



Notice of Special Meeting

Notice is hereby given that a Special Meeting of Shareholders of Mowbray Collectables Limited (the **Company**) will be held at the offices of Duncan Cotterill, Level 2, Chartered Accountants House, 50 Customhouse Quay, Wellington on Wednesday, 24 June 2015 at 11am.

The business of the Meeting will be:

- 1 **The Chairman's Introduction**
- 2 **Addresses to Shareholders**
- 3 **Shareholder Discussion**
- 4 **Resolutions**
- 5 **Other Business**

Resolutions

To consider, and if thought fit, pass the following resolutions:

- 1 **Approval of Business Sale**
As a special resolution, that pursuant to section 129 of the Companies Act 1993 and NZX Main Board Listing Rules 9.1.1(a) and 9.2.1, the proposed sale by the Company of all shares that it holds in Mowbray Bethunes Limited and Wildlife Philatelic Collections Pty Limited to interests associated with Mr John Mowbray and on the terms described in this Notice of Meeting is approved.
- 2 **Approval of Remuneration for Management of Webb's**
As an ordinary resolution, that the remuneration payable for the management services provided to Peter Webb Galleries Limited by Elevation Capital Management Limited as further described in this Notice of Meeting is approved.

Further information relating to the Resolutions is set out in the Explanatory Notes to this Notice of Meeting.

Proxies

Any shareholder who is entitled to attend and vote at the Meeting may appoint a proxy to attend and vote instead of him or her. Such proxy need not be a shareholder of the Company. The Chairman of the Company is prepared to act as proxy.

To appoint a proxy, a shareholder should complete and sign the enclosed Proxy Form and return it by delivery, mail, email or fax to the Company.

The completed Proxy Form must be received by the Company, no later than 11am (New Zealand time) on Monday, 22 June 2015.

Special Resolution

Resolution 1 is a special resolution. A special resolution is a resolution passed by a majority of 75% or more of the votes of those shareholders entitled to vote and voting on the resolution in person or by proxy.

If Resolution 1 is passed and any shareholder has cast all the votes attached to the shares registered in that shareholder's name and having the same beneficial owner against that resolution, then that shareholder is entitled to require the Company to purchase those shares in accordance with section 110 of the Companies Act 1993 (**Act**). The Appendix to this Notice of Meeting sets out the applicable procedure for this.

Ordinary Resolution

Resolution 2 is an ordinary resolution. An ordinary resolution is a resolution passed by a simple majority of votes of those holders of securities of the Company which carry votes, are entitled to vote and are voting on the resolution in person or by proxy.

Voting Entitlements

Voting entitlements of the Meeting will be determined with reference to the Company share register as at 11am on Monday, 22 June 2015 (**Record Date**). Accordingly, only those persons who are registered shareholders of the Company at the Record Date will be entitled to vote at the Meeting and the only voting rights which may be exercised at the Meeting by the same registered shareholders, are those attaching to shares which are registered as at the Record Date.

Voting Restrictions

Mr John Mowbray and any of his Associated Persons are each disqualified from voting on Resolution 1 pursuant to Listing Rule 9.3.1.

The Company will disregard any votes cast on Resolution 1 by any persons to whom the foregoing applies.

Any discretionary proxies given to persons disqualified from voting under the requirements set out above will not be valid. Proxies that give express voting instructions to such persons will, however, be accepted.

NZX Waiver

Resolution 1 seeks shareholder approval of the proposed sale of the Company's stamps, coins and bank notes trading business (the **Business**) under NZX Main Board Listing Rule (**Rule**) 9.2.1. Rule 9.2.5 requires that the Notice of Meeting for a resolution under Rule 9.2.1 be accompanied by an independent appraisal report.

NZX has granted the Company a waiver from Listing Rule 9.2.5, to permit the Company to seek approval of shareholders in respect of the Transaction, without having to provide an independent appraisal report to shareholders with the Notice of Meeting. The waiver decision can be viewed at www.nzx.com and gives the reasons for that decision.

Under the Rules an appraisal report is prepared for the benefit of shareholders by an independent appropriately qualified person approved by NZX. Such a report is to state whether the consideration and the terms and conditions of the transaction in question are fair (in the opinion of the appraiser) to the shareholders who are not interested in the transaction. It must also set out the grounds for that opinion.

The implication for shareholders is that they do not receive this independent advice as to the fairness of the transaction intended by Resolution 1 in considering their voting decision.

Basis of Approval for Resolution 2

Resolution 2 is not required to be put to shareholders under the Rules. Elevation Capital Management Limited is a related party of the Company but the annual cost of the management services is less than the Rules threshold of \$250,000 which is the point where a

related party transaction requires shareholder approval. Irrespective of this and in the context of the market capitalisation of the Company, the Board considers that it is appropriate to put this remuneration to shareholders and seek their support of it.

Explanatory Notes

Resolution 1: Approval of Business Sale

Background to the Transaction

Shareholders will be aware that the Company's auditor formed a view last year that they were unable to obtain sufficient audit evidence to conclude whether the inventory valuation method accurately approximates cost in respect of the inventory owned by Mowbray Bethunes Limited (**MBL**). It is expected that the same issue will arise through the audit this year and that the Company will continue to have qualified audit reports for so long as MBL remains within the Company's group.

MBL is a wholly owned subsidiary of the Company, and, together with Wildlife Philatelic Collections Pty Limited (**WPC**) operates the Company's stamp, coin and bank notes trading business. The Company's current operations are summarised below

Subsidiary	Trading Name	Core Business	Primary Location
MBL	<i>J. R. Mowbray Philatelist</i>	Dealers in stamps, with monthly auctions held and catalogues posted to collectors worldwide. The company is also a major buyer of collections internationally. This is one of the main income-generating units of the New Zealand operations.	Otaki
MBL	<i>John Mowbray International</i>	Runs the largest New Zealand stamp auctions, which are held annually.	Otaki
MBL	<i>House of Stamps</i>	Retail and wholesale mail order dealer in New Zealand stamps and philatelic accessories.	Otaki
MBL	<i>Mowcoin</i>	Trades in New Zealand and world coins and bank notes.	Otaki
MBL	<i>World Wide Fund for Nature Stamp Program (NZ)</i>	Holds the New Zealand agency for World Wide Fund for Nature stamps.	Otaki
WPC	<i>World Wide Fund for Nature Stamp Program (Aus)</i>	Holds the Australian agency for World Wide Fund for Nature stamps.	Australia
Peter Webb Galleries Limited	<i>Peter Webb Galleries</i>	New Zealand's premier fine & contemporary art auction house, also selling wine, jewellery, artefacts and vintage motorcycles and automobiles. This now forms a major component of Mowbray's business. <i>This business will not be sold as part of the Transaction.</i>	Auckland

If the Company wishes to pursue growth, it needs to raise new capital. Having qualified audit reports is a significant impediment to this. In addition the Company and subsidiaries have total bank debt of approximately \$1.4 million. The Company needs to retire some of this debt. Accordingly the directors formed the view last year that retaining the status quo of the Company was not a viable option or in the interests of shareholders.

As advised in the Company's Interim Report for the year ended 30 September 2014 and in subsequent announcements the directors began evaluating MBL and WPC with a view to determining whether ownership within a public company remained appropriate. After taking advice and considering the matter in detail, the directors considered that the best way to enhance shareholder value was to commence a sale process of those subsidiaries.

Sale Process

On determining to undertake a sale process, Mr. John Mowbray, an executive director of the Company (in particular, the managing director of MBL and WPC) and the largest shareholder of the Company, disclosed his interest as a potential purchaser of MBL and WPC. Accordingly, the Board formed a sub-committee of the remaining directors of the Company to run the sale process for the Company. The sub-committee comprised - Christopher Swasbrook (Sub-committee Chairman), Murray Radford and Ian Halsted.

The sub-committee then engaged:

- BDO Wellington (**BDO**) to provide valuation advice on MBL and WPC. BDO are longstanding accountants to the Company with an in-depth knowledge of the business and the issues giving rise to the qualified audit status of the Company. The purpose of this advice was to assist the sub-committee from the outset with a baseline valuation of the businesses (as at 30 September 2014) and the appropriate valuation methodology for determining or assessing against a purchase price. The advice received and accepted by the sub-committee was to assess value based on a net tangible assets approach.
- Duncan Cotterill as independent legal advisors to the sub-committee to advise on the process to be undertaken and particularly to navigate what might potentially be a related party transaction outcome.

The sub-committee then undertook an open and competitive sale process to determine interest in acquiring MBL and WPC with a view to achieving the best available value for MBL and WPC. In particular:

- A request for expressions of interest in acquiring the businesses was made publicly in December 2014.
- A letter requesting expressions of interest was circulated to 11 known, potential purchasers (including Mr. Mowbray) who were located both in New Zealand and internationally.

The sub-committee received expressions of interest from two parties in January 2015, including Mr. Mowbray. However, the other party later withdrew their interest and the sole remaining interest in acquiring the whole business remained with Mr. Mowbray. There was another expression of interest for parts of the business and stock but the sub-committee considered such an approach would likely be sub-optimal versus a sale of the entire business given the niche nature of the business. In particular only the most easily realisable assets were being sought and the residual assets would likely have been difficult to divest for meaningful value. The Company would, most likely, have had to proceed to wind up the businesses following any such sale, meet costs associated with such a wind-up and while still holding some stock and probably retaining the audit qualification. Accordingly a sale of part of the businesses was considered likely to generate less net value for the Company and not achieve the objectives sought in undertaking the sale in the first place.

Sale Agreement

Mr. Mowbray engaged his own advisors and engaged in discussions with potential investment partners with a view to forming a syndicate to acquire the businesses. He then presented the Company with a conditional offer to acquire the businesses at the beginning of March. The sub-committee considered the conditional offer and then undertook negotiations with Mr. Mowbray to refine the terms of the offer.

The negotiations concluded with a legally binding heads of agreement (**Agreement**) being entered at the beginning of April. The purchase price was subsequently agreed to be the aggregate net tangible asset value of MBL and WPC as at 31 March 2015, being \$950,000.00 (**Purchase Price**). This valuation was based on the un-audited book values of the assets of MBL and WPC and was consistent with the valuation approach recommended to the sub-committee by BDO (as referred to above).

The Agreement further provided that:

- Mr Mowbray (or nominee) would acquire the shares of WPC and MBL, representing a clean sale for the Company as opposed to a business sale.
- Warranties given by the Company were very limited (essentially title and capacity only).
- The Company would, following completion:
 - wind up Mowbrays Australia Pty Limited (a dormant company which is expected to be wound up for negligible cost).
 - change its name to remove reference to, amongst other names, Mowbray and cease to use the logos associated with the businesses.

Mr. Mowbray has subsequently nominated Philcoin Investments Limited to be the Purchaser. The Company is proposing to change its name to Bethunes Investments Limited (NZX: BIL) should the sale be approved.

Rationale for the Sale

The Board has determined that it is untenable for a listed company to continue to have qualified audit reports. It is necessary that the Company, being a public entity, has a requisite degree of assurance about its financial position. In addition the qualified audit status results in considerable costs for the Company in terms of increased audit and advisory fees which are disproportionate to the scale of the Company's operations.

The sale represents an opportunity for the Company to reset and look at new ways of increasing value for shareholders. The sale will allow the Company to:

- retire debt with the Purchase Price at the Company and direct some of the available net proceeds to Webb's.
- remove the audit report qualification.
- position the company to then develop a plan to take it forward.

The sale represents an opportunity for the Company to retire debt with the Purchase Price, remove the audit qualification, and look to raise new capital to improve the Company's equity structure and to support Webb's.

Financial Implications of the Sale

As noted above, the Company has approximately \$1.4 million of bank debt. This is comprised of:

- \$1.025 million of borrowings with BNZ. This funding line has been used in respect of Webb's.
- \$325,000 of borrowings with ANZ. This funding line has been used primarily in respect of MBL.

It is intended that the ANZ debt above will be retired in full from the sale proceeds. The sale proceeds are also intended to be applied towards:

- satisfying transaction, audit and other compliance and associated costs of the Company.
- the provision of a replacement listing bond to NZX.
- providing working capital for the Company to meet future obligations.
- providing working capital to Webb's to enable a continuation of its investment programme.

Accordingly the debt position of the Company is expected to be improved by approximately \$525,000 immediately following completion (with the additional Webb's working capital paying down on-call debt in the first instance). In addition the sale being completed is expected to significantly decrease ongoing compliance costs (particularly audit fees). The implications of the sale on the unaudited and consolidated statement of financial position of the Company as at 31 March 2015 are as follows:

Mowbray Collectables Limited				
Pro-forma Statement of Financial Position				
as at 31 March 2015				
	CONSOLIDATED	CONSOLIDATED		
	AS REPORTED	SALE OCCURS		Notes
	\$	\$		
EQUITY				
Share capital	6,617,309	6,617,309		
Retained earnings	(5,330,164)	(5,410,156)	✓	1
Foreign currency translation reserve	(137,318)	(137,318)		
Total Equity	1,149,827	1,069,835		
Represented by:				
CURRENT ASSETS				
Receivables	116,438	116,438		
Prepayments	100,127	100,127		
Cash & cash equivalents	64,039	209,093		
NZX listing bond	-	75,000	✓	2
Taxation receivable	35,331	35,331		
Inventory	113,940	113,940		
Disposal group assets held for sale	1,329,627	-		
Total Current Assets	1,759,502	649,929		
CURRENT LIABILITIES				
Bank overdraft	615,896	289,659	✓	3
Trade creditors	357,296	317,296	✓	1
Other payables & accruals	229,703	147,703	✓	1
Current portion of loan	117,963	117,963		
Current portion of deferred lease incentive	19,231	19,231		
Disposal group liabilities held for sale	381,344	-		
Total Current Liabilities	1,721,433	891,852		
NET CURRENT ASSETS/(LIABILITIES)	38,069	(241,923)		
NON-CURRENT ASSETS				
Property, plant & equipment	498,862	498,862		
Intangible assets	83,588	83,588		
Goodwill	1,493,593	1,493,593		
Agency receivables	40,508	40,508		
Total Non-Current Assets	2,116,551	2,116,551		
NON-CURRENT LIABILITIES				
Non-current portion of loan	782,037	582,037	✓	4
Non-current portion of deferred lease incentive	222,756	222,756		
Total Non-Current Liabilities	1,004,793	804,793		
NET ASSETS	1,149,827	1,069,835		
Notes:				
1. \$202,000 allocated to transaction and associated costs and audit fees reduces amounts in creditors and accruals. Balance will be a cost in the 2016 financial year.				
2. NZ listing bond required to be placed on deposit				
3. MCL overdraft is repaid in full (approximately \$325,000)				
4. Non-current debt is reduced by \$200,000				

Overall the directors consider that the sale will improve the risk profile of the Company for the reasons set out above and also:

- the Company should obtain in the future, unqualified audit opinions on its financial statements.
- the Company's operations will be reduced from two core businesses to one making its operations far easier to understand and value.
- the Company will be positioned to develop a future business strategy for the Company with greater certainty.

It is also a requirement of the sale that all intercompany loans and receivables between MBL/WPC and the Company will be settled in full on or before completion. As disclosed in the Company's 2014 Annual Report each of MBL and WPC were owed amounts by the Company and those amounts have been offset by dividends declared to the Company on 31 March 2015. Any residual amounts owing between the companies are not anticipated to be material and will be settled in full prior to completion.

The Future of the Company

If Resolution 1 is passed, the sale should be completed approximately 3 business days following the day of the shareholder meeting. Within 3 months of completing the sale the Company will change its name to Bethunes Investments Limited (NZX: BIL) and will wind up Mowbrays Australia Pty Limited.

Promptly following completion the Board of the Company intends to develop a future operational and capital strategy for the Company. It is intended that such strategy will be presented to shareholders at the Company's 2015 annual meeting and that the Company will remain an NZX Main Board listed company.

Alternatives to the Sale

The unique nature of the inventory with which the Company is principally concerned, presents unique challenges with respect to the financial reporting standards applying to inventory valuation. It is not considered practicable or cost effective for the business to remain within the Company's group and establish and operate a process where unqualified audit opinions can be obtained.

Following undertaking the sale process described above the sub-committee concluded there were no other willing buyers for the whole business.

The sub-committee therefore considers that the only feasible alternative to selling the business under this transaction would involve winding up MBL and WPC and realising their assets over time. The costs of such a wind-up would be considerable and would be incurred up-front whereas asset realisation income would only be received over time. This could place the Company under cashflow pressure. The sub-committee considered it unlikely that this would present, over time, a better value proposition for shareholders.

Accordingly the sub-committee is of the view that the sale is in the best interests of the Company and all shareholders.

Relevant Legal Approvals

Shareholder approval is sought in Resolution 1 under two Rules and Section 129 of the Act. These legal requirements are discussed below.

Related Party Transaction Rule

Rule 9.2.1 prohibits the entry by the Company into a "Material Transaction" with a "Related Party" without first obtaining the approval of shareholders. These definitions include:

- *Material Transaction:* where the Company sells or otherwise disposes of assets having an aggregate net value in excess of 10% of average market capitalisation; and
- *Related Party:* a person who is a director or executive officer of the Company or a holder of 10% or more of a class of vote carrying securities.

Mr John Mowbray is a Related Party of the Company as a director and a 39.85% shareholder in the Company. The net value of MBL and WPC exceeds 10% of the Company's capitalisation (currently approximately \$2.55 million). Accordingly the transaction constitutes a related party transaction under the Rules.

Major Transaction Rule

Listing Rule 9.1.1 provides that except with the prior approval of an ordinary resolution the Company may not enter into any transaction or series of linked or related transactions to acquire, sell, exchange, or otherwise dispose of assets of the Company:

- which would change the essential nature of the business of the Company; or
- in respect of which the gross value is in excess of 50% of the average market capitalisation of the Company.

The essential nature of the business of the Company can be considered to be changing if the sale proceeds. This is because the Company's core business has historically been the stamp, coin and bank notes business and, as noted above, a condition of the sale is that the Company will change its name following completion. Therefore the identity and core operations of the Company will change if Resolution 1 is passed.

Section 129, Companies Act 1993

Shareholder approval is required under Section 129 of the Act as the sale constitutes a 'major transaction' for the purpose of the Act and in addition as a 'major transaction' under the Rules as described above. In particular, the proposed sale of MBL and WPC represents an agreement to dispose of assets of the Company the value of which is more than half the value of the Company's assets before the disposition.

Sub-Committee Recommendation

The directors who are members of the sub-committee unanimously recommend that shareholders vote in favour of Resolution 1 for the reasons set out in this Notice.

Resolution 2: Approval of Webb's Management Remuneration Arrangements

Peter Webb Galleries Limited (**Webb's**) will remain a subsidiary of the Company and the sole operating business of the Company if Resolution 1 is approved. Resolution 2 is to approve the continued payment of a management fee of \$10,000 per month (plus GST) on the following basis.

Since the previous Chief Executive Officer of Webb's stepped down last year the Board has been making plans for the future management of Webb's as well as restructuring the group to better position the business as a subsidiary of a listed company. As a result, the operational management of Webb's has been undertaken by Elevation Capital Management Limited (**ECML**). This has been a significant job with systems and procedures needing to be established and implemented within Webb's to bring its operational and financial management to an acceptable level.

A director of the Company, Mr Christopher Swasbrook is a director and shareholder of ECML.

As manager, ECML is responsible for the following at Webb's:

- Financial and budget management;
- Accounting management (including systems upgrades);
- Strategy development and implementation;
- Senior staff management;
- Marketing management;
- Website Development;

- Development of business manuals; and
- Implementing international best practices (including the relocation of the business to new premises earlier in 2015).

As indicated by the services above, ECML performs a role at Webb's that is akin to that of a combined Chief Executive Officer and Chief Financial Officer role. Accordingly, in the absence of ECML providing these services it would probably be necessary for Webb's to employ two new senior officers. The directors consider it unlikely that such employment could be secured at a cost to Webb's that is less than the remuneration paid to ECML.

The provision of services is not subject to a fixed term arrangement. Either Webb's or ECML may on one (1) months' notice and without cause, terminate the arrangement.

Accordingly the non-interested directors consider that the Company receives good value from this arrangement with ECML and that it is in the best interests of the Company to continue with it. They unanimously recommend to shareholders that they vote in favour of Resolution 2.

If Resolution 2 is not approved the Board intends to continue this arrangement with ECML but only on an interim basis while it secures additional resources for Webb's to undertake these services on an ongoing basis. As noted above it is expected that this would come at a greater financial cost to the Company than simply continuing this arrangement with ECML.

Appendix: Minority Buyout Rights Procedure

If the shareholders of the Company pass the special resolution set out in Resolution 1, a shareholder that has cast all the votes attached to the shares registered in their name (and having the same beneficial owner) against that special resolution is entitled to require the Company to purchase those shares in accordance with section 110 of the Act.

To exercise that right, that shareholder must give notice requiring the Company to repurchase those shares within 10 working days of the passing of the special resolution. The Board of the Company must, within 20 working days of receiving such notice:

- (a) agree to purchase the shares; or
- (b) arrange for some other person to agree to purchase the shares; or
- (c) apply to the Court for an order exempting it from purchasing the shares under section 114 or section 115 of the Act; or
- (d) arrange, before the resolution becomes effective, for the resolution to be rescinded by special resolution in accordance with section 106 of the Act or decide in the appropriate manner not to take the action concerned (as the case may be); and
- (e) give written notice of the Board's decision to the relevant shareholder.

Where the Board agrees to the purchase of the shares by the Company, it must within 5 working days of giving notice under (e) above, give written notice of the price to the shareholder that it offers for those shares. The price must be a fair and reasonable price (as at the close of business on the day before the date that the resolution was passed) and calculated as follows:

- (a) first, the fair and reasonable value of the total shares in each class to which the shares belong must be calculated (the **Class Value**);
- (b) secondly, each Class Value must be adjusted to exclude any fluctuation (whether positive or negative) in the Class Value that has occurred (whether before or after the resolution was passed) that was due to, or in expectation of, the event proposed or authorised by the resolution;
- (c) thirdly, a portion of each adjusted Class Value must be allocated to the shareholder in proportion to the number of shares they hold in the relevant class.

However, a different methodology from that set out above may be used to calculate the fair and reasonable price for the shares if using the methodology set out above would be clearly unfair to the shareholder or the Company. The written notice to the shareholder must state how (a) to (c) above was calculated or why using this methodology was clearly unfair to the Company or the shareholder.

A shareholder may object to the price offered for the shares by giving notice of their objection to the Company within 10 working days of receiving notice of the price offered. If the shareholder does not object or accepts the offer, the Company must purchase the shares at the nominated price no later than 10 working days after the date that the offer is accepted or the date that is 10 working days after the date that notice of the price offered was given to the shareholder. These time periods may be adjusted by agreement between the Company and the shareholder.

If an objection to the price has been received by the Company, the following issues must be submitted to arbitration:

- (a) the fair and reasonable price for the shares, on the basis set out in section 112(2) and (3) of the Act; and
- (b) the remedies available to the shareholder or the Company in respect of any price for the shares that differs from that determined by the Board of the Company under section 112 of the Act.

The Company must, within 5 working days of receiving the objection, pay to the shareholder a provisional price in respect of each share equal to the price offered by the Board. If the price determined for the shares by the arbitrator:

- (a) exceeds the provisional price paid, the arbitrator must order the Company to pay the balance owing to the shareholder; or
- (b) is less than the provisional price paid, the arbitrator must order the shareholder to pay the excess to the Company.

Except in exceptional circumstances, the arbitrator must award interest on any balance owing or excess to be paid. If a balance is owing to the shareholder, the arbitrator may award to the shareholder, in addition to or instead of an award of interest, damages for loss attributable to the shortfall in the initial payment. Any sum that must be paid in accordance with the arbitrator's decision must be paid no later than 10 days after the date of the arbitrator's determination, unless the arbitrator specifically orders otherwise.

Where the Company agrees to arrange a third party to purchase the shares, the provisions set out above apply (subject to such modifications as may be necessary) to that purchase of the shares. Every shareholder whose shares are purchased through a third party pursuant to such an arrangement is indemnified by the Company in respect of loss suffered by reason of the failure by the third party who has agreed to purchase the shares to purchase them at the price nominated or fixed by arbitration, as the case may be.