#### 21 December 2012

Dear Shareholder,

# <u>Renounceable Rights Issue – Notice to Shareholders</u>

This letter is to advise you that on Thursday 20 December 2012, Port Bouvard ACN 009 134 114 (PBD or Company) notified the Australian Securities Exchange (ASX) that it is seeking to raise approximately \$23.8 million by undertaking a four (4) for one (1) renounceable rights issue through the issue of up to a maximum of 2,375,473,180 shares at an issue price of 1c per share (Offer). Eligible shareholders will be offered the opportunity to purchase four shares (New Shares) for every one share held by them as at Monday 31 December 2012 (Record Date).

# **Purpose of the Offer**

The purpose of the Offer is to raise funds to:

- reduce bank debt by approximately \$12 million and restructure existing banking facilities into a \$35 million, 3 year facility;
- pay an instalment of \$1.5 million in relation to a revised settlement with Riseley Investments Pty Ltd;
- provide working capital of approximately \$8 million; and
- meet the costs of the Offer.

# Are you an eligible shareholder?

You are an eligible shareholder if you are registered as a holder of shares at the Record Date with a registered address in Australia or New Zealand (Eligible Shareholders). All shareholders with a registered address outside of Australia and New Zealand will not be eligible to participate in the Offer (Ineligible Shareholders). Eligible Shareholders may participate in the Offer either in full or by accepting part of their rights. As the Offer is renounceable, Eligible Shareholders may sell their rights on the ASX. Eligible Shareholders may also apply for additional New Shares over their rights, subject to a scale back if there is an over-subscription at the discretion of the directors of the Company.

### **Underwriting of Offer**

The Offer is fully underwritten by Bell Potter Securities Ltd (**Bell Potter**) on a conditional basis, on the terms of the underwriting agreement between the Company and Bell Potter dated Monday 17<sup>th</sup> December 2012 (**Underwriting Agreement**). Sun Hung Kai Investment Services Limited (a Hong Kong company) and Regal Funds Management Pty Ltd have each agreed with Bell Potter to sub-underwrite the Offer. Bell Potter will receive a fee of 5% of the amount raised.

#### Offer details

Further details of the Offer, the Underwriting Agreement, other new material arrangements entered into by the Company and the potential control effects of the Offer can be found in the offer document to be dispatched to Eligible Shareholders on Friday, 4 January 2013 (Offer Document), which was sent to ASX on Thursday, 20 December 2012. The Offer Document is available electronically on the Company's website, <a href="https://www.portbouvardltd.com.au">www.portbouvardltd.com.au</a> and via the ASX company announcements platform at <a href="https://www.asx.com.au">www.asx.com.au</a> (ASX Code: PBD).

The Offer will be conducted pursuant to section 708AA of the *Corporations Act 2001* (Cth) (Act). Consequently, the Offer will be made without disclosure to shareholders and investors pursuant to Part 6D.2 of the Act, i.e. without a prospectus. The Offer is being made only to Eligible Shareholders and the Company will be dispatching the Offer Document and Entitlement and Acceptance Form to Eligible Shareholders in accordance with the timetable below.

The Offer is renounceable, which means that rights to participate in the offer can be sold on the ASX. Bell Potter Nominees Ltd (a subsidiary of Bell Potter), who will be appointed as nominee for Ineligible Shareholders, will use their best efforts to sell the rights of Ineligible Shareholders and remit the funds of the sale to them (if any). To the extent that shareholders entitled to participate in the Offer do not take up their rights, those rights will lapse. Eligible Shareholders may also apply for additional New Shares over and above their rights. All rights and New Shares corresponding to those Rights not taken up by Eligible Shareholders will be issued to Bell Potter or the sub-underwriters.

The New Shares issued pursuant to the Offer will rank equally in all respects from the date of allotment with existing fully paid ordinary shares. Fractional rights will be rounded up to the nearest whole New Share.

### **Timetable**

The proposed timetable for the Rights Issue is as follows\*:

Trading halt	Tuesday 18 December 2012 and Wednesday 19 December 2012
Announcement of Offer	Thursday 20 December 2012
Securities trade on an "ex"-rights basis and rights trading commences	Monday 24 December 2012
Record Date	Wednesday 2 January 2013
Dispatch of offer booklet and entitlement and acceptance forms	Friday 4 January 2013
Rights trading ends	Friday 11 January 2013

Closing Date	Friday 18 January 2013
Allotment of New Shares Holding statements expected to be dispatched to Shareholders	Tuesday 29 January 2013
Trading of New Shares expected to commence on ASX	Wednesday 30 January 2013

\*All dates are subject to change and accordingly are indicative only. The Company reserves the right, subject to the Corporations Act and the ASX Listing Rules, to amend this indicative timetable and in particular, to extend the Closing Date or to withdraw the Offer without prior notice. Any extension of the Closing Date will have a consequential effect on the date of allotment and issue of new shares.

Where the Offer is withdrawn for any reason, the relevant application monies (being the amount paid for New Shares applied for in a duly completed Entitlement and Acceptance Form) will be returned without interest.

## What you should do next

You should consider the Offer Document in deciding whether to participate in the Offer. Anyone who wants to participate in the Offer will need to complete the Entitlement and Acceptance Form that will be in, or will accompany, the Offer Document.

If you have any questions relating to any of the above matters, please contact Computershare Investor Services Pty Ltd (in Australia) on 1800 850 505 or (from outside Australia) +613 9415 4000. For other questions, you should consult your stockbroker, accountant, financial adviser or other professional adviser..

The directors of the Company urge you to read the Offer Document carefully and seek advice from your professional advisers if you have any questions.

#### Background

To provide some further background, this restructuring brings to an end months of uncertainty over the future of the Company.

For most of 2012, the market has been aware that the Company has had limited working capital, and would likely not be able to refinance the whole of the debt that was due to mature at 31 December 2012.

In August 2012, the directors appointed Azure Capital Ltd (**Azure**) as independent advisor to assist with the Company's review of strategies for dealing with its financial issues. This appointment occurred as the Company was finalising a comprehensive review of its assets and operations that resulted in total asset impairments in the order of \$83 million being booked in the 2012 financial year.

The balance sheet review was a necessary precursor to the launch of a comprehensive process in September 2012, pursuant to which about a dozen parties met the conditions for being granted confidential access to information on the Company's operations and financial projections.

This process resulted in a number of concepts being put to the Company for its consideration. These broadly involved one or more of asset sales, equity recapitalisations or debt refinancing. Each was incomplete and highly conditional, but over two months all were systematically examined by Azure and the Company.

The ability to conduct asset sales at acceptable prices was impacted by disclosure of and publicity around the Company's financial pressures. Potential buyers were only interested at heavily discounted prices, and the Board determined that a recapitalisation, allowing all shareholders the opportunity of participation, was a better alternative than permanently surrendering long-term shareholder value.

The Offer was judged by the Board and Azure as the best for the Company and its shareholders as it:

- does not involve a placement and allows all shareholders the opportunity to maintain their stake in the Company, if they so wish;
- is at a higher price than other proposals; and
- was acceptable to St George Bank in not requiring it to write off any of its principal (a bank write-off being a prerequisite of many other proposals).

### **Port Bouvard Post-Raising**

The current management structure of the Company is transitional, and Acting CEO Darryl Guihot will finish up at the end of December 2012. The Board will consider the management alternatives going forward, but it is likely that new management will pursue the following principal strategies:

- there will be a renewed impetus on selling the remaining Oceanique apartments.
   The publicity given to the Company's financial affairs, particularly as the debt deadline had drawn nearer, has caused interested buyers to sit on the sidelines. In this environment the Company has not felt it prudent to invest significantly in marketing, but post the completion of this recapitalisation the sales effort can be retuned and intensified appropriately;
- non-core assets, adjacent to Oceanique and the site at Esperance, can be actively marketed for sale;

- the Company can pursue the finalisation of approvals for the Point Grey marina, and closely monitor market conditions to determine the best time to launch the project.
   The restructuring announced does not provide funding for the initial stages of Point Grey, and this will need to be separately considered when market conditions are deemed appropriate; and
- the Company is looking to develop the potential of its Peel Water business. Peel Water is a licenced provider of water and waste-water services, and has received many enquiries from third parties seeking its advice on implementing cost-effective solutions on regional and remote sites in WA. Until now, the Company has been constrained in pursuing these opportunities, but the raising provides the opportunity for the business to be developed.

### Conclusion

By completing the Offer, the Company will move forward with a much-reduced debt load, and should have working capital to allow it to deal with its assets in an orderly fashion, and to launch Peel Water as a stand-alone business.

This restructuring affords PBD shareholders the opportunity of participating in the repositioning of the Company on a revised financial footing, so it can seek to realise value of its existing assets and consider other opportunities that may present themselves. The Company will look to effectively use its large store of tax losses to maximise the cash flows from these present and any future opportunities.

The Offer is unanimously endorsed by all directors, and they encourage shareholders to consider the Offer.

Yours faithfully,

Stephen Court

**Executive Director** 

on behalf of the Board of Port Bouvard Limited