



Wallace Absolute
Return Limited

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Australian Securities Exchange
Continuous Disclosure Area

**OUTCOME OF STRATEGIC REVIEW PROCESS
WAB TO UNDERTAKE AN UNDERWRITTEN RENOUNCEABLE RIGHTS OFFER
AND RE-POSITION COMPANY FOR GROWTH**

- Strategic review completed
- 8.5 for 10 renounceable rights offer at a price of 3.5 cents per share to raise approximately \$2.5 million
- WAB to implement a re-positioning including board renewal, management change and cost reduction program

Strategic review outcome

At the AGM in November 2009 Wallace Absolute Return Limited (“WAB” or “Company”) announced it would conduct a strategic review. The strategic review assessed alternatives available to the Company to address its small capital base and the considerable costs associated with running a standalone listed investment company of its size.

As part of the strategic review, the Company explored a range of alternatives including:

- a sale or merger;
- winding up;
- a re-capitalising and re-positioning of the Company;
- maintaining the status quo.

The Board has assessed each of these alternatives and believes that a re-capitalisation and re-positioning of the Company presents the best available option for shareholders.

The Company today announces the outcome of its strategic review process which will involve a re-capitalisation of the Company via an 8.5 for 10 renounceable rights offer (“Rights Offer”) at 3.5 cents per share and other initiatives to re-position the Company for growth. The Rights Offer is fully underwritten by E-quest Capital Pty Ltd (“E-quest”) and will raise approximately \$2.5 million before costs.

The additional capital will provide WAB with greater scale and better position the Company to extract value from existing assets. It will also allow the Company to review other value accretive opportunities within WAB’s existing investment mandate.

Following completion of the Rights Offer, the Company intends to undertake a number of other initiatives to re-position the Company for growth, including:

- Appointment of Spiro Paule and Tony Roussos to the board of WAB (“Board”). Both Spiro Paule and Tony Roussos are associated with E-quest, the underwriter.
- Retirement of Alan Liddle and Michael Birch from the Board.
- Replacement of Michael Birch with Spiro Paule in the role of managing director of the Company.

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- Cost saving initiatives including a reduction in directors' fees and a relocation of the Company's offices to Melbourne.
- The Company intends to change its name and consolidate its share capital. The Company intends to put resolutions to effect these changes to shareholders at the next annual general meeting together with resolutions to re-appoint directors as appropriate.

Key terms of the Rights Offer

The Rights Offer price of 3.5 cents per share represents a 13.1% discount to the volume weighted average price of WAB on the ASX in the 1 month ending 4 May 2010. This price was determined by the Board having regard to general market conditions and the size of the Rights Offer relative to the existing capital base.

Shareholders will be entitled to subscribe for ordinary fully paid shares in WAB at a ratio of 8.5 for every 10 shares held.

E-quest will fully underwrite the Rights Offer. E-quest is a newly incorporated entity associated with Spiro Paule and Tony Roussos. This is proposed having regard to the Company's other alternatives.

Each of the directors of the Company has indicated that he will be taking up his entitlement or procure that third party holders associated with the directors take up their entitlement in full.

As a result of its role as underwriter of the issue, E-quest will hold between 0% and 45.9% of WAB's expanded shares on issue, depending on the level of the rights subscribed for under the Rights Offer. The potential effect the issue of the shares under the Rights Offer will have on the control of the Company is as follows:

- if valid applications are received for all rights under the Right Offer, E-quest will have nil percentage ownership;
- if valid applications are received for 50% of rights under the Rights Offer, E-quest will have 23.0% ownership;
- if valid applications are received for 0% of rights under the Rights Offer, E-quest will have 45.9% ownership;

E-quest has confirmed to the Board that should it obtain a significant holding in WAB resulting from it underwriting the Rights Offer it has no present intention to seek to modify or otherwise change the Company's present business and strategy.

As the Rights Offer is renounceable, all eligible shareholders have the opportunity to maintain their relative interest in the Company or, alternatively, to possibly realise some value through the sale of their rights on-market.

Further terms of the Rights Offer will shortly be lodged with the ASX in the form of a prospectus. The prospectus and entitlement and acceptance form will then be sent to eligible shareholders.

Re-positioning of WAB

Following completion of the Rights Offer, the Company intends to undertake a number of other initiatives to re-position the Company for growth.

Board renewal

WAB intends to appoint Spiro Paule and Tony Roussos to the Board on the completion of the Rights Offer. Spiro Paule is the managing director and Tony Roussos the chief operating officer of Financial Index Australia Pty Ltd ("Findex"), a leading unlisted financial planning organisation. They will bring significant financial services experience to the Board and the potential for WAB to leverage off Findex's existing capabilities. Further details on their backgrounds are attached as Appendix A.

Michael Birch and Alan Little will step down as directors. Ken Barry will continue as non-executive chairman of WAB to provide ongoing continuity. Ken Barry has indicated his intention to retire within twelve months subject to recruiting a suitably qualified independent chairman.

Management change

WAB intends that Spiro Paule will replace Michael Birch as the managing director of WAB. On appointment, the new managing director will review longer term solutions for WAB's ongoing management and investment management requirements. In the interim, Michael Birch will provide ongoing investment management services and support on an as required basis to assist with transition. Michael Birch will resign as chief executive officer once the transition period is completed.

Cost reduction initiatives

The Company intends to implement a number of other initiatives to substantially reduce the costs of operation, including:

- A material reduction in the managing director's cost and directors fees. Spiro Paule will be paid \$55,000 as managing director and Tony Roussos \$30,000 as a non-executive director, a substantial reduction on existing costs. Ken Barry has indicated his willingness to reduce his director's fee as chairman to \$70,000. The Company notes that to attract an appropriately qualified candidate as the new independent chairman this fee is likely to need to increase on such an appointment.
- A relocation of the Company's offices to Melbourne to leverage the existing infrastructure of Findex.
- A review of all other costs and how WAB can leverage Findex's existing infrastructure.

Other initiatives

The Company intends to change its name. The Company will also undergo a consolidation of share capital. The Company intends to put resolutions to effect these changes to shareholders at the next annual general meeting together with resolutions to re-appoint directors as appropriate.

Hal Data Services Pty Ltd update

As announced on 4 May, Hal Data Services Pty Ltd ("Hal") offered to acquire all of WAB's interests in Hal for approximately \$1.5 million. Currently, the investment in Hal is carried at nil value and should WAB sell its interest in Hal for \$1.5 million it would represent an additional 1.8 cents per share to net asset value.

Following the restructuring in November 2009, WAB's position with Hal was improved. As announced on 27 November 2009, under the restructured loan documentation, Hal has the following minimum repayment obligations to the Company:

- \$53,679 by the end of FY10;
- \$4,048,740 by the end of FY11; and
- \$4,231,294 by the end of FY12.

In addition to the above minimum repayment obligations, Hal also granted options to the Company which depending on the amount of principal repaid by Hal, may upon exercise leave WAB with between 45% and 90% of the equity in Hal. The Company has continued to carry the investment in Hal at nil in light of the continued challenging trading environment for Hal.

WAB has had other approaches from third parties in respect of its investment in HAL. However, on those occasions, the Board formed the view that the interest was of such a conditional or uncertain nature that disclosure to shareholders was not appropriate or required under the ASX Listing Rules. No credible offer emerged from these approaches.

The Board remains committed to actively managing its investment in Hal to maximise the value from its investment. The Board is currently reviewing the offer from Hal and the appropriate carrying value of the investment and will keep shareholders updated.

Your Board re-iterates the recommendation provided to shareholders that they **VOTE AGAINST** the resolutions to appoint Paul Nicolaou and Gabriel Radzyninski as directors of WAB. The Chairman reiterates his advice that shareholders **VOTE AGAINST** the removal of Michael Birch and Alan Liddle as directors.

Shareholders will soon receive a prospectus detailing the terms of the Rights Offer. The Board encourages shareholders to read the prospectus in its entirety. If shareholders have any questions relating to the Rights Offer, they are encouraged to seek the advice of a legal or financial adviser.

For further information, contact:

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Appendix A

Mr Spiro Paule (B.Juris, FAIM, Dip. All)

- Spiro entered the financial services industry in 1980 as a superannuation and insurance adviser, after which he held various management roles with the large U.S. insurance and funds management group, Aetna. He resigned from a senior management role with Aetna in 1988 to establish his own financial advice business. The business, Financial Index Australia Pty Ltd ("Financial Index"), successfully grew from a small start-up to a significant practice predominantly providing financial services to the clients of a number of accountancy and legal firms. In 1990, the business was recruited as one of the first member firms of Associated Planners Group Ltd (now known as Genysys and owned by AXA), an unlisted public company, which went on to become one of the largest non-institutional wealth management advisory businesses in Australia with more than 200 offices around the country. Spiro served as a member of the Associated Planners Group Ltd board between 1996 and 2000.
- Starting in 1995 with two of his current partners, Spiro was instrumental in developing a unique technology platform to electronically manage all data, tasks, procedures and processes in a financial services enterprise. This technology was exclusively licensed to Financial Index from 2001 and the system has given the company ISO 9001 certification, the highest international quality standard. Financial Index purchased the system in 2008.
- Spiro has served as the managing director of the present Financial Index since its inception in 2001. Financial Index is a leading privately owned financial planning and portfolio services organisation formed in 2001 through a merger of several smaller firms. Financial Index has, over that time, continued to grow through mergers and acquisitions to now be a significant financial services business operating throughout Australia and presently advising on and managing round \$3 billion in investor funds.
- Spiro is also Chairman and a major shareholder of specialty dairy products manufacturing group, Lemnosfoods Pty Ltd, which over the last decade has grown to be a dominant player in its segment.
- Spiro holds a Bachelor of Jurisprudence from Monash University, is a Fellow of the Australian Institute of Management and holds a Diploma from the Australian Insurance Institute.

Tony Roussos (B.Sc., M.B.A., Dip.F.P.)

- Tony is the chief operating officer of Financial Index.
- Tony has worked in the financial services industry since commencing work with Financial Index in 1992. He has been exposed to all facets of the financial services industry and specifically financial advice consulting, including providing personalised financial advice to clients. In his advising role, Tony has provided advice in investment planning and structuring, retirement planning, risk management and estate planning for professionals and business clients. Tony has been involved in industry issues and has headed various industry committees including the Financial Planning Association (FPA) Education Task Force from 2001 to 2004 and specifically Chairperson of study units 3 and 7 of the Diploma of Financial Planning to do with Fundamental and Advanced Investment Planning. After Financial Index procured its own Australian Financial Services Licence in 2001, Tony was appointed a Director of the Holding company and its subsidiaries.

He has been Chief Operations Officer since 2002. He has played an integral role in assisting the Financial Index board and CEO in implementing the company's growth strategy.

- Tony has completed a Science degree (majoring in Applied Math and Statistics) at Monash University in Victoria in 1991, a Diploma of Financial Planning in 1998, and a Masters degree in Business Administration (MBA) in 1999. He has also served as a senior lecturer for The Securities Institute on a casual basis.