

Friday, 9 March 2012

MARKET ANNOUNCEMENT

Letter to Shareholders - Share Acquisition Approval General Meeting

The Company encloses a letter from independent Non-Executive Director, Mr Christopher Ryan, to shareholders despatched today in relation to a General Meeting of Bentley called by Database Systems Limited (**DBS**).

At the meeting, Bentley shareholders are being asked to vote on a resolution to approve the acquisition of 5.94 million Bentley shares by DBS on 22 April 2011.

The meeting will be held at the Sofitel Sydney Wentworth at 11:00am on Wednesday, 4 April 2012.

The meeting documentation (including a proxy form) was sent to shareholders on 2 March 2012.

FOR FURTHER INFORMATION:

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7 March 2012

Dear Shareholder

As you may be aware, a general meeting of shareholders of Bentley Capital Limited (*Bentley*) called by Database Systems Limited (*DBS*) is to be held in Sydney on 4 April. A notice of meeting was sent to shareholders on 2 March 2012. At the meeting, Bentley shareholders may vote on a resolution (the *Resolution*) to approve the acquisition of 5.94 million Bentley shares (the *Resolution shares*) by DBS on 22 April 2011.

As an independent, non-executive director of Bentley I would like to provide a recommendation to Bentley shareholders in relation to the Resolution to be considered at the general meeting. I recommend that:

- **it is in the best interests of Bentley shareholders that the Resolution be passed; and**
- **all Bentley shareholders should protect their best interests and VOTE (by proxy or in person) at the general meeting.**

In summary, the reasons for this recommendation are:

- the approval of the Resolution will avoid the Resolution shares being sold into the market within an unrealistically short timetable with the predictable consequence of a material decline in the Bentley share price;
- in my view, a material decline in the Bentley share price is probably more likely to attract activist opportunistic investors intent on seeking to profit by taking actions to destabilise the operations of Bentley directly and indirectly rather than investors supportive of the Bentley investment strategy;
- the notice of meeting states that nearly 50 per cent of the current Bentley shareholders either may not vote or will have their votes disregarded. As a consequence it is important that all shareholders consider the matter carefully and vote at the meeting;
- if the Resolution is passed, Bentley shareholders (other than Mr Farooq Khan, DBS, Mrs Ambreen Chaudhri, Mr Chaudhri, Orion Equities Ltd (*Orion*), Queste Communications Ltd (*Queste*) or any of their associates, and Bentley shareholders with an overseas registered address) will receive a pro rata offer of approximately 1 for 10 from DBS of Bentley shares at 13.5 cents per share, which compares favourably with the recent Bentley share price of 17 cents per share;
- if the Resolution is passed, the destabilisation of Bentley is likely to be at an end, and the directors of Bentley will be better able to direct their focussed attention on Bentley's investment performance without diversion; and
- the independent expert, RSM Bird Cameron Corporate Pty Ltd, whose report accompanied the notice of meeting, concluded that the Resolution is fair and reasonable to Bentley shareholders other than DBS and its associates.

Background

The acquisition of the Resolution shares resulted in an application on 3 May 2011 to the Takeovers Panel (*Panel*) by Bellwether Investments Pty Ltd and Mr Jim Craig (together, *Bellwether*) who asserted, amongst other things, that:

- Bentley's chairman, Mr Farooq Khan, his sister Mrs Ambreen Chaudhri (and Mr Chaudhri, her husband), and their controlled entities (including Queste, Orion and DBS) are associates in relation to Bentley and have acquired shares otherwise than in accordance with Chapter 6 of the Corporations Act; and
- Bentley shareholders have not had a reasonable and equal opportunity to participate in the benefits of the share acquisition by DBS.

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On 23 May 2011, the Panel announced that it was not satisfied on the material available to it that it could draw the necessary inferences and find the alleged associations.

On 24 May 2011, Bellwether applied to the Panel for a review of its decision. On 6 July 2011, the Panel announced that in light of additional evidence provided to the review Panel, it considered that the acquisition of the shares in Bentley by DBS in April 2011 resulted in a person's voting power in Bentley increasing otherwise than as permitted by Chapter 6 because:

- Mr Khan, Mrs Chaudhri and DBS were associated in relation to the affairs of Bentley; and
- Mr Chaudhri and Mrs Chaudhri were associated in relation to the affairs of Queste Communications Ltd.

However, the review Panel accepted undertakings from Mr Khan, and DBS and Mrs Ambreen Chaudhri and declined to make a declaration of unacceptable circumstances. The review Panel stated that it was satisfied that the terms of the undertakings adequately addressed the unacceptable circumstances.

Further details of the Panel proceedings, the reasons for the Panel decisions and text of the undertakings can be seen on the Panel's website - www.takeovers.gov.au. The undertaking given by DBS and Mrs Ambreen Chaudhri (the *Undertaking*) is reproduced as Schedule 1 to the notice of meeting.

It is noted that Bentley itself was not a party to the Panel proceedings, as the contentious issues related only to certain Bentley shareholders and holders of relevant interests in Bentley shares.

The Resolution

The Resolution seeks the approval of Bentley shareholders in respect of DBS acquiring 5,940,000 Bentley shares (8.10% of the current total issued share capital of Bentley) on-market at 22 cents per share on 7 April 2011. The Panel found that the acquisition increased DBS's voting power in Bentley from 40.96% to 49.14% (now 48.64% as a consequence of subsequent changes in the total issued share capital of Bentley). Of this, 18.30% is a direct holding and the balance is a deemed interest in the Bentley shares held by Orion (27.97%) and Queste (2.37%).

If the Resolution is approved:

- the requirements of the Undertaking will have been met;
- of its own volition, DBS will make a pro-rata offer of 3,712,500 of the Bentley shares held by DBS at a price of 13.5 cents per share to Bentley shareholders (other than Mr Farooq Khan, DBS, Mrs Ambreen Chaudhri, Mr Chaudhri, Orion, Queste or any of their associates, and Bentley shareholders with an overseas registered address); and
- DBS will be free to retain any of the shares not taken up under this offer.

Under the terms of the Undertaking, if the Resolution is not approved:

- DBS will make a pro-rata offer (with the right for shareholders to apply for more than their pro-rata entitlement) of all of the Resolution shares held by DBS at a price of 22 cents per share to Bentley shareholders (other than Mr Farooq Khan, DBS, Mrs Ambreen Chaudhri, Mr Chaudhri, Orion, Queste or any of their associates, and Bentley shareholders with an overseas registered address); and
- any of the Resolution shares remaining will vest with an investment bank or stockbroker appointed by ASIC to be sold within 3 months. None of these shares may be sold to Mr Farooq Khan, DBS, Mrs Ambreen Chaudhri, Mr Chaudhri, Orion, Queste or any of their associates.

Considerations relevant to voting on the Resolution

The offers of shares to be made to Bentley shareholders

DBS acquired the Resolution shares on 7 April 2011, for 22 cents per share. In September 2011, Bentley paid a dividend of 1 cent per share and a special dividend of 2.4 cents per share and made a capital return of 5 cents per share. So the DBS acquisition price of the Resolution shares after netting out these payments was 13.6 cents per share. It can be seen that the shares to be offered to shareholders if the Resolution is approved is at a price that closely approximates their net acquisition price.

It is noted that at the time of the acquisition of the Resolution shares, the NTA for Bentley shares (at 31 March 2011) was 43.9 cents. The most recent NTA of Bentley shares (at 31 January 2012) was 27.2 cents per share. So adjusting for the dividends and capital return, the NTA declined by 8.3 cents per share over the period, a decline of 18.9 per cent from the March 2011 NTA.

It is apparent, however, that the proposed offer to the Bentley shareholders of shares at 13.5 cents per share if the Resolution is approved is much more advantageous to the Bentley shareholders than the offer at 22 cents per share if the Resolution is not approved.

The volume weighted average Bentley share price from 1 January 2012 to 29 February 2012 was 16.0 cents per share. So the offer at 13.5 cents is not only relatively more advantageous, but also is more advantageous when compared to the recent market price of Bentley shares.

The forced sale of the Resolution shares if the Resolution is not approved

If the Resolution is not approved, the Undertaking requires that all of the Resolution shares retained by DBS after the offer of the shares to Bentley shareholders at 22 cents per share must vest with an investment bank or stockbroker appointed by ASIC to be sold within 3 months. As it is highly unlikely that any Bentley shareholder will accept an offer of Bentley shares at a material premium to the current market, it is apparent that all or virtually all of the Resolution shares will be sold in this manner and time frame.

The annual turnover of Bentley shares for each of the past 4 years is as follows:

| Year | Turnover | Notes |
|------|-----------|-------|
| 2008 | 2,212,200 | |
| 2009 | 9,418,156 | 1 |
| 2010 | 4,560,700 | |
| 2011 | 7,620,100 | 2 |

Notes:

1. The 2009 turnover figure excludes 7,481,544 shares purchased on market by DBS during that year.
2. The 2011 turnover figure excludes the 5,940,000 Resolution shares acquired by DBS.

The turnover of Bentley shares for January and February 2012 totalled 1,226,700 shares.

These turnover figures clearly show that the number of Resolution shares to be sold is materially in excess of the average quarterly turnover of Bentley shares at any time in the past 4 years. It is reasonable therefore to deduce that:

- the shares are likely to be sold at a material discount to recent market prices for Bentley shares;
- the Bentley share price will fall, probably materially, until the shares are sold;
- it may take some time after the sale is completed for the share price to return to a level, relative to the Bentley NTA, that it would have been if the sale had not occurred;
- the buyer(s) of the shares will be attracted by the size of the discount to NTA at which the shares can be bought;
- the commercial objectives of the buyer(s) in buying at a deep discount to NTA are likely to be:
 - to agitate for Bentley to buy-back their shares at a higher price than their acquisition price;
 - to agitate for Bentley to return some or all of its capital; and/or
 - to rely on the investment strategy and future investment performance of Bentley to generate a return on their investment.

Predicting the consequences for shareholders if the Resolution fails is inherently difficult, but there appears to strong likelihood of a material reduction in the Bentley share price, at least for a period.

It is similarly difficult to predict with any certainty what one or more agitator investors might achieve, if they were the buyers of all or a material portion of the Resolution shares. Bentley's largest shareholder, Orion (which holds 28.0% of the current voting capital), is strongly supportive of Bentley's investment strategy and has given the Bentley board no reason to believe that it is willing to propose or support a winding up of Bentley or a material capital return. It is of course possible that one or more agitator investors could attempt to gain control of Bentley, but the probability of this happening is inherently uncertain. Even if it were to occur, whether the new directors of Bentley would propose a material capital return, or continue the pursuit of attractive investment return with its funds, is again not predictable with any certainty.

The one highly probable outcome of the failure of the Resolution is that the Bentley board would continue to be distracted to a degree by events and competing objectives of its shareholders. I am strongly of the view that the best interests of Bentley shareholders would be served if the range of possible outcomes and uncertainties that may result if the Resolution is not approved were avoided.

Substantially for this reason, I therefore recommend that Bentley shareholders:

- vote on the Resolution, rather than remain passive and leave the outcome to other shareholders; and
- vote in favour of the Resolution.

Recommendation of the independent expert

An independent expert's report prepared by RSM Bird Cameron Corporate Pty Ltd has been provided to Bentley shareholders as an accompaniment to the notice of meeting. The independent expert has concluded that the Resolution is fair and reasonable to Bentley shareholders not associated with DBS and its associates.

The position of Orion and Queste

On 2 August 2011, Orion wrote to Bentley and stated –

“.....the Undertaking purports to exclude certain parties (including Orion) from considering and, if thought appropriate, approving the Acquisition at the s249F Meeting.

Orion was not a party to the Undertaking and does not consider that it is bound by the Undertaking in any way, including with respect to its voting entitlements at the s249F Meeting.

Orion intends to consider and vote upon any resolution put at the s249F Meeting with respect to the Acquisition.”

On the same date, Queste also wrote to Bentley in essentially the same terms.

On 24 August 2011, the Panel wrote to Orion's lawyers, and stated –

“Paragraph 4.3(a) of the undertaking requires the givers of the undertaking to include in the notice of meeting and explanatory memorandum a statement that any votes cast on the resolution by any of the Associated Parties, Mr Azhar Chaudhri, Orion and Queste, or any of their associates, will be disregarded.

The undertaking in paragraph 4.3(a) is for the purpose of determining whether the 'Divestment Undertaking' in paragraph 5 must be complied with by Mrs Chaudhri and DBS. If approval is given in the way contemplated in the undertaking, Mrs Chaudhri and DBS can avoid the need for divestment. That is the actual effect of paragraph 4.3(a).

It does not in terms prohibit the Associated Parties, Mr Chaudhri, Queste or Orion or any of their associates from voting at the EGM, but does require that any votes they cast will be disregarded when determining whether the acquisition of the 'Breach Shares' was approved in accordance with the undertaking.

If the acquisition is not approved in accordance with the undertaking, the 'Divestment Undertaking' in paragraph 5 comes into effect.”

It is Bentley's intention to call a poll on the Resolution at the general meeting and to declare the result of the voting with the votes of Queste and Orion, if any, clearly and separately identified.

Chairman's discretion

It is proposed that as I am a non-executive director of Bentley, I will chair the general meeting. It is my intention to vote any valid undirected proxies received by Bentley in favour of the Resolution, for the reasons set out in this letter.

Yours faithfully



Christopher Ryan
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