
Notice of Special Meeting

Notice is hereby given that a Special Meeting of Shareholders of Bethunes Investments Limited (the **Company**) will be held at 11:00am on 15 January 2016 at Duncan Cotterill Offices, Level 2, 50 Customhouse Quay, Wellington.

The business of the meeting will be:

- 1 **The Chairman's Introduction**
- 2 **Shareholder Discussion**
- 3 **Resolution**
- 4 **Other Business**

Resolution

To consider, and if thought fit, pass the following ordinary resolution:

That pursuant to NZX Main Board Listing Rule 9.1.1(a), the sale of the business and assets of Peter Webb Galleries Limited on the terms described in this Notice of Special Meeting is approved.

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

Proxies

Any shareholder of the Company who is entitled to attend and vote at the meeting may appoint a proxy to attend and vote on their behalf. A corporation which is a shareholder may appoint a representative to attend the meeting on its behalf in the same manner as it could appoint a proxy. A proxy does not need to be a shareholder of the Company. The Chairman of the meeting can be appointed as a proxy. Where the Chairman is appointed as a discretionary proxy, he intends to vote in favour of the Resolution.

To appoint a proxy you should complete and sign the enclosed Proxy Form and return it by mail, fax or email to the share registrar of the Company:

By delivery:

Bethunes Investments Limited
C/- Link Market Services Limited
Level 7, Zurich House
21 Queen Street
Auckland 1010

By Facsimile: +64 9 375 5990

By Email: meetings@linkmarketservices.co.nz (please put "BIL Proxy Form" as the subject of the e-mail for easy identification)

By mail:

Bethunes Investments Limited
C/- Link Market Services Limited
PO Box 91976
Victoria Street West
Auckland 1142

Alternatively, to appoint your proxy and vote online please go to the Link Market Services website at <https://investorcentre.linkmarketservices.co.nz/voting/BIL> and follow the instructions. You will be required to enter your holder number and FIN for security purposes. A shareholder will be taken to have signed the Proxy Form by lodging it in accordance with the instructions on the website.

The completed Proxy Form must be received by no later than 48 hours before the meeting, being 11:00am on 13 January 2016. Online proxy appointments must also be completed by this time. Registered shareholders at that time will be the only persons entitled to vote at the meeting and only the shares registered in those holders' names at that time may be voted at the meeting.

Ordinary Resolution

The Resolution 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 resolutions in person or by proxy.

Voting Entitlements

Voting entitlements of the meeting will be determined with reference to the Company share register as at 11:00am on 13 January 2016 (**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 in their name as at the Record Date.

NZX Approval

This Notice of Special Meeting has been approved by NZX Limited (**NZX**) under the NZX Main Board Listing Rules (**Rules**). However NZX accepts no responsibility for any statement contained in this Notice of Special Meeting.

Explanatory Notes

Resolution: Approval of Business Sale

Background to the Transaction

The Company has a market capitalisation of approximately \$2 million as at 21 December 2015. Peter Webb Galleries Limited (**Webb's**) is a wholly-owned subsidiary of the Company and the sole trading entity of the Company. Webb's' current operations are summarised below:

Subsidiary	Trading Name	Core Business	Primary Location
Peter Webb Galleries Limited	<i>Webb's</i>	New Zealand's premier fine and contemporary art auction house, also selling wine, jewellery, artefacts and vintage motorcycles and automobiles.	Auckland

The Company wishes to pursue new investments in line with the strategy presented to shareholders at the 2015 annual shareholders meeting. A copy of that presentation is available to view at <https://www.nzx.com/files/attachments/217702.pdf>. The Company's recent rights issue raised sufficient new capital to stabilise the Company. It has now eliminated its debt and is in a cash-positive position. The Board considers that the sale of Webb's will provide the Company with greater financial stability and allow it to proceed with its investment strategy with more confidence.

Performance of Webb's

As advised in the Company's interim result for the six months ended 30 September 2015, the Company reported an unaudited loss of \$1.84 million. This disappointing loss was solely

attributable to Webb's, which continued to experience difficult trading as the business down-sized and worked through a restructure process.

The Company provided commentary on the performance of Webb's in the Company's Full Year Report for the year ended 31 March 2015, noting that Webb's had to undergo a complete business and cultural change after it became a wholly-owned subsidiary of the Company in 2013. As with many business restructures the impacts were underestimated and the anticipated turnaround timeframes overestimated.

As a result of the business and culture shift there was a high rate of staff turnover, slow implementation of new systems, and a slower than anticipated improvement in financial performance. This meant that cash flow remained an issue for Webb's.

The Board announced that their principal focus following the successful divestment of the stamp and coins businesses in July 2015 was to address debt levels remaining in Webb's. Reduction of debt was intended to provide Webb's with the ability to allow the investment made in people, premises and online technology to be fully implemented which were intended to provide new channels to market and potentially new category development.

Investment in people and systems in Webb's led to signs of a turnaround that was detailed in the presentation to the annual shareholders meeting held on 31 July 2015. Overheads in Webb's were reduced by \$800,000 in preparation for further investment in the following initiatives:

- Valuations and cataloguing service;
- Finance and insurance;
- Website, online research content and online auctions; and
- New auction management system to increase administration efficiencies.

The presentation noted that there were signs of a forecast return to break-even for Webb's in FY2016, and a return to profitability in FY2017. This turnaround was evidenced by:

- Revenue increased as a proportion of hammer sales;
- Margins per category improved; and
- Post-auction results improved.

The presentation noted that the principal risk for Webb's was the volatility in the art market and that, should an acceptable offer be received for Webb's (based on the cash committed to Webb's post the recapitalisation/rights issue), then Webb's in all likelihood would be divested. At the time of the annual meeting, the Company approached selected parties to gauge their interest in a potential acquisition of Webb's. This led to discussions with parties (which included Mossgreen) who had an interest in a potential acquisition of Webb's. Those discussions led to an offer to acquire Webb's being received however it was considered to significantly undervalue Webb's and was considerably less than the amount offered under this proposed transaction. It was considered that given the debt burden on the Company at the time, the offer may have been opportunistic.

The market update of 24 September 2015 announced a restructuring of debts of both the Company and Webb's. This coincided with the successful completion of the Company's rights issue. The result is that the Company is an investment company with no liabilities and a net cash position, holding Webb's as its sole operating business.

Offer to Acquire Webb's – Key Terms

As announced to the market on 3 December 2015, the Company has entered into a conditional agreement with Mossgreen, a leading Australian auction house, to acquire the business and assets of Webb's. The key terms of the agreement are as follows:

- The purchase price was negotiated and agreed to be \$800,000, with \$320,000 paid on completion and the balance paid quarterly over a three year period from completion in \$40,000 instalments (**Purchase Price**). The Purchase Price will be

subject to customary adjustments. No independent valuation was undertaken of Webb's.

- The sale is conditional on two items:
 - shareholder approval of the offer being obtained under the Rules; and
 - Mossgreen securing leasing arrangements of Webb's' business premises to take effect from completion.
- Subject to satisfaction of the conditions it is proposed that the sale is to be completed in late January, to be effective on 31 January 2016.

Rationale for the Sale

As shareholders will appreciate (and as outlined above) the trading performance of Webb's has been highly volatile, creating financial uncertainty for the Company. While there are signs Webb's is overcoming this volatility, given the cyclical nature of auction businesses and Webb's operating environment, its financial stability is not assured. This volatility requires considerable attention to be directed to the business and the Company has limited resources.

For these reasons the Board of the Company considers that the best prospects for Webb's are with a recognised auction house with the resources and expertise to build upon the foundations laid at Webb's over the past 12-24 months.

As discussed at the annual shareholder meeting this year, the Company intends to start on an investment programme in new industry sectors. The continued ownership of Webb's does not fit within the programme's objectives.

Given the timing of the sale (in particular that there are limited auctions at Webb's over December/January) it is expected that Webb's will have trading losses up to completion. However such trading losses together with final purchase price adjustments are not expected to materially effect the Company's net cash position if the proposed transaction proceeds (as is described further below). Shareholders should note that the Purchase Price significantly exceeds the purchase price and terms that were proposed by other potential purchasers prior to the Company completing its rights issue.

Implications for the Company if Webb's is sold

If the sale is approved by shareholders, the Purchase Price will provide a further cash injection to be applied to the Company's investment strategy. In addition the Board will be able to devote their full attention to implementing the programme and not risk Webb's requiring additional capital from the Company as it continues to re-build its profitability.

It is expected that on completion of the sale of Webb's the Company will have a net cash balance of approximately \$420,000 (compared to an expected net cash balance of approximately \$100,000 if the sale does not proceed) and the future benefit of twelve quarterly payments of \$40,000 from Mossgreen. These payments are unconditional and may not be deducted or set-off. Payment is guaranteed by the Mossgreen parent company in Australia.

The Board considers that the sale of Webb's will provide certainty for the Company by removing its trading volatility from impacting on the Company. The Board is hopeful that the sale coupled with the implementation of the investment programme will translate to stable growth in the assets of the Company, resulting in increased value for shareholders. Accordingly it is considered that the sale of Webb's will reduce risk to the Company which will now be inherent risks associated with executing a new investment programme.

Implications for the Company if Webb's is not sold

If the sale is not approved by shareholders, the Company will retain Webb's as an operating entity, and attempt to pilot it towards further growth and eventual profitability. For the reasons outlined above the Board sees considerable uncertainty with this, and believes that Webb's may require further cash investment to reach profitability. The Board is reluctant to invest

further cash into Webb's because it does not fit into the planned future investment programme of the Company.

Relevant Legal Approvals

Shareholder approval is sought under Rule 9.1.1(a). The Rule provides that, except with the prior approval of an ordinary resolution, the Company may not enter into any transaction which will change the essential nature of its business. The effect of the sale of Webb's will be for the Company to have no operating business as it pursues new investments and accordingly the transaction is considered to change the essential nature of the Company's business.

The Directors of the Company unanimously support the sale, consider that it is in the best interests of the Company and recommend that shareholders vote in favour of the Resolution.