

Independent Adviser's Report

Prepared Pursuant to Rule 22 of the New Zealand Takeovers Code in Relation to a Partial Takeover Offer for Tourism Holdings Limited

Prepared for:

Ballylinch LP

April 2011

Purpose of the Report

- This report is **not** a report on the merits of the offer.
- This report has been obtained by the offeror.
- The purpose of this report is solely to compare the consideration and terms offered for the different classes of securities, and to certify as to the fairness and reasonableness of that consideration and terms as between the different classes.
- A separate independent adviser's report on the merits of the offer, commissioned by the directors of Tourism Holdings Limited, must accompany Tourism Holdings Limited's target company statement.
- The offer should be read in conjunction with this report and the separate independent adviser's report on the merits of the offer.

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ABBREVIATIONS AND DEFINITIONS

Abbreviations used in this report are as follows:

Ballylinch	Ballylinch LP, a limited partnership registered in New Zealand.
Code	The Takeovers Code
Earliest Transfer Date	The third anniversary of the issue date of the Redeemable Shares in the case of Tranches 1 and 2, and the second anniversary of the issue date of the Redeemable Shares in the case of Tranches 3-6
Executive Share Scheme	THL's Long Term Incentive Scheme
Executives	THL's Chief Executive Officer and other senior executives
Issue Price	The issue price for a particular Tranche of Redeemable Shares
NZSX	The main board equity security market operated by NZX
NZX	NZX Limited
Northington Partners	Northington Partners Limited
Offer	The partial takeover offer that Ballylinch intends to make on or about 14 April 2011 for 40.85% of the voting securities on issue in THL not already owned by Ballylinch
Ordinary Shares	The 98,180,723 ordinary shares of THL on issue and which are tradeable on the NZX
Panel	The Takeovers Panel
Redeemable Shares	The 4,220,000 redeemable ordinary shares of THL issued to the Executives in six tranches under THL's Executive Share Scheme
Termination Date	The seventh anniversary of the issue date of the Redeemable Shares in the case of Tranches 1 and 2, and the sixth anniversary of the issue date of the Redeemable Shares in the case of Tranches 3-6
THL or Company	Tourism Holdings Limited
Tranche	Each of the six tranches of Redeemable Shares issued by THL
Trustee	THL Corporate Trustee Limited

EXECUTIVE SUMMARY

BACKGROUND

Ballylinch LP (“**Ballylinch**”), a limited partnership registered in New Zealand, intends to issue a Takeover Notice to Tourism Holdings Limited (“**THL**”) on or about 14 April 2011 indicating its intention to make a partial takeover offer (“**Offer**”) for 40.85% of the voting securities on issue in THL not already owned by Ballylinch.

THL has a number of classes of equity securities:

- ▼ 98,180,723 issued ordinary shares (“**Ordinary Shares**”) which are tradeable on the New Zealand Stock Exchange (“**NZSX**”), being the main board equity security market operated by NZX Limited (“**NZX**”); and
- ▼ 4,220,000 redeemable ordinary shares (“**Redeemable Shares**”) which (as summarised in Table 1 below) have been issued in six tranches (each a “**Tranche**”) pursuant to a long term incentive scheme (“**Executive Share Scheme**”) for the Chief Executive Officer and other senior executives of the Company (“**Executives**”).

Table 1: Summary of Redeemable Shares on Issue

Tranche	Issue Date	Final Termination Date	Shares Outstanding	Issue Price
1	September 2006	September 2013	1,020,000	\$1.90
2	October 2007	October 2014	200,000	\$2.34
3	June 2009	June 2015	1,700,000	\$0.49
4	October 2009	October 2015	200,000	\$0.70
5	May 2010	May 2016	900,000	\$0.90
6	December 2010	December 2016	200,000	\$0.75
			4,220,000	

Source: NZX Website and THL Annual Reports

Key terms and conditions of the Offer are as follows:

- ▼ **Offer Price for Ordinary Shares:** A cash payment of \$0.675 per Ordinary Share.
- ▼ **Offer Price for Redeemable Shares:** The cash payment offered per share varies across each Tranche of Redeemable Shares on issue, as set out in Table 2 below.
- ▼ **Minimum Acceptance Condition:** The Offer is conditional upon Ballylinch receiving acceptances that would confer on it more than 50% of all voting rights in THL.
- ▼ **Other Conditions:** The Offer is also conditional on a number of other conditions that are standard for an offer of this type.

Table 2: Offer Price for Redeemable Shares

Tranche	Offer Price for each Redeemable Share
1	\$0.015
2	\$0.015
3	\$0.140
4	\$0.080
5	\$0.045
6	\$0.045

Source: Ballylinch Takeover Notice

Rule 9(5) of the Takeovers Code (“Code”) requires that if there is more than one class of voting securities included in a partial offer, the consideration and terms offered for each class of voting securities must be fair and reasonable as between the classes of voting securities. The implementation of the Executive Share Scheme by THL has essentially given rise to additional classes of voting securities, and thus Ballylinch (as the offeror) must obtain a report pursuant to Rule 22 of the Code from an independent adviser which certifies that, in the adviser’s opinion, the offer complies with rule 9(5) and thus is fair and reasonable as between the classes of voting securities. This report has been prepared to meet the requirements of Rule 22 of the Code.

Prior to the issue of the Takeover Notice, Ballylinch has had no contact with THL and does not have access to all of the detailed documentation in relation to the Executive Share Scheme. This assessment has therefore been based primarily on publicly available information, and is reliant on a number of assumptions in relation to the details of the Executive Share Scheme that cannot be verified without further information from THL.

SUMMARY OF OUR ASSESSMENT

A rule 22 report is not required to consider the merits of the Offer for the Ordinary Shares, and we offer no opinion on whether the offer price of \$0.675 per Ordinary Share is fair and reasonable. Rather, we have interpreted our role as one of determining whether the consideration offered for the Redeemable Shares is fair and reasonable in comparison to the Offer for the Ordinary Shares.

Our assessment is based on the following framework:

- (i) The total consideration of \$0.675 per share for the Ordinary Shares provides the benchmark for our assessment. Although we make no attempt to determine whether this Offer is itself fair and reasonable, the Offer price for the Ordinary Shares is the starting point from which we determine the relative fairness of the Offer for the Redeemable Shares.
- (ii) That is, we need to determine the underlying fair value of the Redeemable Shares issued under each Tranche, assuming an initial fair value for the Ordinary Shares of \$0.675. Our assessment also takes into account the current rules that govern the Executive Share Scheme and the possible changes to the rules that may be put in place in the event of a takeover offer for THL.
- (iii) The assessment then rests on a comparison of the consideration offered for the Redeemable Shares under a particular Tranche to the underlying fair value of the Redeemable Shares of that Tranche.

Although each Tranche of Redeemable Shares was issued at varying dates and issue prices (see Table 1 above), all of the Redeemable Shares under each Tranche have been paid up to \$0.01 per share. As discussed in more detail in Section 2.2.2, the rules governing the Executive Share Scheme allow the Executives to effectively convert the Redeemable Shares into Ordinary Shares beginning either two or three years after the issue date (depending on the particular Tranche) upon payment of the outstanding balance per share. Because the conversion is at the discretion of the Executive (and there is no obligation to convert), the Redeemable Shares can be viewed analogously to a type of call option on the Ordinary Shares of THL. We have therefore assessed the current fair value of each Tranche of Redeemable Shares using some standard option pricing techniques.

Our comparative valuation assessment can be summarised as follows:

- ▼ Our estimate of the current fair value range per share for each Tranche of Redeemable Shares is set out in Table 3 below:

Table 3: Redeemable Shares Valuation Summary

Tranche	Shares Outstanding	Low Value per Share	High Value per Share	Mid-Point Value per Share	Total Tranche Value (at Mid-Point)
1	1,020,000	\$0.01	\$0.02	\$0.015	\$15,300
2	200,000	\$0.01	\$0.02	\$0.015	\$3,000
3	1,700,000	\$0.12	\$0.16	\$0.140	\$238,000
4	200,000	\$0.06	\$0.10	\$0.080	\$16,000
5	900,000	\$0.03	\$0.06	\$0.045	\$40,500
6	200,000	\$0.03	\$0.06	\$0.045	\$9,000
	4,220,000				\$321,800

Source: Northington Partners Analysis

- ▼ Our valuation range per share for each Tranche of Redeemable Shares reflects an estimate of the value that the Executives would effectively be giving up if the shares are redeemed as part of the takeover process, and is derived using an analytical framework that we believe appropriately accounts for the key features of the Redeemable Shares.
- ▼ The assessed values for all but Tranche 3 of the Redeemable Shares is low, reflecting the fact that the THL share price (and the proposed Offer price) is significantly lower than the share price that prevailed when the Redeemable Shares were first issued. Large increases in the value of the THL ordinary shares will therefore be needed over the remaining life of the Redeemable Shares before it is in the Executives' best interest to exercise their rights under the Executive Share Scheme.

The consideration per share offered to the Executives for each Tranche of Redeemable Shares has been set equal to the mid-point of our assessed value range for each Tranche of Redeemable Shares. On this basis, we therefore conclude that the Offer price for each Tranche of the Redeemable Shares is fair.

Both the ordinary shareholders and the Executives who hold Redeemable Shares will be paid cash if they accept the Offer, and the Offer to each group is effectively conditional on the same set of general conditions. On this basis, we conclude that the terms of the Offer for the Ordinary Shares and the Redeemable Shares are equivalent.

We therefore certify that in our opinion the consideration and terms offered for each class of voting securities is fair and reasonable as between the classes of voting securities.

1.0 BACKGROUND AND SCOPE OF THIS REPORT

1.1 BACKGROUND

Ballylinch intends to issue a Takeover Notice to THL on or about 14 April 2011 indicating its intention to make a partial takeover offer for all of the equity securities on issue in THL.

THL has a number of classes of equity securities. There are 98,180,723 Ordinary Shares on issue which are tradeable on the NZSX, and 4,220,000 Redeemable Shares which were issued under THL's Executive Share Scheme.

The Redeemable Shares were issued in six tranches between September 2006 and December 2010 to the Chief Executive Officer and other senior executives of the Company at an issue price ("**Issue Price**") ranging from \$0.49 to \$2.34. Under each Tranche, the Redeemable Shares were paid up on issue to \$0.01. The Redeemable Shares are currently being held in trust for the Executives by THL Corporate Trustee Limited ("**Trustee**") and will be able to be paid up by the Executives after a minimum of either two or three years (depending on the particular Tranche), at a rate of one third of the share entitlement each year.

Further details of the terms and conditions of the Executive Share Scheme are included in Section 2.2.

1.2 THE OFFER

The key terms and conditions of the Offer are summarised as follows:

- ▼ **Offer Price for Ordinary Shares:** A cash payment of \$0.675 per share.
- ▼ **Offer Price for Redeemable Shares:** A cash payment per share that varies across each Tranche of Redeemable Shares on issue, as set out in Table 2 above.
- ▼ **Minimum Acceptance Condition:** The Offer is conditional upon Ballylinch receiving acceptances that would confer on it more than 50% of all voting rights in THL.
- ▼ **Other Conditions:** The Offer is also conditional on a series of other conditions that are standard for an offer of this type.

1.3 REQUIREMENTS OF TAKEOVERS CODE

THL is a publicly listed company based in Auckland and is a "Code Company" as defined by rule 3 of the Code. The takeover process initiated by Ballylinch must therefore comply with the provisions set out in the Code relating to the offer procedure.

Pursuant to rule 9(2) of the Code, a partial offer must include offers for the same percentage of voting securities in each class of voting securities of the target company (other than those that are already held by the offeror). Furthermore, rule 9(5) of the Code requires that if there is more than one class of voting security included in a partial offer, the consideration and terms offered for each class of voting securities must be fair and reasonable as between the classes of voting securities.

The implementation of the Executive Share Scheme by THL has essentially given rise to additional classes of voting securities, and Ballylinch as offeror must therefore obtain a report pursuant to rule 22 of the Code

from an independent adviser which certifies that, in the adviser's opinion, the offer complies with rule 9(5) and thus is fair and reasonable as between the classes of voting securities.

This report has been prepared to meet the requirements of rule 22 of the Code. The appointment of Northington Partners Limited ("**Northington Partners**") to prepare the rule 22 report was approved by the Takeovers Panel ("**Panel**") on 7 April 2011.

1.4 ASSESSMENT APPROACH

Rule 22 of the Code requires that the independent adviser's report certifies that the consideration and terms of an offer are fair and reasonable as between the classes of voting securities. The exact meaning of the words "*fair*" and "*reasonable*" is not prescribed in the Code and there is no well accepted, authoritative New Zealand reference that clearly establishes what should be considered for an assessment of this nature.

Statutory requirements within the Australian market are defined in somewhat more detail. The Australian Securities and Investments Commission has issued a policy statement regarding "Independent Expert Reports to Shareholders", which sets out some fundamental requirements for a report that is completed in similar circumstances to those relating to this Offer.

According to the policy statement, an offer is "fair" if the value of the consideration to be paid under the offer is equal to or greater than the value of the securities that are subject to the offer. An offer is deemed to be "reasonable" if it is fair. An offer may also be reasonable if it is unfair but where other significant factors mean that the shareholders should accept the offer in the absence of any higher bid before the close of the offer.

We believe that these definitions provide a useful starting point for assessing the fairness and reasonableness of the consideration offered for each class of voting securities. Fairness is determined largely from the results of a comparative valuation exercise, while the reasonableness of the Offer is related to a general assessment of a range of other non-price terms that may be relevant in this case.

For this particular assessment, we have adopted the following framework to determine whether the consideration offered per share for each Tranche of Redeemable Shares is fair and reasonable in comparison to the offer price per share for the Ordinary Shares:

- (i) Comparison of the gross consideration offered for all of the voting securities is examined on a before investor tax basis.
- (ii) The Offer of \$0.675 per share for the Ordinary Shares provides the benchmark for our assessment in relation to the Redeemable Shares. Although we make no attempt to determine whether this Offer is itself fair and reasonable, the Offer price for the Ordinary Shares is the starting point from which we determine the relative fairness of the Offer for each Tranche of Redeemable Shares.
- (iii) That is, we need to determine the underlying fair value of each Tranche of Redeemable Shares, assuming an initial fair value for the Ordinary Shares of \$0.675. Our assessment also takes into account the current rules that govern the Executive Share Scheme and the possible changes to the rules that may be put in place in the event of a takeover offer for THL.
- (iv) The assessment then rests on a comparison of the net consideration offered for each Tranche of Redeemable Shares to the underlying fair value of each Tranche of Redeemable Shares.

We believe that, other than in relation to the consideration offered, the Offer terms relating to the Ordinary Shares are directly comparable to the Offer terms relating to each Tranche of Redeemable Shares. Both the ordinary shareholders and the Executives will receive cash consideration if the Offer is accepted, and the Offer to each group of stakeholders is effectively contingent on the same set of conditions. On this basis, we conclude that, other than in relation to the consideration offered, the terms of the Offer are equivalent as between the classes of voting securities.

Our overall assessment therefore concentrates on a comparison of the consideration that will be offered for each class of security, based on an examination of the following factors:

- ▼ The consideration offered under the Offer for the Ordinary Shares and each Tranche of Redeemable Shares;
- ▼ The differential between the exercise price for each Tranche of Redeemable Shares and the Offer price for the Ordinary Shares;
- ▼ The discretion of the THL Board to make arrangements to facilitate the participation of the Executives in any takeover offer for THL;
- ▼ The current rights of the Executives in relation to the Redeemable Shares, specifically with regard to the circumstances and timing of the conversion into Ordinary Shares; and
- ▼ The circumstances under which an Executive's rights to the Redeemable Shares are relinquished.

We again note that we have not attempted to assess the underlying value of the Ordinary Shares, but have used the Offer price as the benchmark for our assessment of the relativities between the offers for the different classes of securities.

1.5 PRIMARY SOURCES OF INFORMATION

The sources of information that we have relied on in preparing this report are set out in Appendix I.

1.6 LIMITATIONS AND RELIANCE OF INFORMATION

This report is subject to all of the limitations and restrictions set out in Section 4.0. In particular, in preparing this report, Northington Partners has relied on the information set out in Appendix I and has assumed that that information is accurate. Northington Partners accepts no responsibility to the extent that the information it has relied on is inaccurate or incomplete.

Our assessment is reliant on a number of key assumptions that have been outlined in this report. Should any of these assumptions not be accurate, then the valuation assessment and our conclusions could be materially affected.

Subject to this limitation, we have obtained all of the information that we consider is necessary for preparing the report.

2.0 THL VOTING SECURITIES

2.1 BACKGROUND TO OFFER PARTICIPANTS

Ballylinch is a limited partnership incorporated in New Zealand. The general partner of Ballylinch is Ballylinch General Limited, a New Zealand registered company.

THL was established and listed on the New Zealand Stock Exchange in 1986 as “The Helicopter Line”, a business specialising in scenic flights in the South Island of New Zealand. In 1996 the name “Tourism Holdings” was adopted to better reflect the wide range of tourist activities operated by the Company. THL now owns and operates a comprehensive range of New Zealand visitor attractions and transportation businesses. Interests within Australia are centred on motor home and car rentals and within the USA the Company owns a luxury RV provider that it purchased in 2010.

2.2 TERMS OF THL EQUITY SECURITIES

2.2.1 Ordinary Shares

There are currently 98,180,723 Ordinary Shares on issue in THL. Each Ordinary Share confers on the holder:

- (i) The right on a poll at a meeting of shareholders to one vote on each resolution;
- (ii) The right to an equal share in dividends authorised by the Board; and
- (iii) The right to an equal share in the distribution of the surplus assets of the Company.

2.2.2 Redeemable Shares

Over the life of the Executive Share Scheme, THL has authorised the issue of 6,220,000 Redeemable Shares in six tranches between September 2006 and December 2010. A total of 2,000,000 shares have subsequently been cancelled in accordance with the scheme rules, leaving a total of 4,220,000 Redeemable Shares outstanding.

The key terms and conditions of the Redeemable Shares are as follows:

- ▼ Each Tranche has an Issue Price that was set at the time of issue (the Issue Prices range from \$0.49 to \$2.34). Under each Tranche, the Redeemable Shares were paid up on issue to \$0.01. The balance of the Issue Price is not paid up until the holder of the Redeemable Share elects to do so.
- ▼ The exercise price for each Tranche represents the total amount that must be paid under the Executive Share Scheme to enable the conversion of the Redeemable Shares into Ordinary Shares. The exercise prices for Tranches 1 and 2 are equal to the respective Issue Prices of \$1.90 and \$2.34, while the exercise prices for Tranches 3-6 incorporate an adjustment for THL’s cost of capital (assessed at 13.25%) and any dividends paid over the two years following the issue date.
- ▼ Until such time as a Redeemable Share converts into an Ordinary Share, each Redeemable Share:
 - (a) Is entitled to participate in dividends in accordance with clause 14.4 of the company constitution;
 - (b) Carries a vote, in accordance with clause 20.5(b)(ii) of the company constitution; and

(c) Is entitled to participate in any distribution of assets of the company,

as if it were an Ordinary Share issued at the Issue Price and paid to \$0.01. This means, for example, that if a dividend is declared on the Ordinary Shares of THL, the dividend payable on Tranche 1 of the Redeemable Shares will be 1/190th of the ordinary dividend (as \$1.90 is the Issue Price under Tranche 1).

- ▼ Each Redeemable Share is redeemable at the option of the holder. The holder may require redemption by giving notice to the Company. The amount payable on redemption of a Redeemable Share is the amount paid up on that Redeemable Share at the date of redemption. The redemption option applies only for so long as the Trustee is the holder of the Redeemable Share, and does not apply if any person other than the Trustee is the holder of the Redeemable Share.
- ▼ As from the date on which a Redeemable Share is both fully paid and transferred by the Trustee to a person other than the Trustee, that Redeemable Share shall convert into an Ordinary Share and shall rank in all respects equally with the Ordinary Shares, other than in respect of any distribution or other benefit the record date for which occurred before that date, and shall be of the same class as Ordinary Shares.

Key points to note with regard to the transfer of the Redeemable Shares from the Trustee to the Executives are as follows:

- ▼ An Executive may not request a transfer before the third anniversary of the issue date in the case of Tranches 1 and 2, and before the second anniversary of the issue date in the case of Tranches 3-6 (in each case the “**Earliest Transfer Date**”).
- ▼ An Executive may not request a transfer which would;
 - (a) Result in more than one third of that Executive's Redeemable Shares being transferred before the fourth anniversary of the issue date (in the case of Tranches 1 and 2) and (we assume) the third anniversary of the issue date (in the case of Tranches 3-6); or
 - (b) Result in more than two thirds of that Executive's Redeemable Shares being transferred before the fifth anniversary of the issue date (in the case of Tranches 1 and 2) and (we assume) the fourth anniversary of the issue date (in the case of Tranches 3-6).
- ▼ If at any time before the Earliest Transfer Date an Executive ceases to be a full time employee of THL, or ceases to hold the requisite number of Ordinary Shares purchased to ensure eligibility for the Executive Share Scheme, that Executive shall no longer have any rights under the Executive Share Scheme, and shall no longer be entitled to request a transfer.
- ▼ The rights of an Executive under the Executive Share Scheme in respect of the Redeemable Shares shall terminate absolutely on the seventh anniversary of the issue date in the case of Tranches 1 and 2, and (we assume) on the sixth anniversary of the issue date in the case of Tranches 3-6 (in each case the “**Termination Date**”). An Executive shall have no right to request a transfer of Redeemable Shares after the Termination Date.

We note that the Trust Deed administering Tranches 1 and 2 specifically contemplates the situation of a takeover offer for THL as follows:

“If during the period between the Issue Date of any Allocated Shares, and the date on which those Allocated Shares are transferred to a Participant;

...any offer is made for the acquisition of shares of THL, or any merger or amalgamation of THL is effected or announced;

...the Board may make, and cause or require THL and/or the Trustee to make, notwithstanding anything in these rules or in the terms of issue of Shares, such arrangements, or adjustments to the rights of Participants under the Executive Share Scheme, as in the opinion of the Board are necessary to ensure that so as far possible after the occurrence of the relevant event Participants, THL, and shareholders of THL are left in the same overall economic position as if that event had not occurred. Those arrangements may, without limitation, include the issue of further Shares by THL to the Trustee, and/or permitting Participants to request a Transfer of Allocated Shares earlier than provided for under these rules."

Assuming Tranches 3-6 operate under broadly similar provisions, the Executive Share Scheme contemplates an Executive being able to participate in a takeover offer via a mechanism that allows the Executive to request a transfer of their Redeemable Shares earlier than may otherwise have been permitted. However, an Executive will rationally only choose to convert Redeemable Shares of a particular Tranche into Ordinary Shares under this mechanism if the price offered for the Ordinary Shares exceeds the exercise price of that Tranche. In cases where it is not economically rational for an Executive to request an early transfer, the provisions of the scheme are not clear on how an Executive can accept the consideration offered to them in respect of a particular Tranche of Redeemable Shares.

Our analysis is therefore based on the premise that the THL Board will develop a mechanism that allows the Executives to accept the Offer for the Redeemable Shares if the Offer for THL is declared unconditional. More specifically, we assume that:

- (i) The Offer for each Tranche of Redeemable Shares is made to the Trustee on behalf of the Executives.
- (ii) If the Executives accept the Offer in respect of the Redeemable Shares and the Offer is declared unconditional, Ballylinch will pay to the Trustee the relevant Offer price in respect of the Redeemable Shares taken up by Ballylinch under the Offer.
- (iii) The proceeds received by the Trustee will then be paid to the Executives as an amount due to them.

3.0 EVALUATION OF THE OFFER PRICE AS BETWEEN CLASSES

3.1 VALUATION ASSESSMENT OF REDEEMABLE SHARES

Each of the Redeemable Shares on issue effectively provides an Executive with the right to purchase an Ordinary Share at some time in the future at a fixed price. Because the Executive is not obligated to eventually make the purchase unless it is in their best interest to do so, the Redeemable Shares can be viewed as a variant of a standard call option¹. An Executive will rationally only choose to convert Redeemable Shares of a particular Tranche into Ordinary Shares if the market price of the Ordinary Shares exceeds the exercise price of that Tranche. Under that particular outcome, the Executive will be better off by enforcing the transfer provisions of the Executive Share Scheme and making the outstanding payment per share. If the market price is lower than the exercise price of a particular Tranche, the Executive will require the Trustee to redeem the shares for the \$0.01 per share that was initially paid-up on the issue date of the Redeemable Shares.

When the Redeemable Shares are viewed as a call option on the Ordinary Shares, the Executive Share Scheme features can be interpreted as follows:

- ▼ All shares allocated to the Executives have an exercise price that is either fixed throughout the term of the Executive Share Scheme (being the Issue Price for Tranches 1 and 2), or which is determined as discussed in Section 2.2.2.
- ▼ The shares can be fully paid and transferred to the Executives after the Earliest Transfer Date, although the transfers cannot exceed one third of each Executive's allotment in each of the first three years after the transfers are first allowed. That means that the total allotment to each Executive is broken into three equal tranches.
- ▼ Any shares that have not been fully paid up on or before the Termination Date relating to a particular Tranche can no longer be transferred to the Executive. In option pricing terms, this means that all of the options expire after either seven years (in the case of Tranches 1 and 2) or, based on our assumption, six years (in the case of Tranches 3-6) from the issue date.

Because the rights attached to the Redeemable Shares will only have value in the future if the THL share price exceeds the exercise price of a particular Tranche before the termination date, current value is related to an assessment of the likelihood that the share price will exceed the relevant exercise price before the Termination Date of a particular Tranche. There are a number of mathematical models with which to determine the probability that the options will have a positive payoff in the future, and which 'translate' that probability into an option value today. We use some standard models as the basis for our assessment, on the assumption that the underlying THL shares will continue to trade on the NZX for the remaining life of the Executive Share Scheme.

Unfortunately, although the analogy between the rights attached to the Redeemable Shares and a standard call option is reasonably strong, the Executive Share Scheme also has some features that are commonly attached to more complex employee share option schemes. These features include the following:

- ▼ The rights attached to the Redeemable Shares are not tradeable;

¹ A call option provides the holder with the right, but not the obligation, to purchase an asset at a fixed price either during, or at the termination of, a specified future period.

- ▼ The Executives must purchase and retain an appropriate number of Ordinary Shares in THL; and
- ▼ The rights attached to the Redeemable Shares lapse if the Executive ceases to be a full time employee of THL.

Option features of this type are more difficult to value than standard equity options for a number of reasons, and mean that the well known Black-Scholes valuation formula is inappropriate. The Black-Scholes model was derived for simple European-style² options on a non-dividend paying share, assuming that the option instrument trades in a liquid market and has a relatively short time to maturity (6 – 9 months). Because none of these conditions holds for the rights attached to the Redeemable Shares, values derived from the Black-Scholes model are likely to be inaccurate and, in this case, will overstate the underlying fair value.

From a valuation perspective, the key complications relate to the fact that the Redeemable Shares are non-tradeable and are effectively cancelled if the employee leaves the Company prior to the expiry date. This type of option is therefore often exercised earlier than is optimal for standard options, thereby reducing the payoff that could have been received had the option been retained for the full term. Expected dividend payments during the life of the option also reduce the value because of the corresponding decrease in the value of the underlying share.

Although there are a range of alternative models available that attempt to incorporate the impact of the features of employee share options, implementation is difficult because all alternative models require an extra set of parameters. Unfortunately, appropriate values for the additional parameters cannot be directly observed and there is usually no useful data that can be used to estimate the values.

The usual approach to deal with these issues is to use a standard option pricing model to estimate some benchmark values, initially ignoring the value impacts of the employee option features. Appropriate value discounts to reflect factors such as non-tradability and the potential for forfeiture can then be derived from available empirical studies. We have based our assessment of a benchmark value range on a discrete-time version of the Black-Scholes model, with adjustments for the American exercise feature and expected future dividend payments.

² European-style options can only be exercised on the expiration date, while American-style options can be exercised at any time prior to maturity. The rights attached to the Redeemable Shares are American-style, but only after the completion of the vesting period on the Earliest Transfer Date.

Table 4 presents the most important parameters for the benchmark valuation model, along with the selected values.

Table 4: Key Parameters for Benchmark Valuation Model

Parameter	Discussion	Chosen Value
Initial Share Value	The assumed current value of the Ordinary Shares is a key input to the pricing model, and could be based on either the average THL share price prior to the bid or the Offer price itself. Given the purpose of our assessment for the rule 22 report, we believe that the Offer price is the appropriate input for this valuation.	\$0.675
Volatility	This parameter determines the likelihood that the share price will exceed the exercise price prior to expiration of the option. The higher the volatility, the greater the probability that the option will finish in-the-money, and the greater the current option value. This parameter cannot be directly observed, and we have based our range on the recent market volatility of THL share prices. These values are consistent with standard benchmarks for share price volatilities.	30% - 40%
Expected Dividends	Future dividends for the period to December 2016, being the Termination Date for Tranche 6 as the most recently issued tranche of Redeemable Shares, are clearly difficult to accurately forecast. Our estimates are based on a high level projection of NPAT for the six year period and a fixed dividend payout ratio of 75%. Consistent with current policy, we assume the dividends are paid semi-annually.	Projected Total Dividend per Share 2011: \$0.00 2012: \$0.03 2013: \$0.06 2014: \$0.09 2015: \$0.09 2016: \$0.09
Maturity Dates and Exercise Feature	Each of the three equal allotments of Redeemable Shares within each Tranche has a maturity structure analogous to what is known as a “partial window” option, in that the rights attached to each allotment can only be exercised during a “window” over the full term of the Executive Share Scheme. For example, the rights for one third of the allocated shares under Tranche 6 cannot be exercised until December 2012, and can then be exercised at any time until the Termination Date for that Tranche in December 2016. However, because it can be shown that it is not optimal to force the early exercise of an option on a share with a “moderate” level of expected dividends, an accurate representation of the maturity structure of this Executive Share Scheme will have limited impact on the estimated value of the rights attached to the Redeemable Shares. We can therefore assume that the option rights are exercisable during the remainder of the term until the Termination Date of the option (American style), and thereby ignore the fact that the Redeemable Shares cannot be transferred for an initial period of at least two or three years (depending on the Tranche).	Equal to the Final Termination Date for each Tranche

Source: Northington Partners Analysis

Estimated exercise prices for each Tranche are presented in Table 5. As discussed above, the exercise prices for Tranche 1 and Tranche 2 are equal to the issue price, while the issue prices for Tranches 3-6 are determined in line with the discussion set out in Section 2.2.2.

Table 5: Issue Prices and Exercise Prices for Each Tranche

Tranche	Issue Price	Exercise Price
1	\$1.90	\$1.90
2	\$2.34	\$2.34
3	\$0.49	\$0.58
4	\$0.70	\$0.85
5	\$0.90	\$1.10
6	\$0.75	\$0.92

Source: Northington Partners Analysis

The hypothetical current value range for each Tranche of Redeemable Shares is set out in Table 6, prior to any allowance for factors such as lack of marketability and the inability to transfer the rights attached to the Redeemable Shares. The presented values therefore represent an absolute upper limit for the actual fair value of each Tranche of Redeemable Shares.

Table 6: Upper Limit for Value of Redeemable Shares

Tranche	Benchmark Value	
	Low (Volatility 30%)	High (Volatility 40%)
1	\$0.01	\$0.02
2	\$0.01	\$0.02
3	\$0.15	\$0.16
4	\$0.07	\$0.10
5	\$0.07	\$0.05
6	\$0.04	\$0.06

Source: Northington Partners Analysis

Market evidence in relation to valuation discounts for the employee option features of the Redeemable Shares is relatively limited. While there are a number of model adjustments that can be implemented to estimate the impact of vesting requirements, forfeiture provisions, and non-transferability, it is usually not possible to test the validity of the additional assumptions needed to parameterise the models simply because traded prices for this type of option are not available.

Because most of these factors will usually lead the Executives to exercise their rights to take up the shares earlier than appears to be optimal, the simplest adjustment to the standard pricing model involves a reduction in the assumed time to maturity. A reduction in the assumed life of the option leads to a decrease in the assessed current value of the option. While this approach is intuitively appealing, there is again no market data from which to determine what the most appropriate reduction in the option term may be in any particular case.

The appropriate valuation discount to apply to the theoretical model prices therefore remains largely a matter of judgement. Although market rules of thumb suggest discounts between 20% and 50% from the values derived from a dividend adjusted Black-Scholes model, our analysis suggests that the appropriate discount in this case should be much lower. This conclusion reflects the following factors:

- ▼ The theoretical values for the option features attached to the Redeemable Shares are not very sensitive to the assumed exercise date. If we assume that each Tranche of Redeemable Shares are on average transferred to the Executives two years prior to the relevant Termination Date, then the theoretical value of the Redeemable Shares does not materially change. This relative insensitivity is due to the fact that the options are mostly deeply out-of-the-money (based on a comparison of the Offer price for the Ordinary Shares and the respective exercise prices for each Tranche) and our assumption in relation to the increasing future dividend payment profile.
- ▼ The provisions governing the application of the Executive Share Scheme provides for some leniency in circumstances where an Executive ceases employment with THL. While leaving the Company would normally result in a forfeiture of rights under the Executive Share Scheme, the THL Board does have the discretion to permit an Executive to remain in the Executive Share Scheme in circumstances such as retirement, redundancy, illness or death.

On this basis, we have adopted a valuation discount range of between 10% and 20% for the Redeemable Shares. The resulting value range for each Tranche is presented in Table 7, and shows that the discount has little material impact given that the unadjusted values are uniformly low in absolute terms.

Table 7: Estimated Fair Value Range for Redeemable Shares

Tranche	Shares Outstanding	Low Value per Share	High Value per Share	Mid-Point Value per Share	Total Tranche Value (at Mid-Point)
1	1,020,000	\$0.01	\$0.02	\$0.015	\$15,300
2	200,000	\$0.01	\$0.02	\$0.015	\$3,000
3	1,700,000	\$0.12	\$0.16	\$0.140	\$238,000
4	200,000	\$0.06	\$0.10	\$0.080	\$16,000
5	900,000	\$0.03	\$0.06	\$0.045	\$40,500
6	200,000	\$0.03	\$0.06	\$0.045	\$9,000
	4,220,000				\$321,800

Source: Northington Partners Analysis

3.2 ASSESSMENT CONCLUSION

Our assessment can be summarised as follows:

- ▼ We have estimated the current fair value range for each Tranche of Redeemable Shares as set out in Table 7. The range for each Tranche reflects an estimate of the value that the Executives would effectively be giving up by their acceptance of the Offer.
- ▼ The total consideration offered to the Executives for each Tranche of Redeemable Shares is set out in Table 8 below, and has effectively been struck at the mid-point of our valuation range.

Table 8: Offer Price for Redeemable Shares

Tranche	Offer Price for each Redeemable Share
1	\$0.015
2	\$0.015
3	\$0.140
4	\$0.080
5	\$0.045
6	\$0.045

Source: Ballylinch Takeover Notice

Because the consideration offered to the Executives for each Tranche of Redeemable Shares has been based on the mid-point of the assessed value range for the relevant Tranche, we conclude that the Offer price for the Redeemable Shares is fair in relation to the Offer price for the Ordinary Shares.

On the basis of what we consider to be an appropriate approach to our assessment (as outlined in Section 1.4), we certify that in our opinion the consideration and terms offered for each class of voting securities is fair and reasonable as between the classes of voting securities.

4.0 QUALIFICATIONS, DECLARATIONS AND CONSENTS

4.1 DECLARATIONS

This report is dated 14 April 2011 and has been prepared by Northington Partners at the request of Ballylinch to fulfil the reporting requirements pursuant to rule 22 of the Code. This report, or any part of it, should not be reproduced or used for any other purpose. Northington Partners specifically disclaims any obligation or liability to any party whatsoever in the event that this report is supplied or applied for any purpose other than that for which it is intended.

Prior drafts of this report were provided to Ballylinch for review and discussion. Although minor factual changes to the report were made after the release of the first draft, there were no changes to our methodology, analysis, or conclusions.

This report is provided for the benefit of all of the security holders of THL that are subject to the Offer, and Northington Partners consents to the distribution of this report to those people. The engagement terms did not contain any term which materially restricted the scope of our work.

4.2 QUALIFICATIONS

Northington Partners provides an independent corporate advisory service to companies operating throughout New Zealand. The company specialises in mergers and acquisitions, capital raising support, expert opinions, financial instrument valuations, and business and share valuations. Northington Partners is retained by a mix of publicly listed companies, substantial privately held companies, and state owned enterprises.

The individuals responsible for preparing this report are Greg Anderson B.Com, M.Com (Hons), Ph.D, and Steven Grant B.Com, LLB (Hons). Each individual has a wealth of experience in providing independent advice to clients relating to the value of business assets and equity instruments, as well as the choice of appropriate financial structures and governance issues. Greg Anderson also has a high level of expertise and extensive experience in valuing complex financial instruments including options, swaps, and hybrid debt and equity securities.

Northington Partners has been responsible for the preparation of numerous Independent Adviser Reports in relation to takeovers, mergers, and a range of other transactions subject to the Takeovers Code and NZX Listing Rules.

4.3 INDEPENDENCE

Northington Partners has not been previously engaged on any matter by Ballylinch, THL, or (to the best of our knowledge) by any other party to the proposed transaction. None of the Directors or employees of Northington Partners have any other relationship with any of the Directors or substantial security holders of the parties involved in the proposed Offer.

The preparation of this rule 22 report will be Northington Partners' only involvement in relation to the proposed transaction. Northington Partners will be paid a fixed fee for its services which is in no way contingent on the outcome of our analysis or the content of our report.

Northington Partners does not have any conflict of interest that could affect its ability to provide an unbiased report.

4.4 DISCLAIMER AND RESTRICTIONS ON THE SCOPE OF OUR WORK

In preparing this report, Northington Partners has relied on the information set out in Appendix I. Northington Partners has not performed anything in the nature of an audit of that information, and does not express any opinion on the reliability, accuracy, or completeness of that.

Northington Partners has used the above information on the basis that it is true and accurate in material respects and not misleading by reason of omission or otherwise. Accordingly, neither Northington Partners nor its Directors, employees or agents, accept any responsibility or liability for any such information being inaccurate, incomplete, unreliable or not soundly based or for any errors in the analysis, statements and opinions provided in this report resulting directly or indirectly from any such circumstances or from any assumptions upon which this report is based proving unjustified.

We reserve the right, but will be under no obligation, to review or amend our report if any additional information which was in existence on the date of this report was not brought to our attention, or subsequently comes to light.

4.5 INDEMNITY

Ballylinch has agreed to indemnify Northington Partners (to the maximum extent permitted by law) for all claims, proceedings, damages, losses (including consequential losses), fines, penalties, costs, charges and expenses (including legal fees and disbursements) suffered or incurred by Northington Partners in relation to the preparation of this report; except to the extent resulting from any act or omission of Northington Partners finally determined by a New Zealand Court of competent jurisdiction to constitute negligence or bad faith by Northington Partners.

Ballylinch has also agreed to promptly fund Northington Partners for its reasonable costs and expenses (including legal fees and expenses) in dealing with such claims or proceedings upon presentation by Northington Partners of the relevant invoices.

Northington Partners Limited



Greg Anderson
Director

www.northington.co.nz

Appendix I - Sources of Information Used in This Report

Other than the information sources referenced directly in the body of the report, this assessment is also reliant on the following sources of information:

- ▼ Trust Deed dated 22 September 2006 between Tourism Holdings Limited and THL Corporate Trustee Limited relating to the Tourism Holdings Long Term Incentive Scheme;
- ▼ Tourism Holdings Limited Annual Report 2010;
- ▼ Constitution of Tourism Holdings Limited dated 16 November 2004;
- ▼ Various Directors' certificates relating to the issue of shares;
- ▼ Various notices of issue of shares released by Tourism Holdings Limited to the NZX; and
- ▼ Copies of the draft Takeover Notice, with the latest version provided on 14 April 2011.