

## **Continuous Disclosure Announcement – 27 July 2015**

The Directors of Bethunes Investments Limited (“Bethunes”) wish to advise the market and shareholders that they have resolved to raise capital via a 15:1 renounceable rights offering at NZ\$ 1.5 cents per share to raise up to NZ\$ 2.87mln.

It is intended that the offer will have a minimum aggregate subscription requirement of NZ\$ 1.50mln – to ensure that Bethunes has adequate working capital, can retire debt to sustainable levels at subsidiary Peter Webb Galleries Limited (“Webb’s”) and that Webb’s can complete its current investment program.

The renounceable rights offering is intended to take place in August 2015 once the necessary documentation is completed and relevant NZX approvals obtained. It is intended that the rights will be quoted and tradeable on the NZX Main Board Market.

The principal reasons the directors have undertaken such a sizeable, and potentially dilutive rights issue are as follows:

- i. the largest shareholder of Bethunes (Mr. John Mowbray) has indicated that he does not expect to participate in a capital raising by Bethunes. Given this shareholder holds ~40% of the shares on issue the directors will need to find new investors for Bethunes. (Mr. Mowbray abstained from voting on the Board resolutions to set the terms of the rights issue);
- ii. Bethunes simply has too great a debt burden for a small company, particularly given the volatility that Webb’s (its only trading subsidiary) is currently experiencing in the auction market coupled with the sizeable business interruption from moving premises which has impacted the number of auctions held calendar year to date. Detailed on page 4 are sell-through rates across various auction categories since operating from new premises in Parnell, Auckland. The data highlights that the lower value auctions across art and jewellery are performing much better than the higher value auctions where Webb’s is struggling simply because competition is extremely vigorous (particularly in the art category). Unfortunately, this is where Webb’s has traditionally generated the bulk of its profits and a turnaround in this segment will take time. It is important to also establish that these segments are impacted to a much greater extent by economic conditions and consumer confidence. Bethunes needs to address Webb’s debt burden to provide time and breathing space if it wishes to maximize value for Webb’s in the future, or pursue other options such as a sale of Webb’s (in which case there is no guarantee the proceeds would be sufficient to discharge the current debt burden in full).
- iii. the parent company Bethunes also requires a capital injection post the sale of the Stamp, Note and Coin business as outlined in the notice of meeting (dated 9 June 2015). Very little of those proceeds are now left after retiring all debt associated with those former businesses, paying legal and accounting fees, NZX fees, posting an NZX cash bond of NZ\$ 75,000 and injecting +NZ\$ 200,000 to Webb’s. As was indicated in that notice of meeting, and on page 29 of the 2015 Annual Report (released to NZX on 30 June 2015), for Bethunes to pursue growth, additional capital was always

going to be required. While Bethunes' annual operating costs are now considerably lower than in the past (estimated at NZ\$ 200,000 + GST per annum) Bethunes requires funds to enable it time to explore other investments / business opportunities which may take time in order to take full advantage of the business cycle.

The directors consider, in light of the offer price and substantial possible dilution to shareholders, it is appropriate to structure this capital raising as a pro rata rights issue so that existing shareholders have the first opportunity to participate. The company will be working to secure commitments from wholesale investors to take up the offer shortfall and ensure that the minimum amount (NZ\$1.50mIn), is raised.

The directors have considered the issue price of the rights issue and the current buy and sell quotes on NZX and make the following comments:

- Based on the 31 March 2015 net asset position per the 2015 Annual Report (released 30 June 2015), net assets per share was NZ\$ 8.6 cents;
- Based on the 31 March 2015 net tangible asset position (per the 2015 Annual Report and as detailed on the NZX website), net tangible assets ("NTA") per share was negative NZ\$ (4.1) cents;
- Within the 2015 Annual Report the directors indicated the need to raise capital on page 29 within the going concern note. Without this capital the survival of the group is highly uncertain;
- The value of BIL shares is now highly dependent on the value of the Webb's business, which is a volatile business that is difficult to forecast (as advised on page 29 of the 2015 Annual Report);
- Webb's has incurred its seasonal trading losses in May and June which have further decreased the net asset and net tangible asset positions since balance date. These losses have been exacerbated by the competitive environment, recent legislation change impacting auctioneers and staff departures and changes within the business have culminated in increased trading volatility and uncertainty making it very difficult to forecast cashflows from auction room hammer sales at present.

The directors will keep the carrying value of the goodwill of Webb's under close review to see if further impairment will be necessary and will keep the market updated.

#### **Use of Stamp, Note and Coin Business Sale Proceeds**

As indicated above, the proceeds of sale from the stamp, note and coin business sale have now been nearly fully utilised. The below table summarises the sources and use of funds following the sale of this business:

<b>Bethunes Investments Limited</b>			
<b>Sources and Uses of Funds following Stamp, Note and Coin Business</b>			
	Note	Per Notice of Meeting	Actual
<b>Sources of Funds</b>			
Sale price	1	950,000	955,000
<b>Uses of Funds</b>			
Repayment of inter-company loan movements post 31 March 2015	2	-	(33,176)
NZX listing bond (held on deposit at ANZ)		(75,000)	(75,000)
Repay BIL overdraft facility	4	(326,237)	(446,810)
Reduction of non-current debt	3	(200,000)	-
Transaction costs		(201,992)	(123,844)
Payment of PWG creditors and repayment of overdraft	3	-	(225,000)
Payment of BIL trade creditors	3	-	(33,505)
Increase in cash balances		(146,771)	(17,665)
		-	-
Note 1: A higher price was achieved through negotiation with purchaser in respect of immaterial items not included as a part of the sale			
Note 2: Amounts settled as per page 7 of the notice of meeting			
Note 3: The directors chose to retire creditor balances as opposed to bank debt. This did not include any material amounts owing to any director			
Note 4: As at settlement the BIL overdraft facility had increased to \$446k as a result of meeting the compliance costs that are due at this time of the year			
Note 5: As a result of the increase repayment to the BIL overdraft facility a number of the transaction costs were only partially paid and remain as creditors			

Following the completion of the sale of the stamp, note and coin business, Bethunes has no bank debt. However, sole subsidiary Webb's still has approximately NZ\$1.15mln in bank debt (being a combination of term debt and working capital overdraft).

Following the trading losses Webb's incurs over the period between May and June (as indicated above) and repayment of trade creditors from the proceeds of the sale of the stamp, note and coin business, current group trade creditors (BIL and Webb's) total approximately NZ\$525,000. This amount includes approximately NZ\$120,000 owing to the website developer for Webb's (which is a part of the ongoing investment in the business), approximately NZ\$69,000 to Elevation Capital Management Limited under the management agreement approved by shareholders at the Special General Meeting of shareholders on 24 June 2015 (and now terminating at 31 July 2015), and approximately NZ\$150,000 of professional fees relating to the sale of the stamp, note and coin business and the preparation of the annual report (including audit fees).

The directors consider that this level of debt remains unsustainable and new capital is essential for the continued solvency of the group.

## Webb's Auction Results

Detailed below are the auction results since Webb's opened the doors on its new premises in Parnell:

Auction	Date	Sell-through Rate*	Sell-through Rate**	Lots offered	Lots Sold	Hammer Sales***
JEWELS	Saturday 7 March, 2015	73%	72%	358	260	\$277,830
PARAMOUNT SERIES	Thursday 9 April, 2015	37%	33%	41	15	\$729,500
FINE JEWELLERY & WATCHES	Saturday 23 May, 2015	37%	15%	172	63	\$251,345
ART ONLINE / AFFORDABLE ART	Tuesday 12 May, 2015	94%	N/A - No Reserve Sale	174	164	\$38,703
FINE & RARE WINE	Tuesday 19 May, 2015	78%	27%	622	486	\$104,548
DISCOVERY SERIES	Thursday 28 May, 2015	50%	43%	113	57	\$118,910
PHOTOGRAPHY	Thursday 11 June, 2015	58%	58%	83	48	\$69,775
FINE & RARE WINE	Tuesday 7 July, 2015	57%	36%	400	227	\$61,475
ART ONLINE / AFFORDABLE ART	Tuesday 14 July, 2015	66%	115%	164	109	\$66,095
JEWELS****	Saturday 25 July, 2015	54%	27%	353	191	\$132,270

\*Sell through rate by lots offered

\*\*Sell through rate by Value Consigned

\*\*\*Hammer Sales are presented excluding Buyers Premium and GST

\*\*\*\*Preliminary data with 'subject sales' still to be processed

The directors believe if Webb's debt burden (the majority NZ\$800,000 of which was incurred in October 2013 when the controlling interest was acquired from the former owners) was eased this would enable the business the breathing room to complete its investments (particularly online), rebuild its customer base in its new pre-eminent location in Parnell and enable its new team of highly motivated personnel to focus on rebuilding business relationships and its standing in the marketplace, as well as, restore value for shareholders to enable a sale of the asset if the opportunity presented itself.

## Annual Meeting & The Future

The annual shareholders meeting will be held this Friday, 31 July 2015 at Webb's (23-25 Falcon Street, Parnell, Auckland) at 11am. As previously advised shareholders will be presented with further information on Bethunes forward investment strategy and plans at this meeting.

With this rights issue Bethunes is now planning to embark on a new journey subject to securing investor support. This journey is one where there will be discipline applied when undertaking investments, conservative financing structures having regard to the risks and volatility of cashflows within a business, well-structured reporting systems, low overheads with no executive salaries (at the holding company level), no management fees or performance fees at Bethunes and forthright/transparent communications to shareholders of the underlying performance of investments.

**Christopher Swasbrook**  
Acting Chairman