

# **Tourism Holdings Limited**

## **Independent Adviser's Report**

### **In Respect of the Partial Takeover Offer by Ballylinch LP**

*May 2011*

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## 1. Introduction

### 1.1 Tourism Holdings Limited

Tourism Holdings Limited (*thl* or the **Company**) is listed on the main board equity security market (**NZSX**) operated by NZX Limited (**NZX**) with a market capitalisation of \$71 million as at 20 May 2011 and unaudited total equity of \$190 million as at 30 April 2011.

*thl* owns and operates motorhome, campervan and car rental businesses in New Zealand and Australia, a recreational vehicle (**RV**) rental business in the USA, a motorhome and campervan manufacturing company in New Zealand as well as tourism activities and a transportation business in New Zealand.

A profile of *thl* is set out in section 3.

### 1.2 Ballylinch LP

Ballylinch LP (**Ballylinch**) is a New Zealand limited partnership that was registered on 12 April 2011. Its general partner is Ballylinch General Limited (**BGL**).

BGL was incorporated in New Zealand on 4 April 2011. BGL's sole director is John Grace. BGL is wholly owned by Scanhard Trustee Company Limited (**STCL**), a company controlled by 2 partners of Scannell Hardy & Co, a law firm based in Hastings. We understand that STCL holds the shares in BGL as trustee on behalf of Mr Grace.

Mr Grace is a New Zealand citizen and resides in Switzerland. He has a long history with New Zealand. His great great grandfather, Morgan Stanislaus Grace, came to New Zealand in 1860 as a staff assistant surgeon in the British Army. He went on to be a businessman (including being a founding director of the New Zealand board of the Australian Mutual Provident Society) and a politician (when he was appointed to the Legislative Council).

Mr Grace is chairman of Sterling Grace Private Equity Limited (**Sterling Grace**). Among the investments in New Zealand which Mr Grace has been involved with are Trustees Executors Limited, which was acquired from Tower Limited in 2003 and Spicers Portfolio Management Limited, which was sold to AXA in 2001.

Ballylinch currently holds 18,794,290 ordinary shares in *thl*, representing 19.14% of the Company's ordinary shares. It acquired the shares on 14 April 2011 via an off-market transaction from 4 parties associated with Sterling Grace.

Ballylinch Acquisition of <i>thl</i> Shares			
Seller	No. of Shares	Price	Consideration (\$000)
Sterling Grace Capital Management LP	4,842,206	\$0.595	2,881
Field Nominees Limited	10,136,284	\$0.595	6,031
Sterling Grace International LLC	3,623,901	\$0.595	2,156
John Grace	191,899	\$0.595	114
	<u>18,794,290</u>	<u>\$0.595</u>	<u>11,182</u>

Ballylinch does not currently hold any redeemable ordinary shares (**redeemable shares**) in *thl*.

### 1.3 Ballylinch Offer

Ballylinch sent *thl* a notice of intention to make a partial takeover offer for 40.85% of the ordinary shares and redeemable shares in *thl* not already held or controlled by Ballylinch on 14 April 2011 (the **Ballylinch Offer**).

Ballylinch sent its Offer Document to *thl*'s shareholders on 16 May 2011.

#### **Number of Shares Sought**

The Ballylinch Offer is for 40.85% of the ordinary shares and redeemable shares in *thl* that Ballylinch currently does not hold or control (the **Specified Percentage**), which at the date of the offer amounts to:

- 32,429,358 ordinary shares (33.03% of the total number of ordinary shares currently on issue)
- 1,723,870 redeemable shares (40.85% of the total number of redeemable shares currently on issue).

The redeemable shares have been issued under the Company's long term incentive scheme for its senior executives. The shares are issued as partly paid redeemable shares that are held in trust for the scheme participants by THL Corporate Trustee Limited (the **Trustee**) until such time as the shares meet a qualifying period and the participants pay the outstanding balance on the shares. Upon such payment, the redeemable shares convert into ordinary shares.

The rules associated with the redeemable shares do not allow participants to direct the Trustee to accept the Ballylinch Offer in respect of the redeemable shares. The Company's board of directors has not, at the date of this report, made any change to the scheme rules to allow participants to direct the Trustee to accept the Ballylinch Offer for the redeemable shares. Accordingly, although the Ballylinch Offer is made to redeemable shareholders, no holder of redeemable shares is able to accept the Ballylinch Offer in respect of their redeemable shares.

If the Ballylinch Offer is successful, Ballylinch will hold or control between 50.01% and 52.17% of the voting rights in *thl* (depending on the number of ordinary shares accepted into the offer).

In accordance with the Takeovers Code (the **Code**), each *thl* ordinary shareholder is entitled to accept the Ballylinch Offer in respect of all or any of its *thl* ordinary shares, but shareholders who accept the Ballylinch Offer for more than 40.85% of their shares may have their acceptances scaled down. However, their acceptances cannot be scaled down to less than 40.85% of their shares. A shareholder who accepts in respect of a number of shares equal to or less than their Specified Percentage for each class will not have its acceptance scaled down.

To the extent that any *thl* shareholder does not accept the Ballylinch Offer for 40.85% of its shares, Ballylinch is entitled to take up acceptances from other *thl* shareholders who wish to sell more than 40.85% of their ordinary shares (the **Surplus Shares**).

In respect of the ordinary shares, if Ballylinch receives acceptances from shareholders in excess of the Specified Percentage, then Ballylinch will take up from each accepting shareholder a sufficient number of Surplus Shares to enable it to reach the Specified Percentage of ordinary shares sought. The number of Surplus Shares acquired from each shareholder will be that number of the shareholder's Surplus Shares bearing the same proportion to that shareholder's total Surplus Shares as the further required shares (to reach the Specified Percentage) bear to the total Surplus Shares for all acceptors in that class.

In respect of the redeemable shares, in accordance with the Code, Ballylinch has made an offer for the Specified Percentage of the redeemable shares. As stated above, no holders of redeemable shares are able to accept the Ballylinch Offer and accordingly Ballylinch will not obtain any redeemable shares under the Ballylinch Offer. Pursuant to the scaling rules under the Code, Ballylinch is entitled to take up additional ordinary shares from shareholders who have remaining Surplus Shares (following the additional shares taken up under the process followed in the preceding paragraph (the **Remaining Surplus Shares**). Ballylinch must take up that number of ordinary shares which have voting rights attached as are equivalent to the voting rights attached to the 40.85% of redeemable shares in respect of which the Ballylinch Offer was made but not taken up.

A description of the scaling process, along with an example is set out in section 2.5.

It is important to note that while each ordinary share carries a single vote, the constitution of *thl* provides that a redeemable share only has fractional voting rights based on the proportion which the amount paid bears to the amount to be paid in order for the redeemable share to be fully paid.

### Consideration

Ballylinch is offering cash of:

- \$0.675 per ordinary share
- between \$0.015 and \$0.14 for each redeemable share, depending on the date of issue.

### Conditions

The Ballylinch Offer is conditional on Ballylinch receiving sufficient acceptances such that, when taken together with the ordinary shares it already holds, Ballylinch holds or controls more than 50% of the voting rights in *thl* (the **Minimum Acceptance Condition**). Ballylinch cannot waive this condition. It cannot take up any *thl* shares under the Ballylinch Offer unless this condition is satisfied by the date the offer closes.

The Ballylinch Offer is also subject to the satisfaction of the following conditions:

- *thl* not declaring or paying any dividends, bonuses or other distributions
- no changes being made to the capital structure of *thl* and no alteration being made to the rights, privileges or restrictions attaching to any *thl* shares
- the *thl* business is carried on in the normal and ordinary course
- no material assets are purchased or sold, no material contracts are entered into or varied and no material investment or business is purchased or sold

- no assets are destroyed or damaged to an extent that materially affects the carrying on of **thl's** business
- there is no material adverse change in **thl's** financial position, trading operations or assets since 30 June 2010 and no event occurs which may give rise to a material adverse change
- no material adverse change in the terms of **thl's** banking facilities and no event occurs which may give rise to a material adverse change
- there is no alteration to **thl's** constitution
- no receiver is appointed and no liquidation proceedings are commenced
- there is no change to the terms and conditions of employment and / or appointment of directors or officers
- the NZX 50 Gross Index (the **Index**) does not close at a level that is 15% or more below the level of the Index on 14 April 2011 for 3 or more consecutive trading days up to the date the offer becomes unconditional
- the closing price for the first nearby month Brent Blend Crude futures contract quoted on the IntercontinentalExchange does not exceed US\$144 between 14 April 2011 and the date the offer becomes unconditional
- the NZ\$ / US\$ spot exchange rate does not exceed \$0.85 between 14 April 2011 and the date the offer becomes unconditional
- a change in control of **thl** will not affect the ownership of any shares, notes, options or other securities or interest held, controlled or owned by **thl**
- a change in control of **thl** will not prejudicially affect **thl's** interest in any company, other entity, unincorporated body, concession, lease, grant, permit, authority or contract.

The above conditions also apply with respect to **thl's** subsidiaries. Any of the conditions (other than the Minimum Acceptance Condition) may be waived by Ballylinch at its discretion.

### **Offer Dates**

The offer is open from 13 May 2011 and closes at 5pm on 30 June 2011 (unless extended by Ballylinch in accordance with the provisions of the Code).

## **1.4 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% and
- a person holding or controlling 20% or more of the voting rights in a code company from increasing its holding or control of voting rights

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

One of the exceptions, set out in Rule 7(b) of the Code, enables a person to increase its control of voting rights beyond 20% by making a partial offer for a specified percentage of the shares of the target company.

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

### 1.5 Purpose of the Report

A committee of the Company's directors not associated with Ballylinch (the **Independent Directors Committee**) has engaged Simmons Corporate Finance Limited (**Simmons Corporate Finance**) to prepare an Independent Adviser's Report on the Ballylinch Offer in accordance with Rule 21 of the Code.

Simmons Corporate Finance was approved by the Takeovers Panel on 19 April 2011 to prepare the Independent Adviser's Report.

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

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

## 2. Evaluation of the Merits of the Ballylinch Offer

### 2.1 Basis of Evaluation

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

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

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

- the Takeovers Panel guidance note on the role of independent advisers dated August 2007
- 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 Ballylinch Offer should focus on:

- the assessed value of *thl*'s shares and the value of the consideration to be received by shareholders
- the implications of the conditions attached to the offer
- the likelihood of alternative offers or alternative transactions
- the advantages and disadvantages for the shareholders of accepting the Ballylinch Offer
- the implications for the shareholders of not accepting the Ballylinch Offer.

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

### 2.2 Rationale for the Ballylinch Offer

Ballylinch has provided limited insight into the rationale for its partial takeover offer. It issued a media release on 15 April 2011, which included the statement:

*John Grace, director of the general partner of Ballylinch, said “The offer will provide Ballylinch with the ability to further invest in thl. I have been a supporter of thl for many years and in these difficult times believe that a company as important as thl in an industry that is as important to New Zealand should have a stable cornerstone shareholder.”*

The Offer Document states that Ballylinch does not currently intend to make any material changes in respect of the business activities of *thl* or its subsidiaries or the composition of the board. However, Ballylinch reserves its right to do so. It also states that its current intention, if the offer is successful, is for *thl* to remain New Zealand based and listed on the NZSX.

We have discussed the rationale for the Ballylinch Offer with Mr Grace. He reiterated that he viewed *thl* as a quality company in a vital industry to New Zealand. He was of the view that the Company was best served by remaining a listed company, as this would be beneficial for *thl*'s relationships with its customers, suppliers and bankers, but that it needed a significant cornerstone shareholder that was committed to enhancing the value of the Company. These factors were the main reasons for a partial takeover offer rather than a full takeover offer. Mr Grace also reiterated that at this point in time, he has no firm plans for any material changes to the nature of *thl*'s operations, the composition of the Company's board or its dividend policy.

### 2.3 Value of *thl*'s Shares Compared with Offer Prices

In our opinion, the full underlying value of the *thl* ordinary shares is in the range of \$0.97 to \$1.27 per share, as set out in section 4.

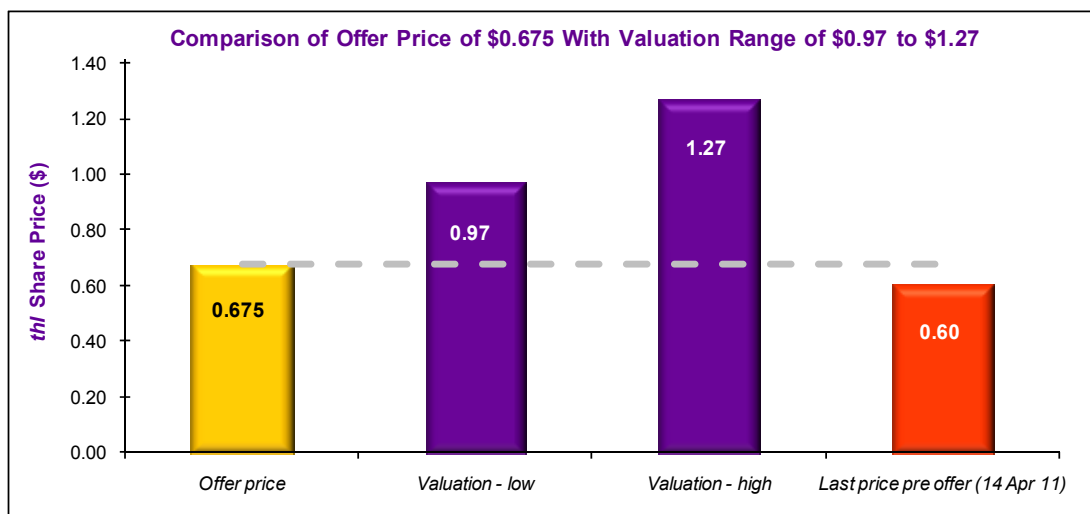
This value is for 100% of the ordinary shares based on the Company's current strategic and operational initiatives and therefore reflects the value of control.

The tourism industry is highly susceptible to shock events such as the September 11 terrorist attack in 2001, the SARS near pandemic in 2002 / 2003, the Influenza A (*H5N1*) outbreak in 2005 / 2006, the Influenza A (*H1N1*) pandemic in 2009 and the natural disasters that occurred in Australia, New Zealand and Japan in 2011. These events cannot be predicted but can have significant adverse effects on the tourism industry in general and on *thl*'s operations and earnings.

The financial outcomes based on the Company's current strategic and operational initiatives do not factor in any allowance for shock events. Accordingly, we would expect that some investors may price in a discount to the assessed values to allow for future shock events.

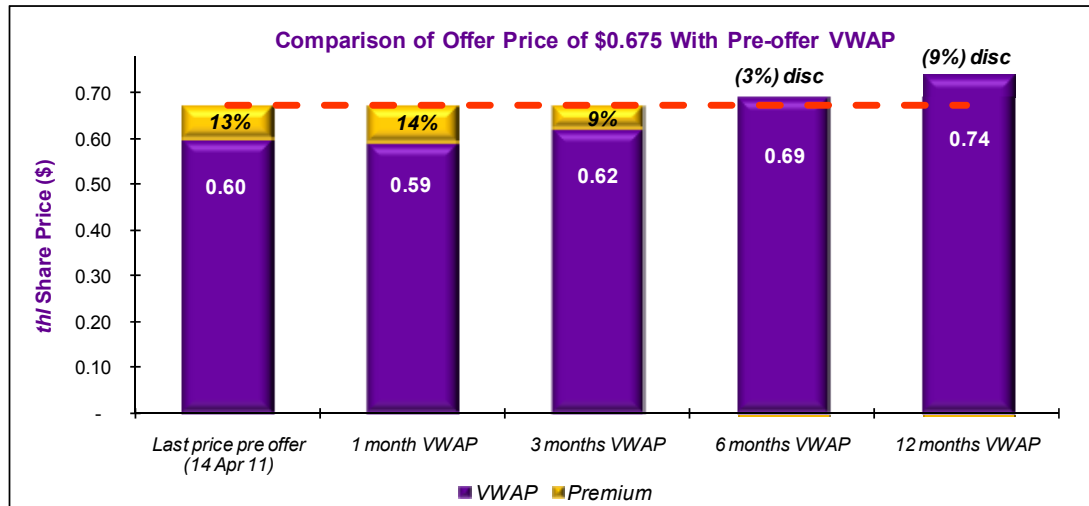
The assessed values exclude the value of any synergies that an acquirer may derive from acquiring full control of *thl*. If the Ballylinch Offer is successful, Ballylinch will hold between 50.01% and 52.17% of the voting rights in *thl*. The synergies that might be captured at this level of control are likely to be less than they might be at 100% ownership control.

The Ballylinch Offer consideration is cash of \$0.675 per ordinary share, which is 30% below the bottom end of our valuation range.



## 2.4 *thl* Ordinary Share Price Compared with Offer Price

The Ballylinch Offer of \$0.675 per ordinary share represents a premium of 12.5% over \$0.60 (being the last trading price before the Ballylinch Offer was announced) and discounts / premia ranging from negative 9% to 14% over the volume weighted average share price (VWAP) measured over one to 12 months.



The premia is below the majority of premia observed in successful takeovers of other listed companies.

We note that trading in the Company's shares is relatively active with approximately 2.3% of the shares traded on average each month. Given the level of trading in the Company's shares and that *thl* is covered by 3 brokers, we are of the view that the observed share prices represent a reasonable indicator of the market value of minority interests in *thl*'s shares.

Since the announcement of the Ballylinch Offer on 15 April 2011, 5,813,272 *thl* shares have traded in a price range of \$0.70 to \$0.76 at a VWAP of \$0.74. The VWAP is 10% above the Ballylinch Offer price.

## 2.5 The Ballylinch Offer is a Partial Offer

### **Partial Offer for 40.85% of the Shares not Held by Ballylinch**

The Ballylinch Offer is a partial offer for 40.85% of the ordinary shares and redeemable shares in *thl* not already held or controlled by Ballylinch, which at the date of the offer amounts to:

- 32,429,358 ordinary shares
- 1,723,870 redeemable shares.

The Minimum Acceptance Condition requires Ballylinch to receive sufficient acceptances such that, when taken together with the ordinary shares it already holds, Ballylinch holds or controls more than 50% of the voting rights in *thl*.

If the Minimum Acceptable Condition is not met, then the Ballylinch Offer will fail and Ballylinch will not be able to purchase any shares under the Ballylinch Offer.

If the Minimum Acceptable Condition is met and the offer is declared unconditional, Ballylinch cannot accept more than the number of ordinary shares which have voting rights equivalent to the 32,429,358 ordinary shares and 1,723,870 redeemable shares sought under the Ballylinch Offer.

As set out in section 3.14, the 4,220,000 redeemable shares on issue currently have the voting rights equivalent to 56,441 ordinary shares. The redeemable shares represent 0.06% of the Company's total voting rights at present. In order for Ballylinch to meet the Minimum Acceptance Condition, it will need to receive acceptances of at least the equivalent of 30,324,293 voting rights.

Minimum Acceptance Condition					
	Ordinary Shares	%	Redeemable Shares Voting Rights	Total Voting Rights	%
Ballylinch	18,794,290	19.14%	-	18,794,290	19.13%
Other shareholders	79,386,433	80.86%	56,441	79,442,874	80.87%
	<u>98,180,723</u>	<u>100.00%</u>	<u>56,441</u>	<u>98,237,164</u>	<u>100.00%</u>
<i>% of total voting rights</i>	<i>99.94%</i>		<i>0.06%</i>		
Minimum Acceptance Condition level				49,118,583	50.01%
Minimum voting rights required to be acquired				30,324,293	30.87%

The redeemable shares are not capable of being accepted into the Ballylinch Offer. Accordingly, Ballylinch will need to receive sufficient acceptances from ordinary shareholders in order to meet the Minimum Acceptance Condition. Having said that, the redeemable shares' collective level of voting rights is negligible (0.06%) and therefore, even if they were capable of being accepted into the offer, they would have been unlikely to determine whether the Minimum Acceptance Level was met or not.

### **Shareholders May Accept the Ballylinch Offer for all or Some of Their Shares**

Each *thl* shareholder may accept the Ballylinch Offer in respect of all or some of the shares they hold.

Assuming the Ballylinch Offer is declared unconditional, any shareholder who wishes to accept the Ballylinch Offer is guaranteed to sell to Ballylinch at least the lesser of:

- 40.85% of its shares or
- the number of shares it accepts into the Ballylinch Offer.

If a shareholder accepts more than 40.85% of their shares into the Ballylinch Offer, (ie it accepts Surplus Shares and (potentially) Remaining Surplus Shares into the offer), then there is a possibility that the number of Surplus Shares and Remaining Surplus Shares accepted by Ballylinch from that shareholder will be scaled down. The degree to which the Surplus Shares and Remaining Surplus Shares will be scaled down depends on the total number of ordinary shares accepted into the offer.

In respect of each class of share, the calculation of the scaling of Surplus Shares is as follows:

- firstly, Ballylinch must accept the lesser of 40.85% of each accepting shareholder's shares or the actual number of shares accepted into the Ballylinch Offer. We refer to the total number of these shares as the *First Acceptance Level*
- the difference between the number of shares that Ballylinch seeks in its offer (32,429,358 ordinary shares and 1,723,870 redeemable shares respectively) and the *First Acceptance Level* represents the additional shares that Ballylinch will accept out of the Surplus Shares. We refer to the total number of these shares as the *Second Acceptance Level*
- the number of Surplus Shares that Ballylinch must accept from each shareholder is calculated on a pro-rata basis across all the Surplus Shares for each class of share.

In the event that after undertaking the scaling of the Surplus Shares, the number of voting rights acquired by Ballylinch in each class of share is less than the number of voting rights sought by Ballylinch in each class of share, then Ballylinch may take up from each accepting *thl* shareholder such further Remaining Surplus Shares from all classes of shares in order to meet the shortfall. The number of Remaining Surplus Shares acquired from each shareholder will be calculated on a pro-rata basis and will be based on the balance of the voting rights sought by Ballylinch proportionate to the total voting rights of all Remaining Surplus Shares. We refer to the total number of these voting rights as the *Third Acceptance Level*. Given that the redeemable shares are not capable of acceptance into the offer, Ballylinch will be able to accept 23,056 ordinary Remaining Surplus Shares in order to meet the number of voting rights sought by Ballylinch in respect of redeemable shares.

An example of how the scaling may work is shown below for illustrative purposes.

Illustrative Example of Scaling of Surplus Shares			
		No. of Ordinary Shares	No. of Redeemable Shares
Total acceptances into the Ballylinch Offer	(1)	40,000,000	0 <sup>1</sup>
Shares sought under the Ballylinch Offer	(2)	32,429,358	1,723,870 <sup>1</sup>
<i>First Acceptance Level</i>	(3)	30,000,000	0 <sup>1</sup>
<i>Second Acceptance Level</i>	(4) = (2) – (3)	2,429,358	0 <sup>1</sup>
Surplus Shares	(5) = (1) – (3)	10,000,000	0 <sup>1</sup>
Percentage of Surplus Shares to be accepted by Ballylinch	(4) / (5)	24.29%	n/a
Remaining Surplus Shares	(6) = (5) – (4)	7,570,642	
<i>Third Acceptance Level</i>	(7)	23,056	
Percentage of Remaining Surplus Shares to be accepted by Ballylinch	(7) / (6)	0.30%	

<sup>1</sup> The redeemable shares are not capable of being accepted into the offer

Under this example, Ballylinch would acquire 24.29% of each accepting ordinary shareholder's Surplus Shares and 0.30% of each accepting ordinary shareholder's Remaining Surplus Shares. This would result in Ballylinch holding 51,246,704 ordinary shares (52.20% of the total number of ordinary shares) and 52.17% of the voting rights in the Company.

## 2.6 Potential Outcomes

### *Only 2 Possible Outcomes*

As the Ballylinch Offer is a partial offer for 40.85% of the Company's shares that Ballylinch does not hold or control, there are only 2 possible outcomes:

- the offer succeeds – Ballylinch receives sufficient acceptances which, when combined with its current shareholding, enables Ballylinch to hold or control more than 50% of the voting rights in *thl* (and assuming the offer is declared unconditional), in which case Ballylinch will hold up to 52.20% of the ordinary shares in the Company or
- the offer fails – Ballylinch receives acceptances which, when combined with its current shareholding, does not enable Ballylinch to hold or control more than 50% of the voting rights in *thl*, in which case the Ballylinch Offer will fail and Ballylinch cannot purchase any shares in the Company under the Ballylinch Offer.

### *The Likelihood of the Ballylinch Offer Succeeding*

Interests associated with Gerard Ryan (the **Ryan Associates**) and Accident Compensation Corporation (**ACC**) are the Company's second and third largest shareholders in the Company after Ballylinch, holding 9.07% and 7.49% of *thl*'s ordinary shares respectively. When taken together, the Ryan Associates and ACC control 16.56% of the Company's ordinary shares. These shares collectively represent 50.14% of the ordinary shares sought under the Ballylinch Offer. Accordingly, the likelihood of the Ballylinch Offer succeeding is dependent to a large degree on how the Ryan Associates and ACC respond to the offer. Having said that, the Ballylinch Offer could still succeed even if the Ryan Associates and ACC did not accept their shares into the offer.

Both the Ryan Associates and ACC have increased their shareholdings in the Company since the Ballylinch Offer was announced. The shares have been purchased at prices in excess of the \$0.675 offered by Ballylinch. This would suggest that neither the Ryan Associates nor ACC is likely to accept the Ballylinch Offer. We note that there is no requirement for the Ryan Associates or ACC to publicly announce whether they will accept or reject the offer.

### *If the Ballylinch Offer Succeeds, the Acceptance Level is Uncertain*

Assuming that Ballylinch receives acceptances for more than 32,429,358 ordinary shares, then shareholders accepting for more than 40.85% of their ordinary shares will face uncertainty as to the number of shares they can sell to Ballylinch until the Ballylinch Offer is completed and the total number of acceptances can be determined.

If a shareholder accepts the Ballylinch Offer, they will be unable to sell the shares subject to the acceptance until the Ballylinch Offer is completed. This will be of particular importance if a competing takeover offer is made or if a shareholder accepts Surplus Shares into the Ballylinch Offer.

Payment for the shares accepted under the Ballylinch Offer will be made not later than 7 days after the later of:

- the date on which the offer becomes unconditional
- the date on which the acceptor's acceptance is received by Ballylinch or
- the end of the offer period.

As we have stated, there is no advantage to shareholders to accept the Ballylinch Offer early. We recommend that in order to maintain flexibility, if shareholders decide to accept the Ballylinch Offer, they do not submit their acceptance forms until either the Ryan Associates and ACC announce their intentions as to whether they will accept or reject the offer or close to the offer closing date.

## 2.7 Conditions of the Ballylinch Offer

The Minimum Acceptance Condition is discussed in section 2.5.

The majority of the other conditions of the Ballylinch Offer relate to distributions, capital structure and business operations.

Conditions of this nature are common in takeover offers. We do not consider any of these conditions represent a major impediment to the offer succeeding.

However, the Ballylinch Offer also has conditions in respect of:

- the level of the Index
- the price of oil
- the NZ\$ / US\$ exchange rate.

At the date of this report, none of these 3 conditions have been breached. There is reasonable headroom between the respective condition limits and the current Index level, oil price and exchange rate to suggest that the conditions will not be breached. However, there is no guarantee that any of the conditions will not be breached during the period that the offer remains open.

## 2.8 Implications of the Ballylinch Offer Succeeding

### ***Ballylinch Would Control thl***

In the event that the Ballylinch Offer is successful, ***thl*** is likely to remain a listed company on the NZSX controlled by Ballylinch.

Ballylinch would control between 50.01% and 52.17% of the voting rights in ***thl***. It would control appointments to the Company's board of directors. As an NZSX listed company, ***thl*** is required to have a minimum of 2 independent directors.

With Ballylinch controlling over 50% of the voting rights in the Company, it would be able to singlehandedly pass ordinary resolutions and block special resolutions. However, it would not be able to singlehandedly control the outcome of special resolutions.

While Ballylinch would have control over ***thl***, it cannot act in an oppressive manner against minority shareholders. The Companies Act 1993 provides a level of protection to minority shareholders. Any transactions between Ballylinch and ***thl*** would be required to satisfy the requirements of the NZSX Listing Rules with respect to transactions with related parties.

### ***Ballylinch Could Increase its Shareholding Under the Creep Provisions of the Code***

Ballylinch would be permitted to *creep* towards the 90% threshold over time by buying up to a further 5% per annum commencing 12 months after the current offer closes. However, it would not have to wait 12 months to make another partial or full takeover offer after the current offer closes.

### ***Liquidity of thl Shares Likely to Decrease***

The current public pool of 80.86% of the shares is relatively actively traded, with approximately 2.8% of the public pool (2.3% of the total number of shares) traded each month on average.

If the Ballylinch Offer is successful, the size of the pool of shares held by shareholders other than Ballylinch would decrease to less than 50%. This would likely lead to a reduction in the liquidity of the Company's shares, resulting in only smaller parcels of *thl*'s shares being able to be sold on-market over a reasonable period of time at the prevailing market price. This may suppress the price at which *thl*'s shares trade in the future.

### ***Likelihood of Further Takeover Offer from Ballylinch Reduces***

Ballylinch's control of between 50.01% and 52.17% of *thl*'s voting rights would provide it with a significant level of control over *thl*. This could reduce Ballylinch's inclination to further increase its shareholding in *thl* via another takeover offer.

If Ballylinch did make a takeover offer for further shares in *thl*, it may not offer a control premium as Ballylinch may value its offer on the basis that it already has significant control of *thl* and hence does not need to pay a control premium.

Ballylinch has not provided any indication (and nor does it have to) as to whether it may seek to increase its control of voting rights above the level of between 50.01% and 52.17%.

### ***Likelihood of Other Takeover Offers Diminishes***

With Ballylinch controlling between 50.01% and 52.17% of the voting rights in *thl*, the attraction of *thl* as a takeover target would be reduced. Any bidder looking to take over *thl* would need to ensure that Ballylinch would accept its offer. This creates a greater difficulty than if the shares in *thl* were widely held. Accordingly, this may reduce the likelihood of other takeover offers. In any event, Ballylinch would control the outcome of any future takeover offers.

### **No Significant Change in Business Risk**

If the Ballylinch Offer succeeds, shareholders would still retain an interest in *thl*. Shareholders are unlikely to face any material change in business risk unless operating policies are changed (positively or negatively). The main industry and business factors and risks that *thl* faces are set out in section 3.10.

If its offer is successful, Ballylinch would have the opportunity to make changes to the Company's operating policies if it so wished. Ballylinch has stated in its Offer Document that it does not currently intend to make any material changes in respect of the Company's business activities, though no references to the future have been provided by Ballylinch.

### **Potential Synergies**

We are of the view that the potential synergies that may arise if the Ballylinch Offer is successful are negligible. Ballylinch has stated that it intends to maintain *thl*'s listing on the NZSX and to not alter the Company governance structure in the near term.

Mr Grace and Sterling Grace do not appear to currently own or control any other businesses that are directly comparable with *thl* and which could be combined with *thl* to derive operational and / or financial synergies.

### **Dividend Policy**

If the Ballylinch Offer succeeds, Ballylinch would have the ability to control the Company's board of directors and thereby influence decisions such as the Company's debt levels and its dividend policy. This may result in changes to the levels of tax paid profits earned by the Company and dividends paid to shareholders.

### **Imputation Credits and Tax Losses**

The Company held approximately \$6.3 million of New Zealand imputation credits as at 31 March 2011. If the Ballylinch Offer is successful, *thl* would not meet the continuity test to carry forward the imputation credits and hence they would be forfeited.

The Company had New Zealand tax losses of approximately \$10.3 million as at 30 June 2010. It had a future tax benefit of approximately \$2.8 million on its balance sheet as at that date. If the Ballylinch Offer is successful, *thl* would not meet the continuity test to carry forward the tax losses. The future tax benefit would be reversed, resulting in a charge to the Company's income statement.

## 2.9 Likelihood of Alternative Takeover Offers

We are advised by the Independent Directors Committee that as at the date of this report, it is not aware of any alternative takeover offers or alternative transactions impacting on the control of the Company.

We note that the Ryan Associates held 4.91% of the Company's ordinary shares immediately before the announcement of the Ballylinch Offer. Mr Ryan filed substantial security holder notices on 18 April 2011 and 20 May 2011, stating that the Ryan Associates had acquired a further 4.16% of *thl*'s ordinary shares at an average price of \$0.74 per share, resulting in their collective shareholding increasing to 9.07% as at 20 May 2011. Mr Ryan owns Jayco Corporation (**Jayco**), an Australian company that manufactures RVs (some of which are provided to *thl*). Mr Ryan has made no public comment regarding whether he has any intention to further increase his shareholding.

If an alternative takeover offer was made and Ballylinch decided not to match it, then those shareholders who had already accepted the Ballylinch Offer would not be able to accept those shares into the alternative takeover offer until the Ballylinch Offer lapsed.

Given this, if shareholders believe that there is a possibility that an alternative takeover offer will be made, they would be prudent to hold off deciding whether to accept their shares into the Ballylinch Offer until near the closing of the offer on 30 June 2011 (unless the Ballylinch Offer is extended).

## 2.10 Likelihood of Ballylinch Increasing the Offer Price

We are not aware of any intention on Ballylinch's part to increase its offer price. However, if Ballylinch does increase its price under this offer, the increased price will be available to all shareholders, including those who have already accepted the Ballylinch Offer at \$0.675 per ordinary share.

## 2.11 Advantages of Accepting the Ballylinch Offer

Assuming the Ballylinch Offer is declared unconditional, acceptance of the offer will enable ordinary shareholders to realise cash of \$0.675 per ordinary share for at least the Specified Percentage of their shares, or potentially more shares depending on the level of scaling of the Surplus Shares and the Remaining Surplus Shares.

\$0.675 is a premium of between 9% to 14% to the VWAP that the shares have traded at in the 3 months up to the announcement of the Ballylinch Offer. However, since the announcement of the Ballylinch Offer, the Company's shares have traded on the NZSX in a price range of \$0.70 to \$0.76 at a VWAP of \$0.74, which is a 10% premium to the offer price.

For shareholders with significant shareholdings, the ability to dispose of at least the Specified Percentage of their shares may represent an exit opportunity not currently available on the NZSX. However, shareholders with smaller parcels of shares are likely to be able to achieve a better financial outcome by selling their shares on the NZSX at present, even after allowing for brokerage costs.

## 2.12 Disadvantages of Accepting the Ballylinch Offer

### *Reduction in Shareholding in thl*

If the Ballylinch Offer is successful, accepting shareholders will hold smaller shareholdings in a company whose shares will likely be traded less regularly. As stated in section 2.8, a further reduction in the liquidity of the Company's shares may suppress the price at which the shares trade in the future.

Accepting shareholders will receive a control premium for a portion of their shares but may not receive a control premium for the remainder of their shares as Ballylinch will be able to *creep* towards the 90% threshold over time and the likelihood of further takeover offers from Ballylinch or other bidders will reduce if the Ballylinch Offer is successful.

By reducing their proportionate interest in *thl*, accepting shareholders will not participate to the same extent in any appreciation in the value of the *thl* shares as a result of improved performance or new takeover offers at a higher price following the completion of the Ballylinch Offer.

The Company is forecasting a significant improvement in earnings in the 2012 financial year, driven by underlying cost improvements, the first full year of earnings from the recent USA RV rental business acquisition, fleet reductions and one-off benefits from the Rugby World Cup in September and October 2011.

Enhanced earnings may lead to increases in the *thl* share price and / or other potential takeover bidders taking an interest in the Company.

### *Inability to Transact Accepting Shares*

If a shareholder accepts the Ballylinch Offer, then, until the expiry of the offer period, they will be unable to dispose of the shares for which they have accepted into the Ballylinch Offer, whether by selling them on-market (in the case of ordinary shares) or by accepting them into an alternative takeover offer.

## 2.13 Implications of Not Accepting the Ballylinch Offer

If certain shareholders choose not to accept the Ballylinch Offer, then they will hold a proportionately greater percentage of the shares not owned by Ballylinch. A successful offer by Ballylinch will reduce the public pool of shares in *thl* which will likely reduce the overall liquidity of the Company's shares.

It is unlikely that a takeover offer will be received from another bidder in the near term if the Ballylinch Offer is successful and there is no certainty that Ballylinch will pursue a subsequent full takeover offer given its level of control following a successful partial takeover offer. While the share price may remain at levels consistent with the current offer in anticipation of a full takeover offer, the likely reduced liquidity following the completion of the Ballylinch Offer may impact negatively on this price.

## 2.14 Summary of Evaluation of the Merits of the Ballylinch Offer

The Ballylinch Offer is a partial offer for 40.85% of the shares in the Company that Ballylinch does not currently hold or control and therefore there can only be 2 possible outcomes:

- either Ballylinch receives sufficient acceptances to meet the Minimum Acceptance Condition and the offer succeeds or
- the offer fails because Ballylinch does not receive sufficient acceptances.

Factors that ordinary shareholders should consider when deciding whether to accept or reject the Ballylinch Offer include:

- the rationale for Ballylinch making the Ballylinch Offer and Ballylinch's intentions for the future of the Company have not been clearly articulated
- we assess the full underlying value of the *thl* ordinary shares to be in the range of \$0.97 to \$1.27 per share. The Ballylinch Offer price is 30% below the bottom end of our valuation range
- the Ballylinch Offer of \$0.675 per ordinary share represents premia ranging from 9% to 14% over the Company's VWAP for the 3 months but is a discount of between 3% to 9% to the Company's 6 month and one year VWAP
- since the announcement of the Ballylinch Offer, the Company's shares have traded on the NZSX in the range of \$0.70 to \$0.76 at a VWAP of \$0.74, which is a 10% premium to the offer price
- the Ryan Associates and ACC collectively hold 16.56% of the Company's ordinary shares, representing 50.14% of the ordinary shares sought under the Ballylinch Offer. Accordingly, their respective responses to the offer will significantly influence the outcome of the offer. However, we note that both the Ryan Associates and ACC have acquired shares in *thl* since the announcement of the Ballylinch Offer at prices in excess of the offer price. This would suggest that neither shareholder intends to accept the offer
- assuming that the Ballylinch Offer is successful:
  - shareholders accepting for more than 40.85% of their shares will face uncertainty as to the number of shares they can sell to Ballylinch until the Ballylinch Offer is completed and the total number of acceptances can be determined
  - Ballylinch will control *thl*
  - Ballylinch will be able to increase its shareholding in the Company under the *creep* provisions of the Code
  - the liquidity of *thl*'s ordinary shares is likely to decrease, which may suppress the price at which they trade in the future
  - the likelihood of takeover offers for the remaining shares in the Company will reduce
  - Ballylinch will have the ability to control the Company's board of directors and influence decisions such as the Company's debt levels and dividend policy
  - the Company will forfeit its imputation credits and tax losses.

The main advantage for ordinary shareholders of accepting the Ballylinch Offer is that they will be able to realise cash of \$0.675 per share for at least the Specified Percentage of their shares, or potentially more shares depending on the level of scaling of the Surplus Shares and the Remaining Surplus Shares if the Ballylinch Offer is successful. This price is higher than the Company's VWAP over the past 3 months. However, since the announcement of the Ballylinch Offer, the Company's shares have traded above the offer price and therefore shareholders may achieve a better financial outcome by selling their shares on the NZSX.

The key disadvantages of accepting the Ballylinch Offer are:

- accepting shareholders will not receive a control premium for the portion of their shares that they accept into the offer and may not receive a control premium for the remainder of their shares in the future
- by reducing their proportionate interest in *thl*, accepting shareholders will not participate to the same extent in any appreciation in the value of the Company's shares as a result of improved performance or new takeover offers at a higher price following the completion of the Ballylinch Offer
- accepting shareholders will be unable to dispose of the shares which they have accepted into the Ballylinch Offer until the expiry of the offer period, whether by selling them on-market (in the case of ordinary shares) or by accepting them into an alternative takeover offer.

In our view, there is no compelling reason for ordinary shareholders to accept the Ballylinch Offer. The offer price is significantly below our valuation assessment and we have not identified any significant gains to the Company or its shareholders of Ballylinch holding more than 50% of the voting rights. The timing of the offer appears to be opportunistic, as the Company's shares have been trading at their lowest levels over the past year and a half.

Redeemable shareholders are not able to accept their shares into the offer.

## 2.15 Acceptance or Rejection of the Ballylinch Offer

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

### 3. Profile of *thl*

#### 3.1 Company Background

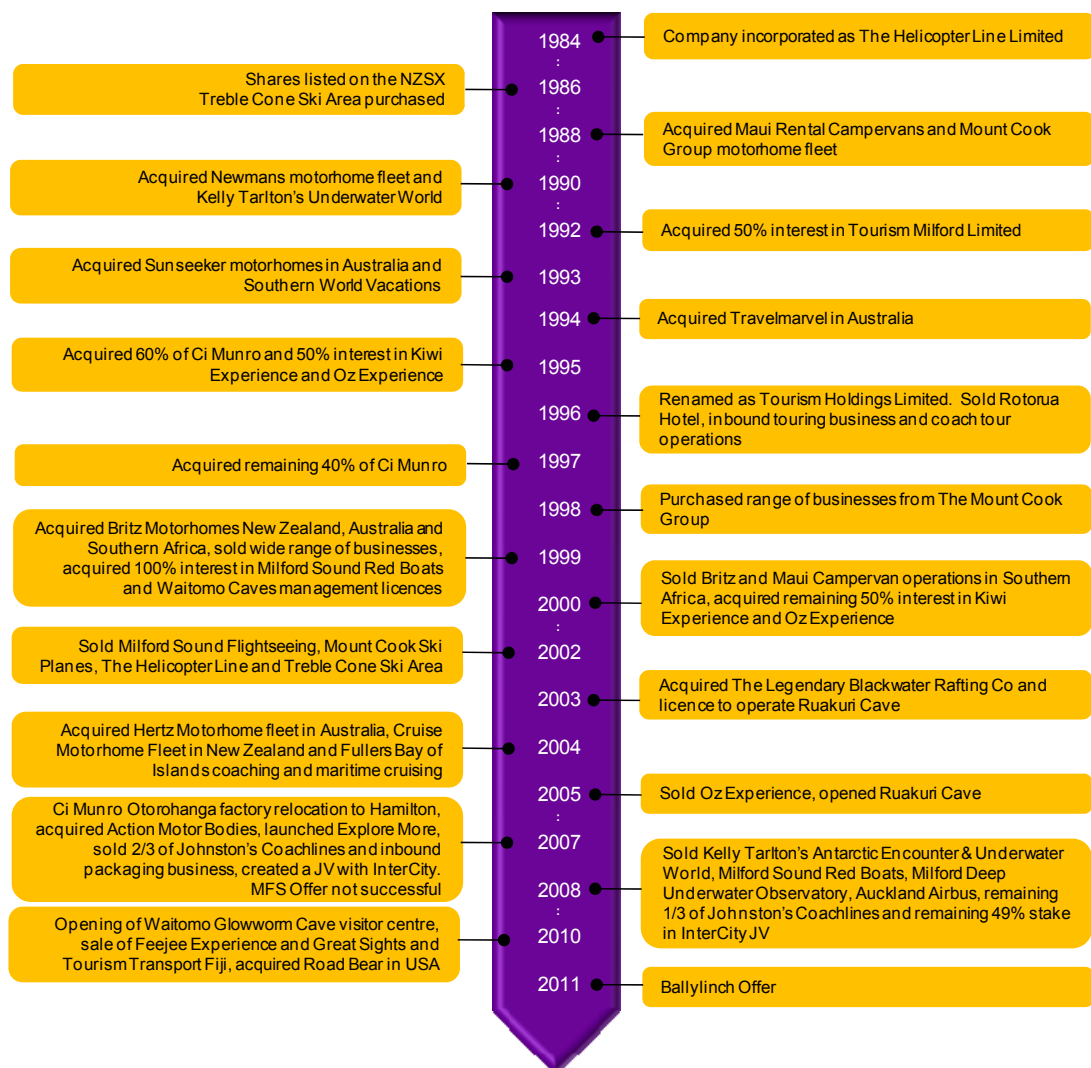
*thl* was incorporated on 19 September 1984 as The Helicopter Line Limited. It changed its name to Tourism Holdings Limited on 1 October 1996.

The Company initially specialised in providing scenic flights in the South Island. It subsequently acquired a number of transport, hospitality and leisure assets and businesses in New Zealand, Australia and Fiji.

On 23 May 2007, MFS Living and Leisure Group NZ Pty Limited (**MFS**) made a full takeover offer for *thl* at \$2.80 per share (the **MFS Offer**). The MFS Offer was not successful as MFS did not receive sufficient acceptances to meet its minimum acceptance condition.

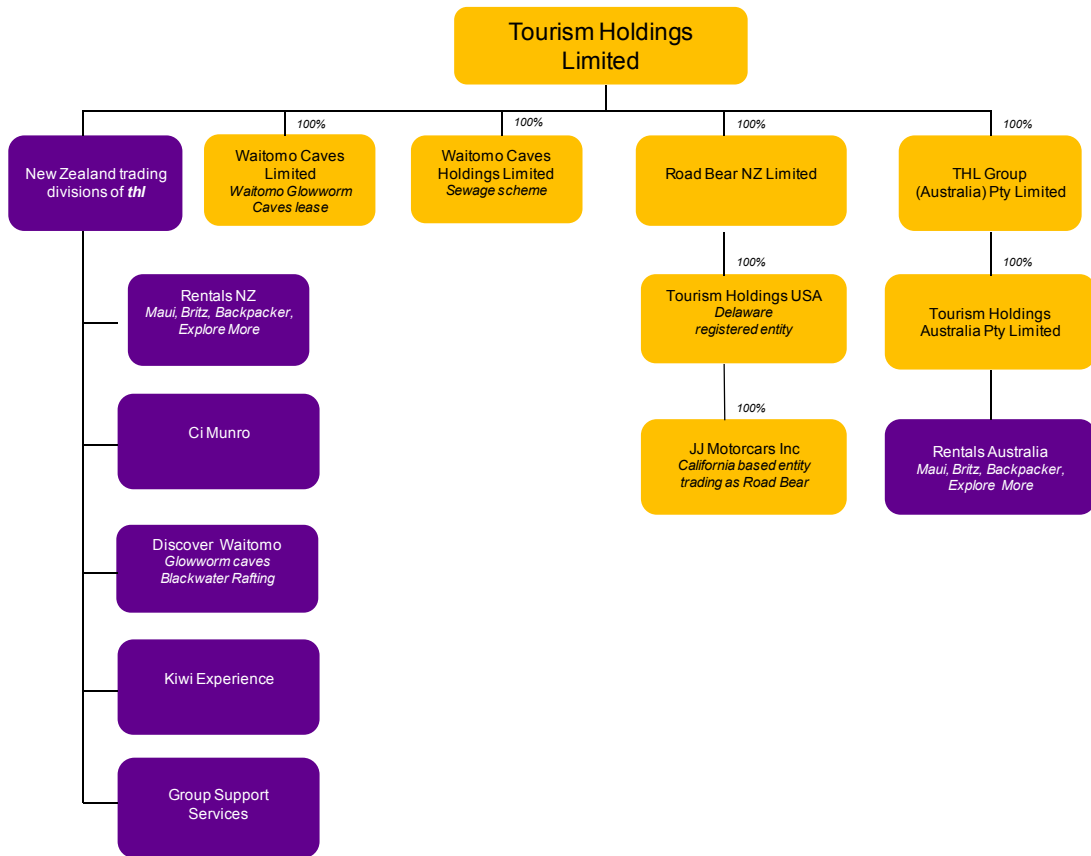
The Company commenced a strategic alignment in 2007 to change its asset mix with a focus on expanding its rentals business further internationally.

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



### 3.2 Organisation Structure

The Company's organisation structure is set out below.

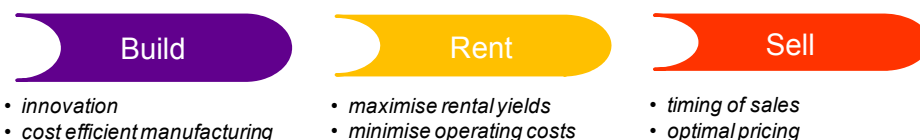


### 3.3 Nature of Operations

**thl** operates a family of brands and products ranging from manufacturing through self-driven to guided experiences.



The **thl** core business model is structured around maximising value from the manufacture, rental and sale of the Company's RVs.



The Company's operations are organised under 3 business units and a support group.



### 3.4 Rentals

#### Overview

The Rentals business operates in 3 jurisdictions - New Zealand, Australia and the USA. The Company's Maui and Britz brands are also operated by a completely independent business under licence in South Africa.

The New Zealand and Australian businesses are similar in operating nature with a similar product range, legislative and product specification requirements. The USA business operates with a different product specification and operating structure.

All 3 operating markets have a similar customer base and are marketed through the same or substantially similar channels.

#### New Zealand and Australia

##### Overview

The Rentals business is a major player in the New Zealand and Australian motorhome / campervan markets, with a range of products from premium motorhomes to low cost campervans. The business also rents cars under the **thi** brands. In New Zealand the cars are operated by **thi** and in Australia by a third party supplier. With a combined fleet of some 3,000 motorhomes and campervans, the Rentals business is considered by **thi** to be the largest motorhome / campervan operator in Australasia.

The Rentals business consists of 4 brands operating from 4 locations in New Zealand and 11 locations in Australia.



### Rentals Market

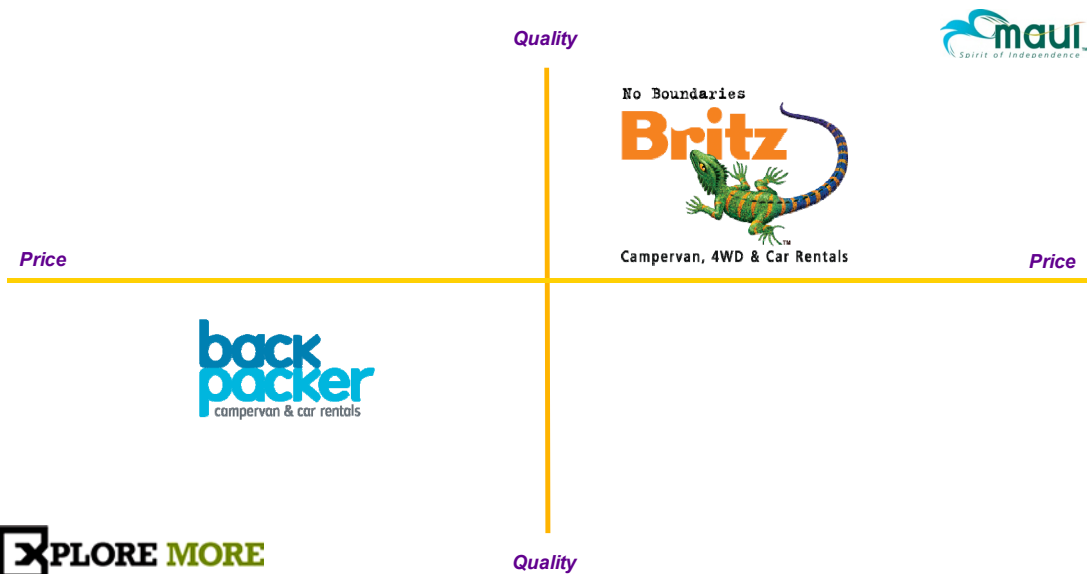
The Rentals business focuses on both the domestic and international tourist transportation and accommodation markets. Campervan users are predominantly international visitors on holiday. Whilst definitive industry data is not available, *thl* estimates that its current market share in New Zealand is approximately 35% and approximately 40% to 45% in Australia.

The key markets for the New Zealand Rentals business are Australian, UK and German tourists. The key for the Australian Rentals business are Australians, as well as German and UK tourists. Historic and forecast visitor arrivals for New Zealand and Australia are set out in section 3.9.

The peak season for the New Zealand and Australian Rentals businesses is the summer period between December and March. The New Zealand business derives over 50% of its revenue in this period and Australia over 35%. A second peak occurs in Australia in July and August when the northern states benefit from the European summer holidays. This second peak represents over 20% of revenue.

### Rentals Brands

The 4 Rentals brands are each positioned to target specific market segments.



Source: *thl*



Britz is *thl's* lead brand in Australia. Britz provides the widest choice of campervans in the market with a range of models and layouts designed to suit outdoor adventurers.

In New Zealand, Britz offers the option of 8 campervan and 7 car models, whereas in Australia it offers 8 campervan, 3 4WD campervan and 9 car models. Britz also offers 4WD Tag-a-long Tours in Australia to complement its 4WD products.

Maui is positioned as the premium motorhome provider in New Zealand and Australia. It offers the largest fleet of new to 2 and a half year old motorhomes in Australasia, targeting the premium leisure market.



Maui's product range includes 2 berth campervans and 4, 5 and 6 berth motorhomes backed by a range of premium services. Maui offers 6 models in New Zealand and 6 models in Australia. In addition to motorhomes, Maui offers a range of high quality, late model rental cars from economy models to 8 seater vans. Maui offers a similar product range in both New Zealand and Australia.



Backpacker targets the New Zealand and Australian value-seeking travellers. These travellers still want clean, fully equipped campervans with reliable back-up service but acknowledge that these campervans and rental cars are older models.

Backpacker offers a complete range of sleeper vans to 4 and 6 berth motorhomes in New Zealand and sleeper vans, 2 berth campervans and 4WD campervans in Australia.

The Explore More campervan and car rental brand was launched in July 2007 to appeal directly to the lower-cost and youth market segments.



Like Backpacker, the fleet is older but the offering is channelled into 2 person sleeper vans and campervans only in Australia and New Zealand with the addition of a fleet of rental cars in New Zealand.

### Fleet

The New Zealand and Australia Rentals fleet currently consists of 3,000 motorhomes and campervans:

- New Zealand – 1,470 vehicles
- Australia – 1,530 vehicles.

### Vehicle Sales

The **thl** business model of Build / Rent / Sell requires the sale of vehicles at all stages of operating life from new, ex-factory to older aged ex-rental vehicles. Previously the Company had focussed predominantly on selling older high kilometre vehicles. This focus as a seller of RVs allows the Company to target a wide variety of customer segments within the domestic private market.

Maui Vehicle Sales is a licensed motor vehicle dealership specialising in selling ex-rental Maui motorhomes and Britz campervans into the private market. The business also sells cars and caravans. It operates only in New Zealand, with **thl** operated branches in Auckland and Christchurch. **thl** also has wholesale agreements with dealers across New Zealand in centres outside of the areas in which Maui Vehicle Sales operates.

Within Australia, **thl** has wholesale agreements with various Australian RV dealers to enable the sale of vehicles effectively across states. Over the past 12 months, **thl** has successfully grown its sales of near new and aged fleet through this dealer network.

### *Group Support*

The Company operates a centralised support structure which focuses on both the consolidated requirements of the group and more specific support to the Rentals business.

The Group Support centre is based in Auckland at the Backpacker retail site. The Australian support centre is based in Melbourne.

### *Information Technology*

In 2007 **thl** commenced a reinvestment plan in technology to enable a platform for the business to grow through maximising the opportunity in online channels and to leverage the infrastructure of the Company's proprietary reservations and fleet scheduling system (*Aurora*).

In 2008 the core system was upgraded and investment commenced in Microsoft Office Sharepoint Server technology to enable a more dynamic and cost effective approach to website development and management.

The development of the business in the online space is now considered to be a core capability for **thl**.

### *Marketing Channels*

The Rentals business has a distribution network consisting of 3 main channels:

- the traditional wholesale market
- online agents
- direct sales (including direct online bookings).

All channels are considered important by **thl** to ensure customer choice is maintained. Each channel has specific targets and strategies which consider the costs of commissions and operating costs associated with the channel.

The online channels have continued to grow, albeit at a slower rate since the global financial crisis (**GFC**) in 2008. Innovation within the direct online space has created a merging of all the direct channels. The Company has a strong focus on increasing conversions as well as increasing brand awareness and value.

The marketing mix and spend has moved towards the online space over the last 3 years with over 40% of the Rentals marketing spend now dedicated to this channel.

### Competition

Both the New Zealand and Australian markets have a high level of competition, with second and third tier operators marketing predominantly in the online and direct channels.

KEA Campers, Jucy Rentals, Wicked and Apollo Motorhomes operate in both Australia and New Zealand. Key competitors that operate both toilet / shower and non-toilet / shower products within the New Zealand and Australian industry are summarised below.

New Zealand and Australia Rentals Competitors			
New Zealand Competitors	Estimated Fleet Size	Australian Competitors	Estimated Fleet Size
Apollo Motorhomes	800	Apollo Motorhomes	1,350
KEA Campers	600	Wicked Campers	800
Jucy Rentals	600	KEA Campers	500
United Vehicle Rentals	450	Jucy Rentals	300
Pacific Horizon Motorhomes	400	Spaceships Rentals	150
Spaceships Rentals	200		

Source: *thi*

In addition, there are a number of operators targeting the budget / backpacker market with non-toilet / shower product such as Jucy Rentals, Wicked Campers, Escape Rentals, Spaceships Rentals and Travellers Autobarn.

### Road Bear RV Rentals and Sales



*thi* acquired Road Bear RV Rentals and Sales (**Road Bear**) in December 2010 for \$21 million (US\$16.5 million). The acquisition consideration was \$12.1 million of cash and \$8.9 million of vendor loans. The acquisition price included goodwill of \$6.4 million.

The Company views the Road Bear acquisition as a platform for a strategic entry into the North American market.

Road Bear is a premium provider of RVs in the USA. It was established in 1980 and operates from 5 locations, including Los Angeles where its head office is based.

Road Bear's target market is predominantly German, Swiss and Dutch visitors to the USA. Its peak season is June to September with very low off season utilisation.

#### United States of America

● Road Bear RV Rentals and Sales



Road Bear currently has a fleet of approximately 440 vehicles. The Road Bear business model is similar in concept to the New Zealand and Australian businesses except that it has sufficient supplier choice to buy vehicles (as opposed to manufacturing itself) and with a single brand proposition the product is rotated over a shorter period. Road Bear's market share is estimated by *thi* at approximately 5%.

The dominant RV rental companies in the USA are set out below.

Road Bear Competitors	
Competitor	Estimated Fleet Size
Cruise America	3,500
El Monte	1,800
Camping World	1,000
Apollo Motorhomes	300
<i>Source: thl</i>	

### 3.5 *thl* Manufacturing and Design

The manufacturing base of *thl* is based in Hamilton where the Ci Munro and Action Motor Bodies (**AMB**) business operates. The Company's Melbourne factory focuses primarily on the assembly of 4WD and van-based products for the Australian market and Rentals business. A new factory is currently under construction in Melbourne, enabling consolidation with the Australian support centre and Melbourne Rentals branch.

*thl* considers that design is a critical capability for the business moving forward as it aims to lead in the development of product, marketing and channel management.

Ci Munro has a dominant position in New Zealand in the manufacture of motorhomes and campervans. It manufactures motorhomes and campervans for Maui and Britz in New Zealand and Australia. It also manufactures and sells directly to the public through Maui Vehicle Sales and other campervan rental operators in New Zealand. Ci Munro has a strong history and capability in caravan manufacture (under the Oxford brand) and will re-enter this market over the coming year.

AMB is Ci Munro's specialist transport engineering arm. It designs and builds customised truck bodies, decks, trailers, horse trucks, ute bodies, ute trays and lock-up trailers. AMB also undertakes specialist projects, most recently providing District Health Boards around New Zealand with over 100 mobile dental units. AMB recently announced a relationship with St John ambulance and is currently building a new generation prototype vehicle.

Ci Munro's main competitors are:

- Jayco, based in Victoria, Australia. Jayco claims to produce approximately half of all RVs sold in Australia each year
- Winnebago Industries, based in New South Wales, Australia. Winnebago claims to be the largest motorhome manufacturer in Australia, producing approximately 600 RVs each year
- Talvor Motorhomes, based in Queensland, Australia. Talvor is the manufacturing arm of Apollo Motorhomes and has recently opened a smaller operation in New Zealand
- KEA Manufacturing, based in Auckland. KEA recently consolidated its manufacturing sites in Auckland with its branch and head office facilities. KEA exports to Australia.

Over the past 2 years *thl* has used Jayco to supply product. This has allowed *thl* to supplement capacity at Ci Munro and introduce new product ranges, predominantly for the Britz brand.

## 3.6 Tourism Group

### *Discover Waitomo Group*

Waitomo is situated in the central North Island and is renowned for its limestone caves, glow worms and adventure activities. Approximately 300,000 tourists visit the Discover Waitomo Group activities each year.

*thl* operates 4 cave attractions in the Waitomo region:

- Waitomo Glowworm Caves
- Ruakuri Cave
- Aranui Cave
- The Legendary Black Water Rafting Co.

The original and best known of these are the Waitomo Glowworm Caves. Aranui Cave is a smaller cave which is known for its white, pink and brown limestone formations. The much larger Ruakuri Cave offers a more varied cave experience and is also where The Legendary Black Water Rafting Co. operates its adventure activities.

All the caves operate under licences and lease arrangements with local Hapu, local owners and the Department of Conservation (**DoC**):

- Waitomo Glowworm Caves – the Ruapuha-Uekaha Hapu and DoC have granted *thl* a lease to operate the caves up to June 2027
- Ruakuri Cave – the Holden family has granted *thl* a lease up to October 2033 (if renewed) and DoC has granted *thl* a concession licence to carry out guided cave tours up to November 2033
- The Legendary Black Water Rafting Co. – BWR Resources Limited has granted *thl* a lease up to October 2038 and DoC has granted a concession licence to carry out cave tubing trips up to November 2022
- Aranui Cave – DoC has granted *thl* a licence to carry on the business of cave guiding up to June 2039 (if renewed).

*thl* invested approximately \$12 million in developing the Waitomo Glowworm Caves visitor centre which opened in 2010. The building includes a restaurant, cafe, retail shop, theatre and exhibition centre.

The key tourist markets for the glowworm caves are Asian visitors. The Legendary Black Water Rafting Co. focuses mainly on the youth and backpacker markets, predominantly from the UK.

There are no direct scale competitors for the Waitomo Glowworm Caves. Small unique cave competitors in the Waitomo region are Spellbound Glowworm & Cave Tours and CaveWorld. Te Anau Glowworm Caves competes in the wholesale trade market.

The Legendary Black Water Rafting Co. faces competition in the Waitomo region mainly from Waitomo Adventures and Rap, Raft 'n' Rock.

### **Kiwi Experience**

Kiwi Experience is a youth focussed flexible hop-on / hop-off bus operation that allows travellers a whole year to complete their journey, stopping off en route as they choose. The driver guides provide entertaining commentary along the journey and can also make arrangements and recommendations for accommodation and activities. Kiwi Experience leases its coaches from Johnston's Coachlines.

Kiwi Experience targets the free independent travellers market and in particular the youth backpacker segment of this market. Most of its passengers are in the 20 to 35 years old age bracket and mainly from the UK, Scandanavia, the Netherlands and Germany.

The market is highly price competitive. Kiwi Experience's main competitors include MagicBus and Stray. Competitive hop-on hop-off transport options are also offered by InterCity Coachlines and Nakedbus.

### **3.7 Directors and Senior Management**

The directors of *thl* are:

- Keith Smith, chair and independent director
- John Bongard, independent director
- Graeme Bowker, independent director
- Rick Christie, independent director
- Deepak Gupta, non executive director, associated with Ballylinch
- Graeme Wong, independent director.

The Company's senior management team comprises:

- Grant Webster, chief executive officer
- Ian Lewington, chief financial officer
- Quinton Hall, chief information officer
- Mike Horne, general manager New Zealand Rentals Operations
- Kate Meldrum, general manager marketing and customer experience
- Daniel Schneider, CEO and president Road Bear
- Damien Shaw, general manager Australian Rentals Operations
- Sue Sullivan, general manager sales.

### **3.8 Corporate Objectives and Strategy**

*thl* has as its purpose of being "*creating unforgettable holidays*".

Over the past 2 years the business has moved away from seeing itself as purely a rentals business to focussing on all aspects of the Build / Rent / Sell business model.

The Company's initiatives for the coming year reflect the ongoing need to improve its revenue and grow its market share while deriving efficiencies across all aspects of the business.

**thl's** 3 key corporate objectives are:

- transform the current customer offer and experiences:
  - grow the customer experience beyond a sole product focus
  - transform the operations of the business to deliver customer experiences
  - create new products and services to enable competitive advantages
- creating new opportunities for growth to leverage the core capabilities and fixed cost base:
  - expand the business beyond New Zealand and Australia
  - expand the product range to leverage the current infrastructure
  - create synergy opportunities within operating markets to leverage overhead structures
  - remain the scale operator globally
- adapt the business model and focus to improve the return on investment of each RV within each stage of life:
  - reduce build cost
  - increase flexibility in fleet size and build timeframes
  - increase sales margins
  - reduce the operating cost of vehicles
  - increase manufacturing margins.

### 3.9 Inbound Tourism

#### Overview

The key driver of **thl's** businesses is tourist inflows into New Zealand and Australia and, to a lesser extent at this point in time, the USA (following the acquisition of Road Bear). The Company's historic van hire days patterns are strongly correlated with visitor arrival numbers.

Visitor numbers are strongly influenced by:

- global and domestic economic conditions - such as the GFC in 2008 / 2009 and relative exchange rates between countries
- country or region-specific shock events - such as the September 11 2001 terrorist attack, the 2002 / 2003 SARS near pandemic, the 2005 / 2006 Influenza A (*H5N1*) ("bird flu") outbreak, the 2009 Influenza A (*H1N1*) ("swine flu") pandemic and the natural disasters that occurred in Australia, New Zealand and Japan in 2011.

Visitor numbers are also influenced by changes in aviation capacity and pricing, competition from other destinations, general travel preferences and one-off events such as the Rugby World Cup in New Zealand in 2011.

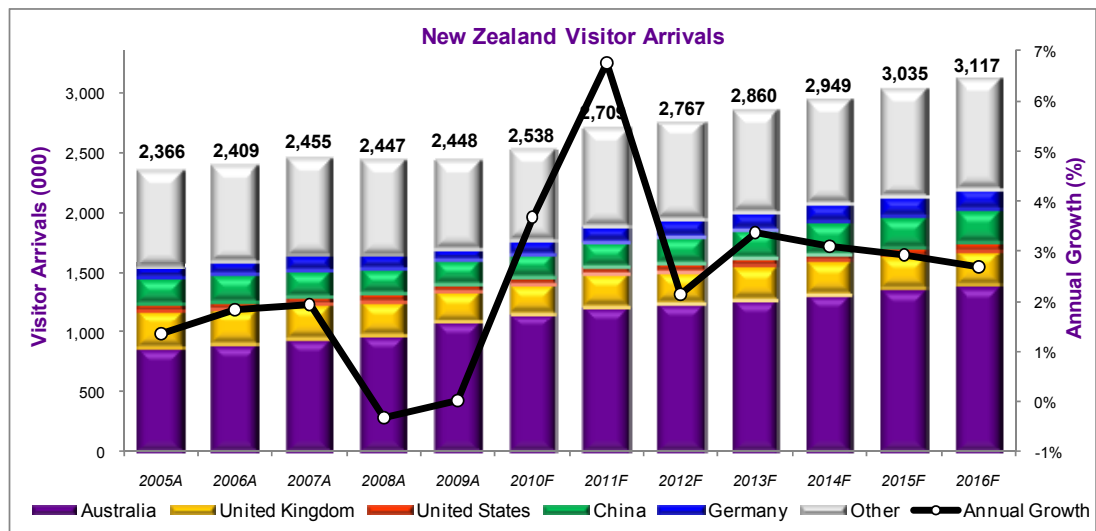
## New Zealand

New Zealand welcomed approximately 2.5 million international visitors in 2010, spending \$9.5 billion during their time in the country and contributing 18% to New Zealand's total export of goods and services. Tourism contributes approximately 4% to New Zealand gross domestic product (**GDP**).

Australia is the largest market, providing 46% of visitors in 2010. Other major markets are UK (10%), USA (8%), China (4%) and Germany (3%).

Visitor numbers decreased marginally between 2007 and 2009, driven mainly by the GFC. Growth of 3.7% was recorded in 2010, driven primarily from growth in Australian visitors as well as a recovery in Asian visitors following the Influenza A pandemic in 2009.

The outlook for the New Zealand tourism industry is more optimistic than it has been in the past few years. Further global economic recovery, along with the country's strong international profile and increasing aviation capacity to the region are key factors driving the Ministry of Tourism's forecast visitor arrivals through to 2016.



Source: Ministry of Tourism New Zealand Tourism Forecasts 2010 – 2016 July 2010

Growth in 2011 is forecast at 6.8%, driven mainly by the Rugby World Cup in September and October as well as the continued recovery in Asian visitor numbers.

Overall growth beyond 2011 is forecast at a compound annual growth rate (**CAGR**) of 2.8%:

- China and USA visitor numbers are expected to grow in excess of the average rate of 2.8%
- Australia and Germany visitor numbers are expected to grow at the average rate of 2.8%
- UK visitor numbers are expected to grow at a CAGR of 1.0% based on continued economic uncertainty and the relative weakness of the British pound.

Key risks to the forecasts include:

- shock events such as the Christchurch and Japanese earthquakes in 2011
- slower than expected growth in Australian arrivals
- further economic downturn – particularly in Europe
- a strong New Zealand dollar relative to the currencies of the major inbound markets.

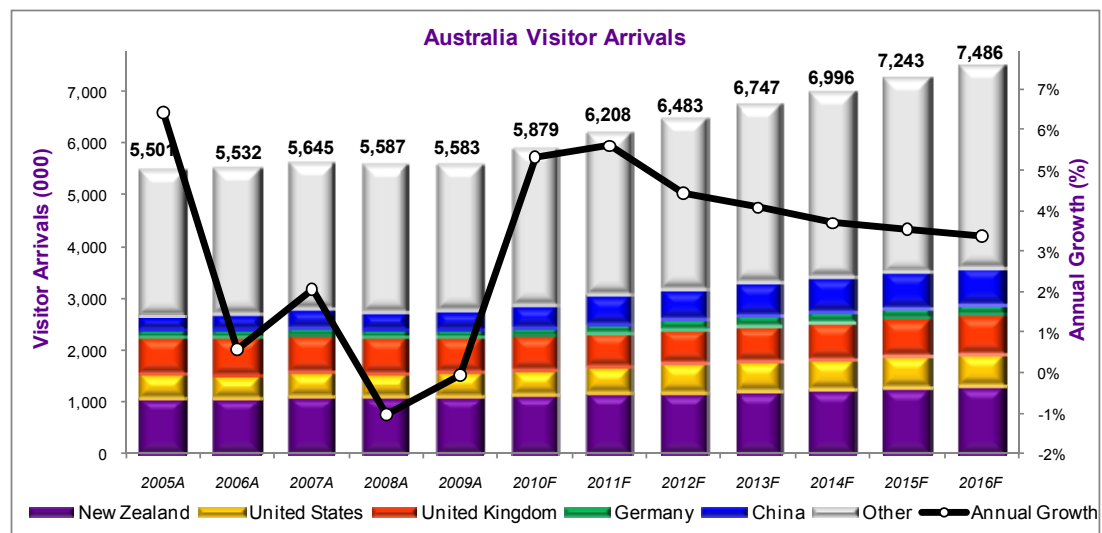
### Australia

There were approximately 5.9 million international visitors into Australia in 2010, spending A\$24.2 billion. Tourism contributes approximately 3% to Australia’s GDP.

New Zealand is the largest market, providing 20% of visitors in 2010. Other major markets are UK (11%), USA (8%), China (7%) and Japan (7%).

Similar to New Zealand trends, visitor numbers decreased between 2007 and 2009 and rebounded in 2010.

Forecast visitor arrivals through to 2016 are set out below.



Source: Australian Tourism Forecasting Committee Forecast 2010 Issue 2

Overall growth between 2010 and 2016 is forecast at a CAGR of 4.1%:

- the main growth is expected to be driven by Asian visitors – particularly from China which is forecast to grow at a CAGR of 9.2% and to represent 10% of total visitors by 2016
- USA visitor numbers are expected to grow at a CAGR of 3.8%
- New Zealand, UK and Germany visitor numbers are expected to grow at CAGRs of 2.2%, 2.7% and 2.8% respectively.

A key risk to the forecasts being achieved is the very strong Australian dollar, reducing the appeal of Australia as a destination.

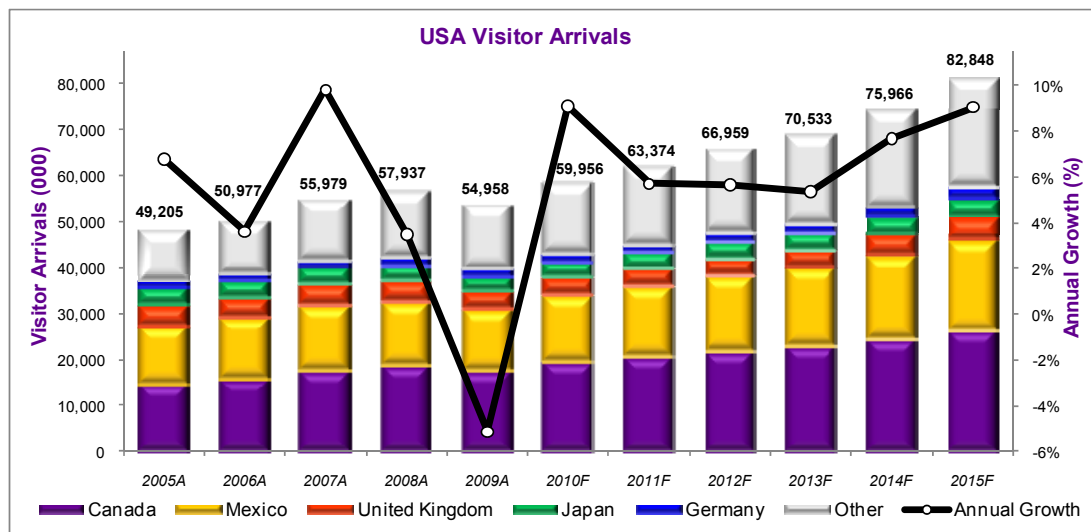
## USA

There were approximately 60 million international visitors into the USA in 2010, spending US\$134 billion. Tourism contributes approximately 3% to the USA's GDP.

Canada and Mexico are the largest markets, providing 33% and 24% of visitors respectively in 2010. Other major markets are UK (6%), Japan (6%), Germany (3%) and France (2%).

Similar to New Zealand and Australian trends, visitor numbers decreased in 2009 and rebounded in 2010.

Forecast visitor arrivals through to 2015 are set out below.



Source: US Department of Commerce Office of Travel and Tourism Industries

Overall growth between 2010 and 2015 is forecast at a CAGR of 6.7%:

- the main growth is expected to be driven by Asian visitors (particularly from China, South Korea and India) as well as from South America (particularly Brazil and Argentina)
- UK and Germany visitor numbers are expected to grow at a CAGR of 4.7% and 5.7% respectively.

A comparison of the top 5 markets for New Zealand, Australia and the USA is set out below.

Top 5 Visitor Arrival Markets		
<b>New Zealand</b>	<b>Australia</b>	<b>USA</b>
Australia	New Zealand	Canada
UK	UK	Mexico
USA	Germany	UK
China	USA	Japan
Japan	China	Germany

UK and Germany represent significant inbound markets for all 3 countries which *thi* operates in. Germany provides the seventh highest number of visitors to New Zealand.

### 3.10 Key Issues Affecting *thl*

The main industry and specific business factors and risks that *thl* faces include:

- unforeseeable shock events have the potential to severely hurt tourism businesses
- a deterioration in the world economy (such as experienced during the GFC) or in regional / domestic economies can reduce visitor arrival numbers
- the high New Zealand and Australian dollars reduce the attraction of New Zealand and Australia as tourist destinations
- visitor arrival growth is highly dependent on aviation capacity into New Zealand and Australia and flight pricing
- rising oil prices may negatively impact on visitor arrival numbers (due to higher airfares), the demand for vehicle rentals and on transportation operating costs
- increasing regulatory compliance requirements (eg environmental compliance, vehicle compliance, health and safety requirements, consumer law) may create additional cost pressures for the industry
- there are low barriers to entry in some market segments – in particular transportation, where small start-up rental companies can offer an imported lower quality fleet and price at reduced rates
- the Rentals business is capital intensive and requires significant funding to repair, maintain and replace the assets
- reduced demand for second hand motorhomes and campervans may depress selling prices.

### 3.11 Financial Performance

A summary of *thl*'s recent financial performance is set out below.

Summary of Financial Performance					
	Year to 30 Jun 08 (Audited) \$m	Year to 30 Jun 09 (Audited) \$m	Year to 30 Jun 10 (Audited) \$m	Year to 30 Jun 11 (Forecast) <sup>2</sup> \$m	Year to 30 Jun 12 (Forecast) \$m
Sale of services	137.1	138.9	141.6	145.4	165.6
Sale of goods	36.5	30.4	40.7	49.7	70.9
Total revenue	173.6	169.3	182.3	195.1	236.5
EBITDA	47.3	39.8	48.5	49.0	64.2
EBIT	17.1	1.1	9.9	4.0	17.2
Profit / (loss) before tax	10.3	(3.1)	6.0	(2.3) <sup>3</sup>	9.3
Profit / (loss) from continuing operations <sup>1</sup>	7.6	(1.3)	5.0	(1.4) <sup>3</sup>	5.9
Profit / (loss) from discontinued operations <sup>1</sup>	6.7	4.2	(0.4)	-	-
Profit / (loss) for the year <sup>1</sup>	14.3	2.9	4.6	(1.4) <sup>3</sup>	5.9
Diluted EPS (cents)	14.2	2.8	4.6	(1.4)	5.8
DPS (cents)	11.0	6.0	2.0	-	2.0
Revenue growth p.a.	26%	(2%)	8%	7%	21%
<i>EBITDA: Earnings before interest, tax, depreciation and amortisation</i> <i>EBIT: Earnings before interest and tax</i> <i>EPS: Earnings per share</i> <i>DPS: Dividends per share</i>					
<sup>1</sup> Profit / (loss) after tax <sup>2</sup> Based on 10 months actual to 30 April 2011 + 2 months forecast <sup>3</sup> Excluding any goodwill impairment charge Source: <i>thl</i> audited financial statements, 2011 forecast and 2012 forecast					

*thl*'s financial performance declined significantly in the 2009 financial year as the GFC severely impacted visitor arrivals into New Zealand and Australia and also curtailed domestic spending.

Revenue growth in the 2010 financial year was driven mainly by an increase in fleet sales. The Rentals vehicle hire market was largely static. Ci Munro and the Tourism Group recorded improved results and Group Support costs were reduced significantly, leading to increased bottom line earnings.

*thl*'s last earnings guidance prior to the Ballylinch Offer was provided to the market on 4 February 2011. The Company stated that its forecast EBIT for the 2011 financial year was expected to be breakeven and that net profit after tax (**NPAT**) was forecast to be a loss of \$4.0 million.

The Company provided the market with an updated earnings guidance on 23 May 2011 based on its results for the 10 months to 30 April 2011. *thl*'s revised forecast was for operating EBIT of \$4.0 million and an operating after tax loss of \$1.4 million. The improvement was attributed to:

- an improvement in Road Bear's vehicle sales volumes and margins
- an improvement in the New Zealand Rentals' earnings, primarily due to the use of motorhomes for a variety of customers after the Christchurch earthquake in February 2011
- a reduction in cost levels.

The Company has also forecast EBIT of \$17.2 million and NPAT of \$5.9 million for the 2012 financial year.

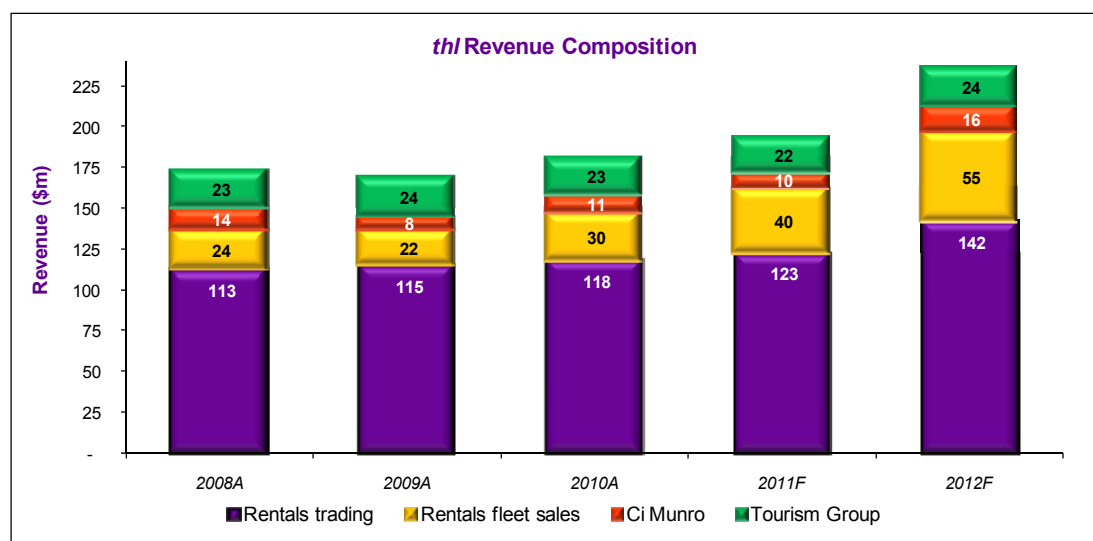
The 2011 forecast disclosed in the table above is based on the 10 months actual results to 30 April 2011. *thl* is forecasting to achieve a 7% increase in revenue in the 2011 financial year, again driven mainly by increased fleet sales. EBITDA margin is forecast to decrease to 25%, due mainly to increased Rentals operating costs and an increase in depreciation and interest costs (due to an increase in the fleet size) will result in a forecast after tax loss of \$1.4 million for the year.

The significant increase in earnings that is forecast for the 2012 financial year mainly reflects underlying cost improvements (particularly in the Australian Rentals business), the first full year of the Road Bear business and fleet reductions, as well as some one-off benefits from the Rugby World Cup. Road Bear is forecast to contribute \$35 million of revenue and \$8 million of EBITDA in the year.

Earnings from discontinued operations relate to the following divestments:

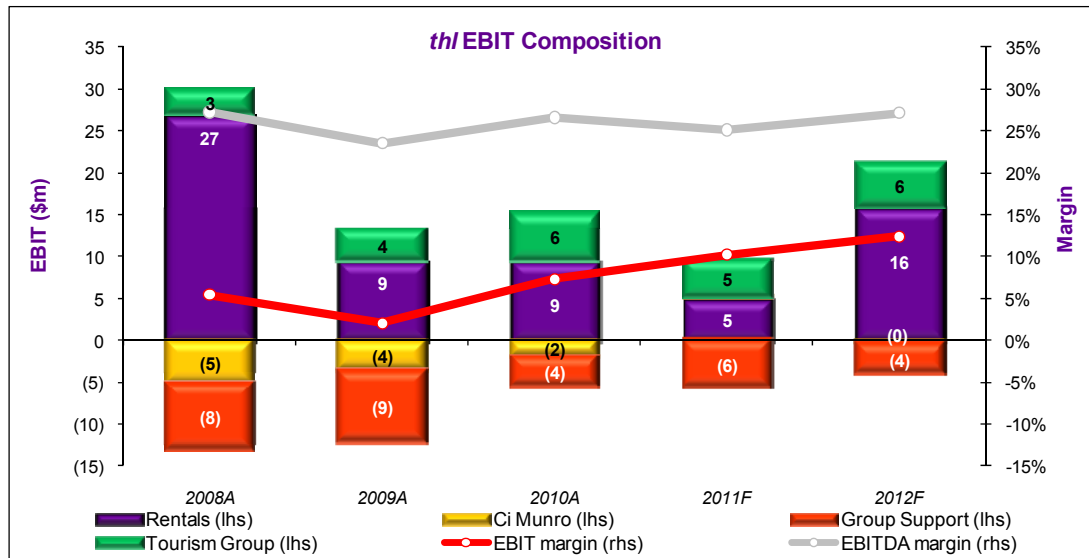
- 2008 financial year – Fullers Bay of Islands Limited, the Johnston’s Coachlines business, the Great Sights business, the Airbus business and the Company’s inbound tour business
- 2009 financial year – the 49% shareholding in InterCity Holdings Limited, the Kelly Tarlton’s Antarctic Encounter and Underwater World business and the Milford Sound Red Boat Cruises business.

## Revenue



Over 60% of revenue is derived from Rentals vehicle hire each year. The forecast increase in Rentals vehicle hire revenue in the 2012 financial year is primarily driven by the full year of revenue from Road Bear and the one-off benefits from the Rugby World Cup. An increased strategic focus on fleet sales has seen this source of revenue grow in recent years and it is forecast to contribute a quarter of the Company’s revenue in the 2012 financial year.

## EBIT



The majority of the Company's earnings are derived from the Rentals business each year. Rentals EBIT reduced markedly in the 2009 financial year, due mainly to the impact of the GFC. It has declined further in 2011, due to reduced visitor numbers (particularly from the UK market) and increased operating costs. The forecast improvement in the 2012 year reflects Road Bear's full year's results and the impact of the Rugby World Cup.

Ci Munro's EBIT loss of \$1.9 million in the 2010 financial year was a significant improvement over the prior years. The business was restructured in the 2009 financial year, resulting in over 100 redundancies. The 2010 results included an additional provision of \$1.5 million for rectification work on 2007 / 2008 builds that were of a variable build quality.

The Tourism Group has consistently generated EBIT between \$3 million and \$6 million, with the Discover Waitomo Group being the main contributor.

### 3.12 Financial Position

A summary of *thl*'s recent financial position is set out below.

Summary of Financial Position				
	As at 30 Jun 08 (Audited) \$m	As at 30 Jun 09 (Audited) \$m	As at 30 Jun 10 (Audited) \$m	As at 30 Apr 11 (Unaudited) \$m
Current assets	90.0	56.2	48.7	57.8
Non-current assets	230.0	225.0	219.4	294.9
<b>Total assets</b>	<b>320.0</b>	<b>281.2</b>	<b>268.1</b>	<b>352.7</b>
Current liabilities	(40.2)	(41.4)	(45.1)	(54.0)
Non-current liabilities	(92.9)	(59.2)	(40.8)	(109.0)
<b>Total liabilities</b>	<b>(133.1)</b>	<b>(100.6)</b>	<b>(85.9)</b>	<b>(163.0)</b>
<b>Total equity</b>	<b>186.9</b>	<b>180.6</b>	<b>182.2</b>	<b>189.7</b>

Source: *thl* audited financial statements and 30 April 2011 management accounts

The *thl* business is capital intensive, with significant investment required in the Company's Rentals fleet.

*thl's* main current assets are trade and other receivables and inventories, representing approximately 95% of current assets as at 30 April 2011.

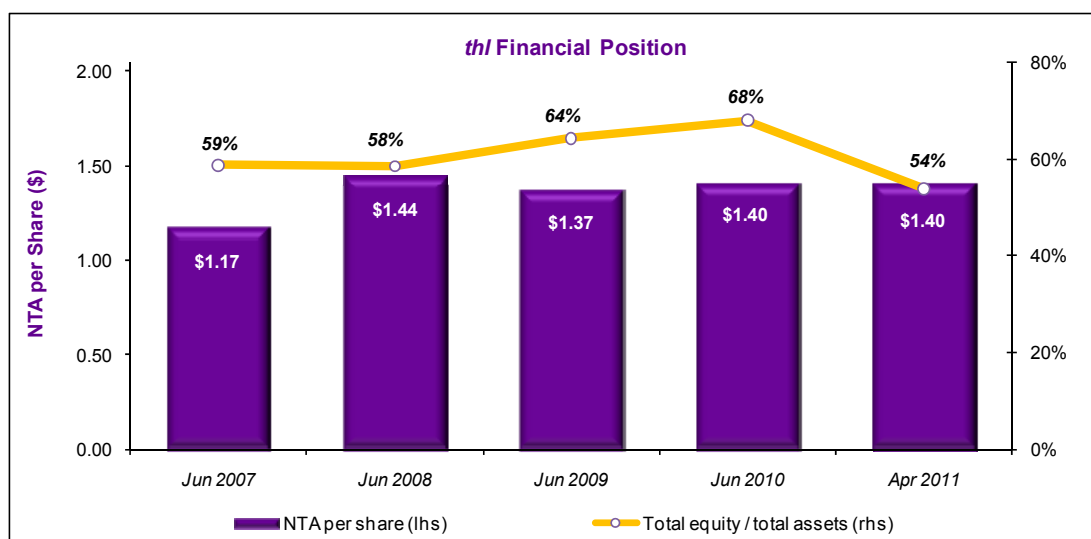
Non-current assets consist mainly of property, plant and equipment and intangible assets:

- the carrying value of property, plant and equipment as at 30 April 2011 was \$242.6 million, of which \$218.0 million related to the Rentals fleet
- the carrying value of intangible assets as at 30 April 2011 was \$52.3 million, of which \$36.0 million related to goodwill arising on acquisitions (mainly in respect of Rentals Australia) and \$12.3 million related to trademarks and licences (in respect of Discover Waitomo).

Current liabilities consist mainly of trade and other payables and revenue in advance.

Non current liabilities consist mainly of interest bearing loans. The Company had \$65.0 million of bank loans, \$30.3 million of finance leases and \$8.5 million of Road Bear vendor loan owing as at 30 April 2011. The Company also had \$10.1 million of cash at bank on that date.

The Company has approximately \$90 million of banking facilities with Westpac Banking Corporation and ANZ Banking Group (New Zealand) Limited. The facilities are split into 3 year term facilities and 18 month working capital facilities. The finance leases represent hire purchase loans secured over the Australian Rentals fleet.



The Company's level of net tangible assets (NTA) per share has been relatively constant between \$1.37 and \$1.44 since 30 June 2008. It is forecast to be \$1.33 as at 30 June 2011.

The decrease in the Company's equity : total assets ratio to 54% as at 30 April 2011 was due to the increase in assets (including the Road Bear acquisition) being funded primarily by debt.

### 3.13 Cash Flows

A summary of *thl*'s recent cash flows is set out below.

Summary of Cash Flows					
	Year to 30 Jun 08 (Audited) \$m	Year to 30 Jun 09 (Audited) \$m	Year to 30 Jun 10 (Audited) \$m	Year to 30 Jun 11 (Forecast) \$m	Year to 30 Jun 12 (Forecast) \$m
Operating receipts and payments	30.3	30.8	51.8	45.7	49.9
Net fleet purchases	(29.8)	(48.4)	(17.5)	(76.9)	(21.1)
Net cash flow from operating activities	0.5	(17.6)	34.3	(31.2)	28.8
Net cash (used in) / from investing activities	10.5	42.9	(11.7)	(44.7)	(6.3)
Net cash (used in) / from financing activities	1.5	(34.7)	(20.9)	69.7	(20.2)
Net increase / (decrease) in cash held	12.5	(9.4)	1.7	(6.2)	2.3
Opening cash balance	4.4	15.0	6.1	8.4	2.1
Foreign currency translation adjustment	(1.9)	0.5	0.6	(0.1)	-
Closing cash balance	<u>15.0</u>	<u>6.1</u>	<u>8.4</u>	<u>2.1</u>	<u>4.4</u>

*Source: thl audited financial statements, 2011 forecast and 2012 forecast*

Cash flows associated with the sale and purchase of rental assets are classified as an operating activity in accordance with New Zealand accounting standards. Therefore *thl*'s net cash flow from operating activities varies significantly depending on the levels of sales and purchases of rental assets each year.

Net cash from investing activities were primarily driven by the sale of non-core businesses in the 2008 and 2009 financial years, capital expenditure on the Waitomo Glowworm Caves visitor centre in the 2010 financial year and the acquisition of Road Bear in the 2011 financial year.

Net cash from financing activities were primarily driven by the repayment of term debt in the 2009 and 2010 financial years and the drawdown of bank loans, finance leases and the Road Bear vendor loan in the 2011 financial year.

### 3.14 Capital Structure and Shareholders

#### Ordinary Shares

*thl* currently has 98,180,723 ordinary shares on issue held by 4,982 shareholders.

The names, number of shares and percentage holding of the 10 largest ordinary shareholders as at 13 May 2011 are set out below, along with the Company's substantial security holders (and the date on which they lodged their most recent substantial security holder notice).

10 Largest Ordinary Shareholders		
Shareholder	No. of Shares Held	%
New Zealand Central Securities Depository Limited	36,148,408	36.82%
OMPL Pty Limited <sup>1</sup>	6,712,326	6.84%
Kevin Douglas and Michelle Douglas	2,791,889	2.84%
Rycap Pty Limited <sup>1</sup>	1,400,000	1.43%
Kevin Douglas and Michelle Douglas	1,190,943	1.21%
James Douglas Jr and Jean Douglas	1,190,939	1.21%
Moon Chul Choi and Keum Sook Choi	1,110,000	1.13%
Leveraged Equities Finance Limited	1,073,720	1.09%
Forsyth Barr Custodians Limited	920,366	0.94%
Leveraged Equities Finance Limited	892,194	0.91%
Others (4,972 shareholders)	53,430,785	54.42%
Total	<u>98,180,723</u>	<u>100.00%</u>
<b>Substantial Security Holders</b>		
Ballylinch (14 April 2011)	18,794,290	19.14%
Gerard Ryan <sup>1</sup> (20 May 2011)	8,905,289	9.07%
ACC (10 February 2011)	7,035,545	7.17%
<sup>1</sup> Ryan Associates		
Source: NZX Data		

Ballylinch acquired its shareholding on 14 April 2011 (as set out in section 1.2).

The Ryan Associates collectively held 4,824,385 shares (4.91%) on 14 April 2011. They acquired a further 4,080,904 shares (4.16%) on-market between 15 April 2011 and 20 May 2011 at an average price of \$0.74 per share. They held 8,905,289 shares (9.07%) as at 20 May 2011.

ACC has been a longstanding shareholder in *thl*. It acquired 3,736,595 shares in the 2007 calendar year, including 1,250,000 shares from MFS on 25 September 2007 when MFS sold its shareholding in the Company. ACC held 7,355,718 shares (7.49%) as at 30 April 2011.

#### Redeemable Shares

The Company introduced a long term incentive scheme for its senior executives in 2006 in the form of partly paid redeemable shares (the **2006 Scheme**).

Under the terms of the 2006 Scheme, the participants must purchase and retain an appropriate number of ordinary shares. The rights attached to the redeemable shares lapse if the participant ceases to be a full time employee of *thl*.

2,520,000 redeemable shares were issued in 2006 at the then current share price of \$1.90 (tranche 1) and a further 400,000 redeemable shares were issued in 2007 at the then current share price of \$2.34 (tranche 2). The shares were paid up on issue to \$0.01 per share.

The long term incentive scheme was revised in 2009 (the **2009 Scheme**) and a further 4 tranches of redeemable shares have been issued. Each tranche was issued at the then current share price and paid up on issue to \$0.01 per share.

The shares are held in trust for the participants by the Trustee. The participants can convert the shares into ordinary shares by paying the outstanding balance on each share after a qualifying period of either 3 years (under the 2006 Scheme) or 2 years (under the 2009 Scheme) at a rate of one third of the share entitlement each year. The outstanding balances for 2006 Scheme shares equate to the issue price less the paid up amount (\$0.01). The outstanding balances for 2009 Scheme shares equate to the issue price, adjusted for *thl's* cost of equity (set at 13.25%) and any dividends paid over the 2 years following the issue date, less the paid up amount (\$0.01).

The rights of the participants in respect of the 2006 Scheme shares terminate on the seventh anniversary of their issue and in respect of the 2009 Scheme shares terminate on the sixth anniversary of their issue.

There are currently 4,220,000 redeemable shares on issue. These shares are not listed on the NZSX. Of the total of 6,220,000 redeemable shares that have been issued between September 2006 and December 2010, 2,000,000 shares have subsequently been cancelled due to the participants no longer being employed by the Company.

Redeemable Shares						
Tranche	Issue Date	No. Issued (000)	No. Cancelled (000)	No. on Issue (000)	Issue Price	Exercise Price
1	22 Sep 2006	2,520	(1,500)	1,020	\$1.90	\$1.89
2	30 Oct 2007	400	(200)	200	\$2.34	\$2.33
3	5 Jun 2009	1,900	(200)	1,700	\$0.49	\$0.58
4	19 Oct 2009	200	-	200	\$0.70	\$0.82
5	21 May 2010	1,000	(100)	900	\$0.90	\$1.01
6	21 Dec 2010	200	-	200	\$0.75	\$0.80
		<u>6,220</u>	<u>(2,000)</u>	<u>4,220</u>		

Source: *thl*

*thl's* constitution provides that a redeemable share only has fractional voting rights based on the proportion which the amount paid bears to the amount to be paid for the redeemable share to be fully paid. Accordingly, the 4,220,000 redeemable shares have the equivalent of 56,441 voting rights at present.

Redeemable Shares Voting Rights				
Tranche	Issue Date	No. on Issue (000)	Fraction	Voting Rights (000)
1	22 Sep 2006	1,020	1/190	5.3
2	30 Oct 2007	200	1/234	0.8
3	5 Jun 2009	1,700	1/49	34.7
4	19 Oct 2009	200	1/70	2.9
5	21 May 2010	900	1/90	10.0
6	21 Dec 2010	200	1/75	2.7
		<u>4,220</u>		<u>56.4</u>

Under the 2009 Scheme rules, participants have a right to request a transfer of all or part of their redeemable shares if a takeover occurs. A takeover is defined as a takeover under the Code which has the effect of 50% or more of *thl*'s voting rights being held by one person. The 2009 Scheme rules provide that the intent of that right is to enable the participant to take a transfer of their redeemable shares in order to participate in, and obtain the benefit of, the takeover, notwithstanding that at the time the redeemable shares are transferred to the participant it is unknown whether the takeover will succeed. The Company's board of directors is permitted under the 2009 Scheme rules to make such arrangements as it sees fit to achieve that result.

As contemplated by the 2009 Scheme rules, the Company's board of directors resolved on 18 May 2011 to permit participants in the 2009 Scheme to elect to transfer the redeemable shares allocated to them under the 2009 Scheme into ordinary shares. The right for participants to elect to transfer the redeemable shares will arise on the earlier of:

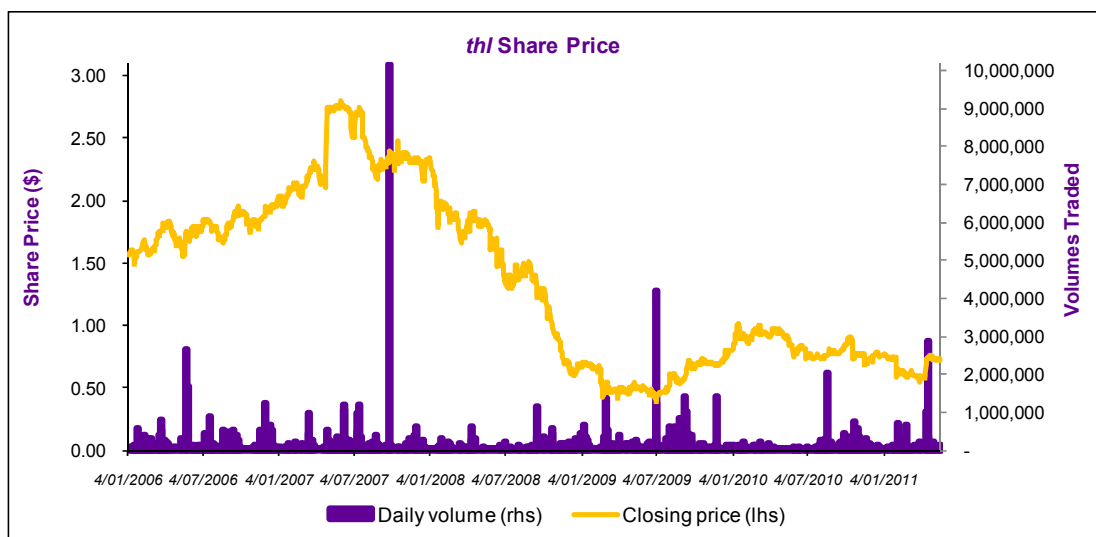
- the board recommending the Ballylinch Offer
- Ballylinch satisfying the Minimum Acceptance Condition
- the board resolving prior to the closing date of the Ballylinch Offer, that, in the board's opinion, it is likely that the offer will be declared unconditional.

Participants who elect to transfer any of their redeemable shares will be required to give an undertaking that they will accept at least the Specified Percentage of their shares into the Ballylinch Offer.

Neither the 2006 Scheme nor the 2009 Scheme rules allow participants to direct the Trustee to accept the Ballylinch Offer in respect of the redeemable shares. Other than the changes made to the 2009 Scheme rules noted above, the Company's board of directors has not, at the date of this report, made any change to the scheme rules to allow participants to direct the Trustee to accept the Ballylinch Offer for the redeemable shares. Accordingly, no holder of redeemable shares may accept the Ballylinch Offer in respect of its redeemable shares.

### 3.15 Share Price History

Set out below is a summary of *thl*'s daily closing share price and daily volumes of shares traded from 4 January 2006 to 20 May 2011.

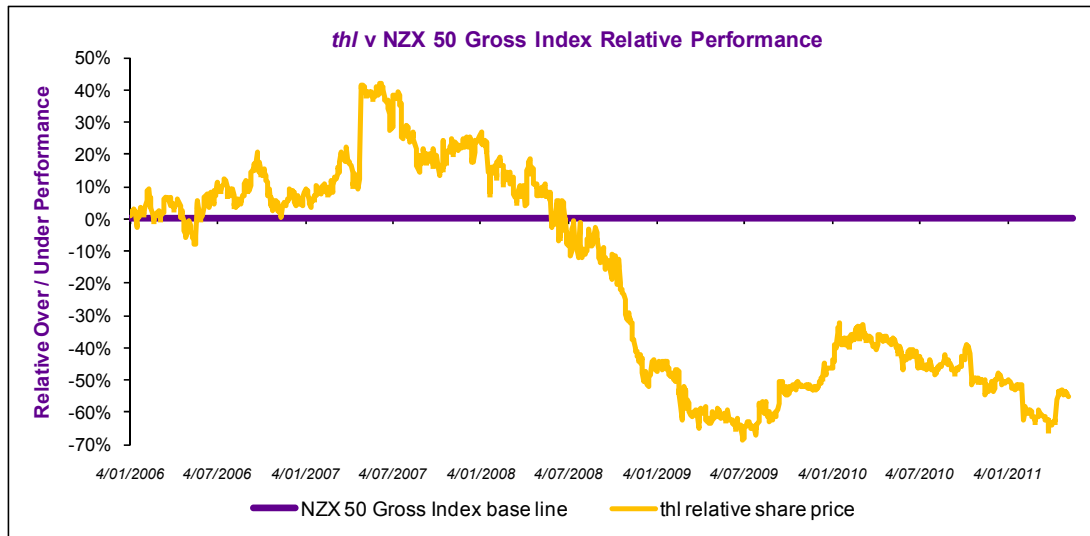


During the period, *thl*'s shares have traded between \$0.40 (on 2 July 2009) and \$2.80 (on 1 June 2007) at a VWAP of \$1.39. The high of \$2.80 was reached 4 days after *thl*'s Target Company Statement in respect of the MFS Offer was released.

The average volume of shares traded each month since 4 January 2006 represented approximately 2.3% of the total shares on issue.

10,153,158 shares traded on 25 September 2007. This included the sale of MFS's 9,836,338 shares in the Company following the unsuccessful MFS Offer.

*thl*'s share price relative to the Index is set out below.



Overall, *thl* has underperformed the Index between 4 January 2006 and the current date. However, when viewed in shorter time periods, the Company's shares have outperformed the Index up to June 2008 and underperformed the Index since then. The outperformance peaked in May 2007, driven by the MFS Offer.

An analysis of VWAP, traded volumes and liquidity (measured as traded volumes as a percentage of total shares outstanding) up to 14 April 2011 (the day before the Ballylinch Offer was announced) is set out below.

<i>thl</i> Share Trading up to 14 April 2011					
	Low \$	High \$	VWAP \$	Volume Traded (000)	Liquidity
1 month	0.55	0.62	0.59	1,188	1.2%
3 months	0.55	0.75	0.62	5,239	5.3%
6 months	0.55	0.95	0.69	11,241	11.4%
12 months	0.55	0.98	0.74	20,851	21.2%

*thl*'s shares closed at \$0.60 on 14 April 2011. Following the announcement of the Ballylinch Offer on 15 April 2011, 5,813,272 shares have traded (5.9% of the total shares on issue) in the range of \$0.70 to \$0.76 at a VWAP of \$0.74.

## 4. Valuation of *thl*

### 4.1 Introduction

The Ballylinch Offer is a partial takeover offer and is conditional upon, amongst other things, Ballylinch receiving acceptances in respect of 40.85% of the Company's shares. In such circumstances, we are of the view that the appropriate basis upon which to evaluate the fairness of the Ballylinch Offer is to compare the offer price of \$0.675 per share with the full underlying value of *thl* on a standalone basis, pro-rated across all shares.

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

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

### 4.2 Standard of Value

We have assessed the fair market value of 100% of the shares in *thl*.

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

### 4.3 Basis of Valuation

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

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

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

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

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

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

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

#### 4.4 Valuation Approach

We have assessed the fair market value of *thl* using the DCF method.

The DCF methodology assesses value in 2 stages:

- first, the FCF of the business are forecast over a given time frame and a forecast of maintainable FCF beyond then is used to determine a perpetuity value
- then the FCF are adjusted to reflect their value at a certain point in time. Present values are calculated by discounting the FCF at an appropriate discount rate.

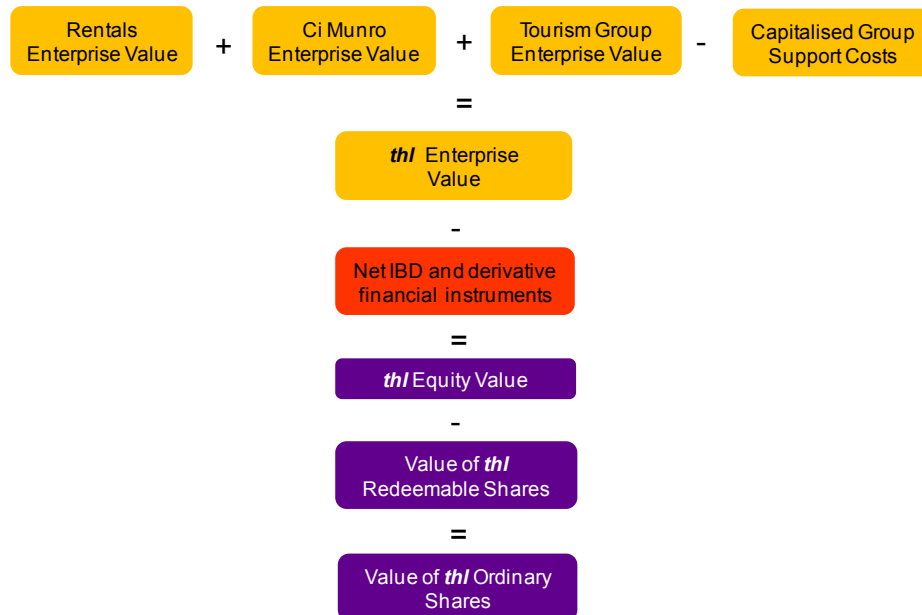
FCF represent the surplus cash associated with the business after deducting operating expenses, tax, movements in working capital and capital expenditure. They represent the cash which is available to pay returns to providers of debt and equity capital.

The discount rate used to determine the present values of the FCF is the estimated weighted average cost of capital (**WACC**). The WACC is a blend of the cost of debt and the cost of equity, weighted in accordance with the target capital structure of an entity owning the business. The WACC represents the rate of return required by investors to compensate them for the business risks they bear by investing in the business.

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

Given their different risk profiles and growth opportunities, we have valued the Rentals, Ci Munro and Tourism Group businesses separately.

In order to assess the value of *thl*'s shares, we have aggregated the Rentals, Ci Munro and Tourism Group enterprise values and deducted the capitalised value of Group Support costs, the Company's net interest bearing debt (**IBD**) and the market value of its derivative financial instruments.



Our valuation is effectively as at 30 June 2011.

We have tested the reasonableness of our valuation outcomes by comparing the implied valuation multiples with transaction multiples and trading multiples for comparable companies.

#### 4.5 Rentals Enterprise Value

##### *Free Cash Flows*

The FCF adopted in the DCF valuation are based on the *thl* financial forecasts for the 5 years to 2016. These forecasts have been approved by the Company's directors.

The key assumptions and forecast outcomes adopted in the FCF forecasts are set out below.

Rentals Key Forecast Assumptions			
	New Zealand	Australia	Road Bear
Revenue CAGR (2011 – 2016)	9.0%	3.3%	8.1%
EBITDA margin <sup>1</sup>	33% - 35%	31% - 35%	23% - 34%
Average net capital expenditure p.a.	NZ\$13.4m	A\$14.7m	US\$5.5m
Working capital	Moves in line with revenue growth		
Corporate tax rate	28%	30%	46% <sup>2</sup>
Exchange rate (NZ\$1 =)		A\$0.75	US\$0.80
Terminal growth	2.0%	2.0%	2.0%

1 EBITDA margin is calculated based on total revenue  
2 Federal tax of 36% and state tax of 10%

The earnings of the New Zealand and Australian Rentals businesses are forecast to return to the levels last achieved in the 2007 and 2008 financial years by the 2016 financial year. Revenue growth is driven primarily by fleet sales, with vehicle rental revenue growth being modest (other than in the 2012 financial year in New Zealand due to the Rugby World Cup).

*thl* is forecasting higher growth levels for the Road Bear business, driven by significant fleet increases. Road Bear is forecast to represent approximately one quarter of Rentals' total EBIT in the 2016 financial year.

### **Weighted Average Cost of Capital**

The calculation of the WACC, while being derived from detailed formula, is fundamentally a matter of professional judgement. We have used the Capital Asset Pricing Model to assess the WACC for the Rentals business.

We have assessed the WACC for the Rentals business to be in the vicinity of 11.5%. Key inputs in the WACC assessment are:

- a risk free rate of 5.3%
- an asset beta of 1.1
- a debt risk premium of 2.0%
- a post investor tax market risk premium of 7.0%
- financial leverage of 40%
- a corporate tax rate of 28%.

The above inputs result in a cost of equity in the vicinity of 15.7% and a cost of debt (before tax) in the vicinity of 7.3%.

### **Sensitivity Analysis**

We have evaluated the sensitivity of the valuation outcome to changes to key value drivers. The DCF assessment is particularly sensitive to the following factors:

- fleet growth assumptions
- utilisation assumptions
- rental day assumptions
- yield assumptions
- fleet sale assumptions
- EBITDA margins
- exchange rate assumptions
- discount rate assumptions
- terminal growth assumptions.

### **Valuation Conclusion**

Based on the above, the enterprise value of the Rentals business is in the range of \$184.5 million to \$207.2 million as at 30 June 2011.

#### 4.6 Ci Munro Enterprise Value

The FCF adopted in the DCF valuation are based on the *thl* financial forecasts for the 5 years to 2016 approved by the Company's directors.

The key assumptions and forecast outcomes adopted in the FCF forecasts are:

- a CAGR of 7.9% for revenue over the 5 year period, driven primarily by growth in AMB revenue and increased sales of motorhomes and caravans to third parties
- gross margins ranging from 14% to 20% over the period
- other operating costs increasing at the rate of inflation
- EBITDA margins ranging from (1%) to 5% over the period
- capital expenditure averaging \$0.3 million per annum
- working capital requirements moving in line with revenue growth
- a corporate tax rate of 28%
- a WACC of 11.5%
- terminal growth of 2.0%.

We have evaluated the sensitivity of the valuation outcome to changes to key value drivers. The DCF assessment is particularly sensitive to the following factors:

- revenue growth assumptions
- gross margin assumptions
- discount rate assumptions
- terminal growth assumptions.

The DCF analysis indicates that the Ci Munro business has negligible value based on its future earnings.

The Ci Munro business had \$9.8 million invested in tangible operating assets as at 31 March 2011. The majority of the investment is in inventory. In the event that *thl* sought to realise its investment in Ci Munro in the near term, we estimate that an orderly realisation of the business' assets would realise approximately \$6 million.

Based on the above, the Ci Munro enterprise value is in the range of nil to \$6.0 million as at 30 June 2011.

#### 4.7 Tourism Group Enterprise Value

The FCF adopted in the DCF valuation are based on the *thl* financial forecasts for the 5 years to 2016 approved by the Company's directors.

The key assumptions and forecast outcomes adopted in the FCF forecasts are set out below.

Tourism Group Key Forecast Assumptions		
	Discover Waitomo	Kiwi Experience
Revenue CAGR (2011 – 2016)	8.4%	4.0%
EBITDA margin	34% - 42%	12% - 16%
Average capital expenditure p.a.	\$0.2 million	\$0.1 million
Working capital	Moves in line with revenue growth	
Corporate tax rate	28%	28%
WACC	11.5%	11.5%
Terminal growth	FCF forecast to 2033	2.0%

A significant increase in visitor numbers is forecast for Discover Waitomo in the 2012 financial year due to the Rugby World Cup, with longer term visitor numbers projected to return to pre GFC levels, driven in part by increased Asian visitor arrival numbers. Yield improvements are based on planned price increases.

We have evaluated the sensitivity of the valuation outcome to changes to key value drivers. The DCF assessment is particularly sensitive to the following factors:

- revenue growth assumptions
- EBITDA margin assumptions
- discount rate assumptions
- terminal growth assumptions.

Based on the above, the enterprise value of the Tourism Group is in the range of \$50.0 million to \$53.6 million as at 30 June 2011.

#### 4.8 Group Support Costs

The FCF adopted in the DCF Valuation are based on the *thl* financial forecasts for the 5 years to 2016 approved by the Company's directors.

The key assumptions and forecast outcomes adopted in the FCF forecasts are:

- a CAGR of 2.5% for expenses over the 4 year period between 2012 and 2016, representing inflationary cost increases
- average capital expenditure of \$0.8 million per annum
- a corporate tax rate of 28%
- a WACC of 11.5%.

Based on the above, the capitalised Group Support costs are in the range of \$22.2 million to \$24.4 million as at 30 June 2011.

#### 4.9 Value of *thl* Equity

To derive the total value of *thl*'s equity, the Rentals, Ci Munro and Tourism Group enterprise values are aggregated, the capitalised Group Support costs are deducted, the Company's net IBD is deducted and the fair value of the Company's interest rate swaps is taken into account.

The Company's forecast net IBD and the fair value of the derivative financial instruments amounts to \$117.4 million as at 30 June 2011:

- cash at bank - \$2.1 million
- bank loans - \$75.6 million
- finance leases - \$35.1 million
- Road Bear vendor loan - \$7.6 million
- net derivative financial instruments liability - \$1.2 million.

We assess the fair market value of all the shares in *thl* to be in the vicinity of \$94.9 million to \$124.9 million as at 30 June 2011.

Value of <i>thl</i> Equity		
	Low \$m	High \$m
Rentals enterprise value	184.5	207.2
Ci Munro enterprise value	-	6.0
Tourism Group enterprise value	50.0	53.6
Capitalised Group Support costs	(22.2)	(24.4)
<i>thl</i> enterprise value	212.3	242.3
Net IBD and derivative financial instruments	(117.4)	(117.4)
Value of <i>thl</i> equity	<u>94.9</u>	<u>124.9</u>

#### 4.10 Value of Redeemable Shares

Our assessment of the value of the redeemable shares is set out in section 5.

We assess the fair market value of 100% of the redeemable shares in *thl* to be in the range of \$0.8 million to \$1.6 million as at 30 June 2011.

#### 4.11 Value of Ordinary Shares

We assess the fair market value of 100% of the ordinary shares in *thl* to be in the range of \$94.1 million to \$123.3 million as at 30 June 2011. This equates to a value of \$0.97 to \$1.27 per share.

Value of Ordinary Shares		
	Low \$m	High \$m
Value of <i>thl</i> equity	94.9	124.9
Value of <i>thl</i> redeemable shares	(0.8)	(1.6)
Value of <i>thl</i> ordinary shares	<u>94.1</u>	<u>123.3</u>
Number of ordinary shares currently on issue	98,180,723	98,180,723
Value per ordinary share	<u>\$0.97</u>	<u>\$1.27</u>

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

#### 4.12 Implied Multiples

The above value range implies EBITDA, EBIT, price earnings (PE) and NTA multiples as set out below. The earnings multiples are based on *thl*'s forecasts for the 2011 and 2012 financial years. The NTA multiples are based on the Company's forecast financial position as at 30 June 2011.

Implied Multiples				
	30 Jun 11 (Forecast)		30 June 12 (Forecast)	
	Low	High	Low	High
Value per share	\$0.97	\$1.27	\$0.97	\$1.27
EBITDA multiple	4.3x	4.9x	3.3x	3.8x
EBIT multiple	53.0x	60.6x	12.3x	14.1x
PE multiple	n/a	n/a	15.7x	20.6x
NTA multiple <sup>1</sup>	0.7x	0.9x		

<sup>1</sup> Based on forecast NTA as at 30 June 2011

#### Earnings Multiples

Actual sales of comparable businesses can provide reliable support for the selection of an appropriate earnings multiple. In addition, we can infer multiples from other evidence such as minority shareholding trades for listed companies in New Zealand and overseas with similar characteristics to *thl* or transactions involving businesses in the same industry. We consider EBIT and PE multiples to be the more relevant multiples for *thl*. Furthermore, given the significant difference between *thl*'s 2011 and 2012 earnings, we consider the implied 2012 multiples to be more relevant when comparing comparable companies' multiples.

#### Transaction Multiples

Set out at Appendix I is an analysis of 11 transactions since 2004 involving Australasian tourism and leisure companies, showing historic and prospective EBITDA and EBIT multiples.

While the analysis provides some guidance as to the multiples paid in the wider tourism and leisure industry, we note that none of the target companies are truly comparable with *thl* in that they do not have vehicle rentals as a core component of their operations.

The analysis shows that the transactions have been in an EBIT multiple range of 9.7x to 16.0x (historic) and 7.5x to 16.8x (prospective) at an average of 12.0x (historic) and 10.4x (prospective).

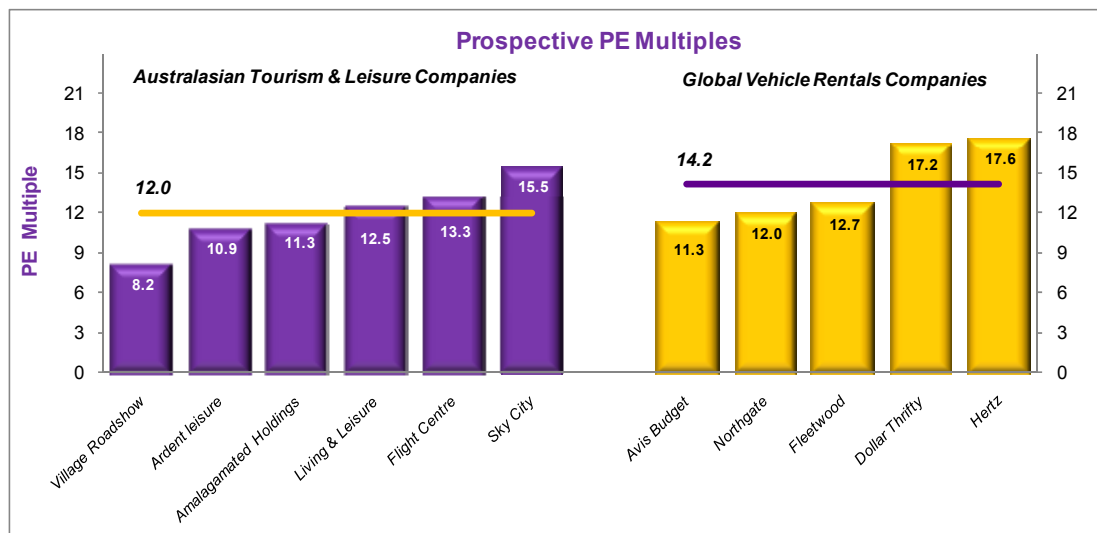
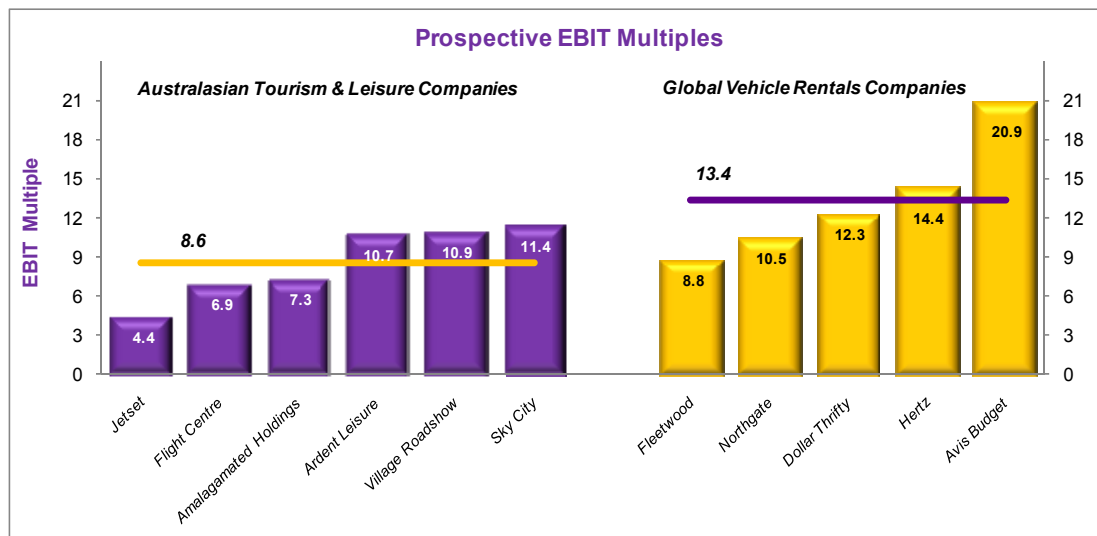
The implied prospective EBIT multiples of 12.3x to 14.1x fall within the observed range, albeit above the average of the range.

### Trading Multiples

Set out at Appendix II is an analysis of prospective EBIT and PE multiples for companies that are broadly comparable with **thi**:

- Australasian tourism and leisure companies
- global vehicle rental companies.

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



Bearing in mind that the implied **thi** multiples are based on the valuation of 100% of the Company's ordinary shares and hence reflect the value of control, the analysis shows that the implied prospective EBIT multiples of 12.3x to 14.1x and the implied prospective PE multiples of 15.7x to 20.6x for **thi** are broadly in line with the comparable companies multiples – particularly the vehicle rentals companies.

### Conclusion

We consider the implied earnings multiples for **thi** to be reasonable.

## NTA Multiples

The implied NTA multiples are less than 1.0x. In our view, this is reasonable in the current economic environment where visitor arrival numbers are coming off low levels in 2008 to 2010 due to the GFC whereas the Company has invested significantly in its Rentals fleet in recent times. On the basis that the Company moves towards earning its cost of capital in future years, we would expect to see the implied NTA multiple increase over time.

We do not consider it appropriate to base our assessment of value primarily on the Company's NTA. Approximately 70% of the carrying value of *thl's* assets as at 31 March 2011 related to its Rental fleet of 3,000 vehicles. In the event of an orderly realisation of the Company's assets, the attempted sale of the entire fleet would most likely have a significant negative impact on the market for second hand vehicles and the prices achieved for the vehicles would likely be somewhat lower than their carrying values.

### 4.13 Impact of Shock Events

As previously stated, the tourism industry is highly susceptible to shock events which cannot be predicted but can have significant adverse effects on the tourism industry.

The analysis of historic visitor arrival numbers in section 3.9 and *thl's* financial performance in section 3.11 shows that events such as the GFC, the Influenza A pandemic and natural disasters in New Zealand, Australia and Japan in 2011 can have a material negative impact on the Company.

Given the risk that shock events will continue to occur in the future, investors may price in a discount to the assessed values set out in section 4.11 to allow for such uncertainty. Depending on their views as to the likelihood of future shock events, the level of any such discount could be significant.

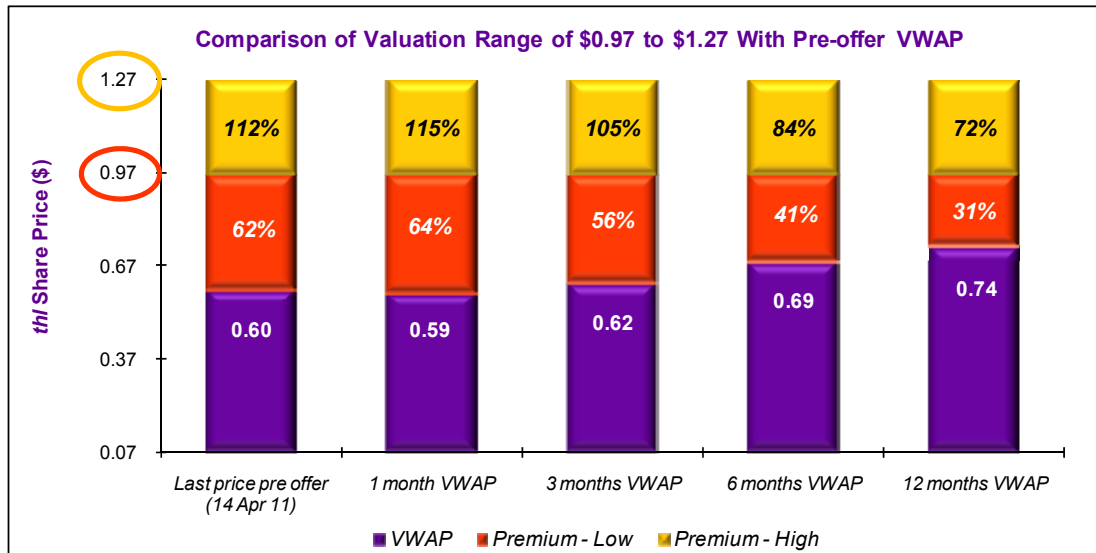
### 4.14 Implied Premium for Control

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

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

In this instance, Ballylinch is seeking a shareholding just over 50%. While this level of shareholding will provide a degree of control over the Company, Ballylinch will not have absolute control over *thl's* affairs. In such circumstances, we would expect a rational bidder to pay a premium for control but the quantum of the premium may not be as large as if the bidder was seeking absolute control.

Our valuation range of \$0.97 to \$1.27 represents premia ranging from 31% to 115% over recent share prices.



As noted in section 3.15, trading in the Company's shares is relatively active with approximately 2.3% of the shares traded on average each month. Given the level of trading in the Company's shares and that *thl* is covered by 3 brokers, we are of the view that the observed share prices represent a reasonable indicator of the market value of minority interests in *thl*'s shares.

The downwards movement in the Company's share price over the past year has been influenced by recent market announcements made by *thl*:

- *thl* announced NPAT guidance of \$2.5 million for the 2011 financial year on 3 December 2010. The Company's share price was \$0.74 on that date
- the earnings guidance was revised down to a loss of \$4.0 million on 4 February 2011, which was reaffirmed on 24 February 2011. The Company's share price dropped from \$0.74 to \$0.59 immediately following the announcement on 4 February 2011.

#### 4.15 Broker Valuations

*thl* is currently covered by 3 brokers. A summary of their most recent valuations are set out below. Their valuations range from \$0.88 to \$1.15 per share at an average of \$0.98.

Broker Valuations				
	First NZ Capital	Macquarie Securities (NZ)	Forsyth Barr	<i>thl</i>
Date	18 Apr 2011	14 Apr 2011	24 Feb 2011 <sup>1</sup>	
Valuation / target price	\$0.92	\$1.15	\$0.88	
Valuation approach	DCF	DCF	DCF	
EBITDA - 2011 (\$m)	46.8	41.8	45.1	49.0
- 2012 (\$m)	67.9	59.9	57.4	64.2
EBIT - 2011 (\$m)	0.9	(0.3)	1.3	4.0
- 2012 (\$m)	15.7	14.8	13.2	17.2
NPAT - 2011 (\$m)	(4.0)	(4.4)	(3.4)	(1.4)
- 2012 (\$m)	4.8	5.1	4.2	5.9
<small><sup>1</sup> Pre the Ballylinch Offer</small>				
<small>Source: Broker research reports</small>				

The brokers' valuations are each undertaken using the DCF approach. The financial forecasts used in the brokers' valuation are all lower than *thl's* 2011 and 2012 forecasts, other than First NZ Capital's forecast 2012 EBITDA.

## 5. Valuation of the Redeemable Shares

### 5.1 Methodology and Valuation Approach

Each redeemable share has the characteristics of an option in that it provides the shareholder with the ability, but not the obligation, to pay up the outstanding amount on the shares and convert it into an ordinary share. In theory, a redeemable shareholder would only do so if the amount to be paid up was equal to or less than the value of an ordinary share at the time.

We have valued the redeemable shares using option-pricing techniques. Given that the redeemable shareholders are able to redeem the shares at various times over a specified period, the redeemable shares are akin to American options (as opposed to European options which can only be exercised on one particular day).

The Binomial option-valuation model (**Binomial Model**) and the Black-Scholes option-valuation formula (**Black-Scholes Formula**) are commonly used in commercial practice to value options. The Binomial Model is more appropriate for the valuation of American options and options over shares which are expected to pay dividends during the exercise period, although variants of the Black-Scholes Formula exist to handle the valuation of such options.

The key variables in determining the value of an American Option are:

- the exercise price of the option
- the risk free rate
- the current spot price or market value of the underlying instrument
- the volatility of the returns on the underlying instrument
- the time to expiry
- the expected distributions to be made on the underlying instrument.

The values derived from the Binomial Model and Black-Scholes Formula represents the value of options which are freely tradable. Given that the redeemable shares are not able to be traded, we have further adjusted the values derived from the Binomial Model and Black-Scholes Formula to allow for the lack of marketability of the redeemable shares.

## 5.2 Valuation Assessment

### *Valuation Parameters*

The key variables applied in our assessment of the value of the redeemable shares are:

- valuation date – 30 June 2011
- exercise price – various as set out in section 3.14
- the risk free rate – 4.8% based on the current yield on New Zealand Government 15 December 2017 bonds
- the current market value of *thl* shares - \$0.97 to \$1.27 as per our assessment in section 4
- volatility – 35% to 40% based on the observed volatility levels of movements in *thl*'s share price
- the time to expiry – various as set out in section 3.14
- expected distributions – a dividend yield of 3.0%.

### *Discount for Restrictive Terms*

The Binomial Model and Black-Scholes Formula assume that the options being valued can be sold on a secondary market. The redeemable shares are not listed on the NZX SX. Accordingly, a discount to the values derived from the Binomial Model and Black-Scholes Formula is required to reflect the restrictive terms. We have applied a discount of 20% to the values assessed under the Binomial Model and Black-Scholes Formula.

## 5.3 Valuation Conclusion

Based on the above, we assess the fair market value of 100% of the redeemable shares to be in the range of \$0.8 million to \$1.6 million as at the present date.

## 6. Sources of Information, Reliance on Information, Disclaimer and Indemnity

### 6.1 Sources of Information

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

- the Ballylinch takeover notice dated 14 April 2011
- the Ballylinch takeover offer dated 13 May 2011
- the draft *thl* Target Company Statement
- the draft *thl* Strategic Executive Summary 2011 / 2012 dated 5 May 2011
- the *thl* board minutes since February 2009
- the *thl* annual reports for the years ended 30 June, 2008 to 2010
- the *thl* management accounts for the years ended 30 June, 2008 to 2010
- the *thl* interim report for the 6 months ended 31 December 2010
- the *thl* management accounts for the 10 months ended 30 April 2011
- the *thl* budget and forecast for the year ended 30 June 2011
- the *thl* forecast for the year ended 30 June 2012
- the *thl* financial forecasts for the 5 years to 30 June 2016
- *thl* analysis and external advice in respect of the acquisition of Road Bear
- share price data and shareholder data from NZX Data and Capital IQ
- *thl*-commissioned research and analysis of the New Zealand campervan industry
- brokers' reports in respect of *thl*
- publicly available information regarding the New Zealand, Australia and USA tourism industries, including forecasts of visitor arrival numbers.

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

The Independent Directors Committee has confirmed that we have been provided for the purpose of this Independent Adviser's Report with all information relevant to the Ballylinch Offer 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 necessary for the purpose of preparing this Independent Adviser's Report.

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

## 6.2 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 *thl* 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 *thl*. We do not warrant that our enquiries would reveal any matter which an audit, due diligence review or extensive examination might disclose.

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

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

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

We have had no involvement in the preparation of the Target Company Statement issued by *thl* and have not verified or approved the contents of the Target Company Statement. We do not accept any responsibility for the contents of the Target Company Statement except for this report.

## 6.4 Indemnity

*thl* 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. *thl* 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.

## 7. Qualifications and Expertise, Independence, Declarations and Consents

### 7.1 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.

### 7.2 Independence

Simmons Corporate Finance does not have at the date of this report, and has not had, any shareholding in or other relationship with *thl* or Ballylinch that could reasonably be regarded as capable of affecting our ability to provide an unbiased opinion in relation to this transaction.

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

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

### 7.3 Declarations

An advance draft of this report was provided to the Independent Directors Committee for its 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.

### 7.4 Consents

We consent to the issuing of this report in the form and context in which it is to be included in the Target Company Statement to be sent to *thl*'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**

23 May 2011

## Appendix I

### Comparable Company Transaction Multiples

Transaction Multiples							
Date	Target	Bidder	Implied Enterprise Value (\$m)	EBITDA Multiple		EBIT Multiple	
				Hist.	Pros.	Hist.	Pros.
May 04	Shotover Jet	Ngai Tahu	\$48	7.9x	7.1x	9.7x	8.7x
Sep 05	Harvey World Travel Group	S8 <sup>1</sup>	A\$84	9.2x		11.0x	
Oct 05	GO Holidays	Gullivers Travel Group	\$23	6.8x	6.0x		
Jul 06	Transonic Travel	S8 <sup>1</sup>	A\$144	10.5x	8.5x	12.2x	9.9x
Jul 06	Travelscene	S8 <sup>1</sup>	A\$58	11.7x	7.2x		7.5x
Sep 06	Gullivers Travel Group	S8 <sup>1</sup>	\$239	9.2x	8.0x	10.2x	9.2x
Dec 06	S8 <sup>1</sup>	Octaviar	A\$776	12.2x		13.9x	
Feb 08	Stellar Group <sup>1</sup>	CVC Asia Pacific	A\$1,432	8.0x			
Jul 08	Qantas Holidays	Jetset Travelworld	A\$288	9.7x			
Sep 10	Stellar Travel Services <sup>1</sup>	Jetset Travelworld	A\$189	10.2x	14.6x	11.2x	16.8x
Mar 11	Sydney Attractions	Merlin Entertainments	A\$221	11.2x		16.0x	
		Minimum		6.8x	6.0x	9.7x	7.5x
		Average		9.7x	8.6x	12.0x	10.4x
		Maximum		12.2x	14.6x	16.0x	16.8x

<sup>1</sup> S8 is now Stellar Travel Services, which is part of the Stellar Group

Source: Capital IQ, brokers reports, independent adviser's reports, media releases

## Appendix II

### Comparable Company Trading Multiples

Trading Multiples						
Company	Market Capitalisation (m)	Enterprise Value (m)	EBIT Multiple		PE Multiple	
			Hist.	Pros.	Hist.	Pros.
<b>Australasian Tourism and Leisure Companies</b>						
Amalgamated Holdings	A\$927	A\$821	10.7x	7.3x	12.0x	11.3x
Ardent Leisure Group	A\$468	A\$653	15.3x	10.7x	14.6x	10.9x
Flight Centre	A\$2,274	A\$1,648	7.1x	6.9x	14.5x	13.3x
Jetset Travelworld	A\$349	A\$209	12.2x	4.4x	8.0x	n/a
Living and Leisure Australia Group	A\$63	A\$164	18.6x	n/a	n/a	n/a
New Zealand Experience	\$13	\$14	4.3x	n/a	6.6x	n/a
Sky City Entertainment Group	\$2,126	\$2,696	12.7x	11.4x	25.8x	15.5x
Village Roadshow	A\$629	A\$1,510	6.5x	10.9x	6.9x	8.2x
<b>Global Vehicle Rental Companies</b>						
Avis Budget Group	US\$1,826	US\$8,527	13.0x	20.9x	21.1x	11.3x
Dollar Thrifty Automotive Group	US\$2,327	US\$3,386	11.5x	12.3x	20.4x	17.2x
Fleetwood Corp.	A\$657	A\$666	9.9x	8.8x	13.8x	12.7x
Hertz Global Holdings	US\$6,520	US\$15,924	18.3x	14.4x	n/a	17.6x
Northgate	£433	£1,020	11.3x	10.5x	12.9x	12.0x
	Minimum		4.3x	4.4x	6.6x	8.2x
	Average		11.6x	10.8x	14.2x	13.0x
	Maximum		18.6x	20.9x	25.8x	17.6x
<i>n/a: not available</i>						
<i>Source: Capital IQ, data as at 20 May 2011</i>						

#### Amalgamated Holdings

Amalgamated Holdings operations 3 divisions – Entertainment (cinemas in Australia, the United Arab Emirates, the Netherlands and Germany), Entertainment Technology (digital cinema, electronic cinema and film projection solutions) and Hospitality and Leisure (approximately 40 hotels and resorts in Australia and New Zealand).

#### Ardent Leisure Group

Ardent Leisure Group owns and operates leisure and entertainment assets in Australia, New Zealand and the USA such as theme parks, bowling centres, health clubs and indoor family entertainment centres.

#### Flight Centre

Flight Centre provides wholesale and retail travel services in Australia and internationally. It offers travel and related products and services, including flight, hotel, holidays, car hire, cruises, rail passes, travel insurance, coach tours and visas.

### ***Jetset Travelworld***

Jetset Travelworld sells international and domestic travel products and services in Australia. The company operates as a franchisor of a retail travel agent network that covers approximately 670 member outlets under the Jetset and Travelworld brands.

### ***Living and Leisure Australia Group***

Living and Leisure Australia Group operates ski resorts and tourist attractions in Australia and aquaria in Australia, Thailand, Korea, China and the United Arab Emirates.

### ***New Zealand Experience***

New Zealand Experience owns and operates the Rainbow's End theme park in Auckland.

### ***Sky City Entertainment Group***

Sky City Entertainment Group operates in the gaming / entertainment, hotel and convention, hospitality, recreation and tourism sectors in New Zealand and Australia.

### ***Village Roadshow***

Village Roadshow operates theme parks and resorts, distributes films, videos and DVDs to various cinemas and retailers and is involved in film production and music. It owns and operates approximately 660 cinemas across 4 countries and operates 2 radio networks in Australia. The company operates in Australia, the USA, New Zealand, Czech Republic, Greece and Singapore.

### ***Avis Budget Group***

Avis Budget Group provides car and truck rentals and ancillary services to businesses and consumers around the world under the Avis and Budget brands. It operates or franchises approximately 2,200 Avis rental locations and approximately 1,800 Budget rental locations worldwide.

### ***Dollar Thrifty Automotive Group***

Dollar Thrifty Automotive Group rents and leases vehicles under the Dollar and Thrifty brands primarily in the USA and Canada. The company also operates a franchised retail used car sales network.

### ***Fleetwood Corp***

Fleetwood Corp manufactures, wholesales and retails RVs and related products for the Australian and New Zealand markets. It offers caravans, spare parts, accessories, marine equipment, campers and pop-tops, as well as fibreglass ute canopies, liners, lids and alloy trays.

### ***Hertz Global Holdings***

Hertz Global Holdings operates car and equipment rental businesses worldwide. It also operates retail used car sales locations in the USA and France.

### ***Northgate***

Northgate rents light commercial vehicles in the UK, Spain and Republic of Ireland. It also sells former rental vehicles to retail and trade customers and provides workshop and insurance services.