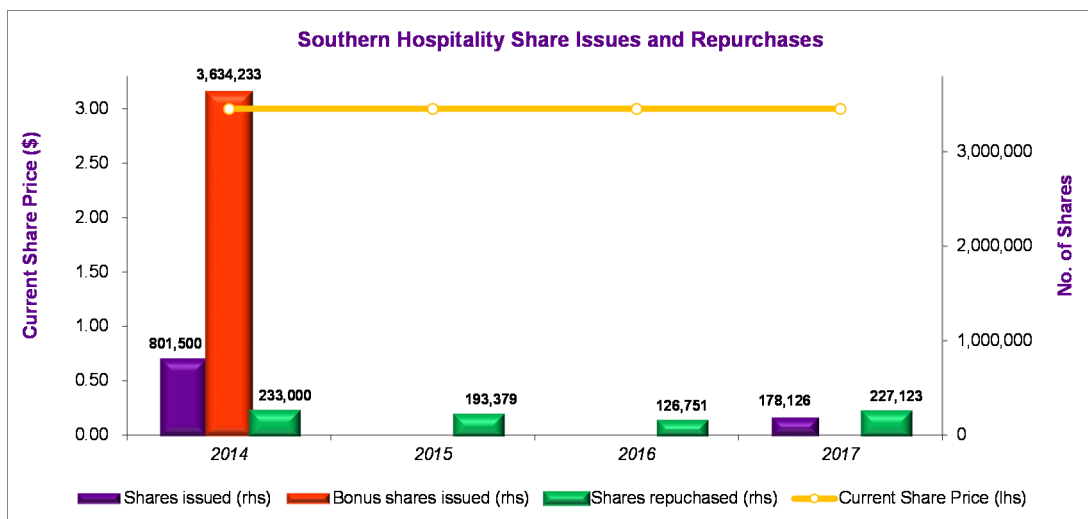
**Operations**

We are advised by the Non-associated Directors that the continuation of the Buyback Programme will not have any impact on the level of influence of the Hospo Associates or the Comcater Trust over the Company’s operations.

**2.7 Impact on Share Price and Liquidity**

Southern Hospitality’s shares are not listed on any securities trading platform and no active trading market exists for the shares. Accordingly, trading in the Company’s shares is extremely illiquid.

Set out below is a summary of the annual volumes of Southern Hospitality shares that have been issued and repurchased in the past 4 financial years and the prices at which they have been issued and repurchased.



Source: Southern Hospitality

Over the 4 year period, the Company has issued 979,626 new ordinary shares, issued 3,634,233 bonus shares and repurchased 780,253 shares.

All share issues and repurchases have been at \$3.00 per share.

The Current Share Price is determined by the Board based on a biannual independent valuation assessment undertaken by Deloitte. The most recent valuation assessment was as at 16 February 2018 (the **Deloitte February 2018 Valuation**). Deloitte assessed the fair value of the equity in the Company to be in the range of \$2.46 to \$3.63 per share. The midpoint of the range is \$3.05 per share. Deloitte applied the capitalisation of earnings method to assess the value of the Company's shares. We consider the valuation approach applied by Deloitte and the valuation outcome to be reasonable.

The Current Share Price has been \$3.00 since the Scheme and Buyback Programme commenced in 2004. Rather than adjust the Current Share Price with each new valuation, the Board has elected to issue bonus shares to each shareholder, thereby ensuring that the value of the shares remains in the vicinity of \$3.00 per share.

The continuation of the Buyback Programme will have a positive impact on the liquidity of the shares held by the Non-associated Shareholders over the period of the Buyback Programme as shareholders wishing to sell shares will be able to do so into the Buyback Programme at the Current Share Price.

## 2.8 Benefits and Disadvantages to Non-associated Shareholders

### *Key Benefits*

The key benefit of the continuation of the Buyback Programme to the Non-associated Shareholders is that it will provide buy-side demand for the Company's shares, thereby improving liquidity over the term of the Buyback Programme.

### *Main Disadvantage*

The main disadvantage is that the continuation of the Buyback Programme may increase the Hospo Associates' voting rights in the Company from 49.92% to up to 57.39% and the Comcater Trust's voting rights from 19.81% to up to 22.78%, thereby marginally increasing their respective ability to control the outcome of shareholder voting. However, we do not consider the increased levels of control to be of any significance.

### *Unlikely to Change the Likelihood of a Takeover Offer from the Hospo Associates or the Comcater Trust*

We are not aware of any intention on the Hospo Associates' or the Comcater Trust's part to make a takeover offer. However, if either party did have such intent, an increase in the Hospo Associates' voting rights from 49.92% to up to 57.39% and the Comcater Trust's voting rights from 19.81% to up to 22.78% is unlikely to change the likelihood of a takeover offer from either shareholder as the increase in their respective level of voting rights is not significant from a control perspective.

### *Likelihood of Other Takeover Offers Does not Change*

We are of the view that the potential increase in the Hospo Associates' and the Comcater Trust's voting rights arising from the continuation of the Buyback Programme is unlikely to reduce the attraction of Southern Hospitality as a takeover target to other parties.

### **Ability for Hospo to Creep**

Rule 7 (e) of the Code permits a shareholder who holds or controls more than 50% but less than 90% of the voting rights in a code company to increase their voting rights by a maximum of 5% over a 12 month period without the need for shareholder approval (the **Creep Provisions**). The Creep Provisions do not apply to that shareholder's associates.

The continuation of the Buyback Programme will not result in Hospo being able to utilise the Creep Provisions. If the Company buys back the maximum 1,500,000 shares under the Buyback Programme and Hospo does not participate in the Buyback Programme, Hospo's maximum shareholding will be 49.21% (ie below the greater than 50% threshold for the utilisation of the Creep Provisions).

### **2.9 Implications of the Buyback Resolution not Being Approved**

If the Buyback Resolution is not approved, then the Buyback Programme will not proceed. The Board could decide at a later date to continue with the Buyback Programme without seeking shareholder approval, in which case the Hospo Associates and the Comcater Trust would be required to sell down their shareholdings to return their respective percentage holdings to the pre-buyback levels within 6 months in accordance with clause 5 of the Buyback Exemptions.

This would be potentially disadvantageous to Non-associated Shareholders as:

- it may lead the Company to reconsider the degree to which it undertakes buybacks and hence reduce the ability for Non-associated Shareholders to sell their shares
- the forced sale of shares by the Hospo Associates and the Comcater Trust may place downward pressure on the Company's share price.

### **2.10 Voting For or Against the Buyback Resolution**

Voting for or against the 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 Southern Hospitality notice of special meeting
- the Southern Hospitality annual reports for the years ended 31 March, 2012 to 2017
- Southern Hospitality shareholder data from the Company
- the Deloitte February 2018 Valuation
- the Southern Hospitality Prospectus and Investment Statement dated 7 November 2013.

During the course of preparing this report, we have had discussions with and / or received information from the Non-associated Directors and executive management of Southern Hospitality and Southern Hospitality'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 continuation of the Buyback Programme 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 Hospitality 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 continuation of the Buyback Programme.

#### **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 Hospitality 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 Hospitality. 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 Hospitality 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 Hospitality and its directors and management. Actual results will vary from the forecasts and these variations may be significantly more or less favourable.

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

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

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

### **3.4 Indemnity**

Southern Hospitality 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 Hospitality 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), INFINZ (Cert).

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

### **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 Hospitality, the Hospo Associates or the Comcater Trust or any conflicts of interest that could affect our ability to provide an unbiased opinion in relation to the transaction.

Simmons Corporate Finance has not had any part in the formulation of the continuation of the Buyback Programme 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 Buyback Resolution. 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 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 special meeting to be sent to Southern Hospitality'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**  
2 March 2018