



HENRY DAVIS YORK  
LAWYERS

26 July 2010

Our Ref JDL/GRG/3123465

Via: E Lodgement/ OR  
Fax – Company announcements: 1300 135 638

Australian Securities Exchange  
Continuous Disclosure Area

Dear Sir/Madam

**Armidale Investment Company Pty Ltd: Takeover bid for ordinary shares in Wallace  
Absolute Return Limited**

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We act for Wallace Absolute Return Limited (**Wallace**).

In accordance with section 633(1) item 14 of the Corporations Act 2001 (Cth), we enclose, on behalf of Wallace, a copy of Wallace's target statement (including an independent expert's report).

The target statement (including the independent expert's report) has been served on Armidale Investment Company Pty Ltd and has been lodged with the Australian Securities & Investments Commission earlier today. All security holders of the bid class securities will be sent a copy of the target statement (including the independent expert's report) shortly.

Yours faithfully  
Henry Davis York

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Partner  
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Encl





*Wallace Absolute  
Return Limited*

## **Target's Statement**

**Wallace Absolute Return Limited**  
ABN 58 100 854 788

**In relation to the offer by  
Armidale Investment Company Pty Ltd  
ACN 143 917 088**

**The Directors of Wallace  
recommend that you  
REJECT the AIC Offer and  
ACCEPT the E-quest Offer  
in the absence of a superior proposal**

**This is an important document that requires your immediate attention.  
You should read this document in its entirety before making any investment  
decisions.**

**If you are unsure as to how to deal with the offer, you should seek independent  
financial, taxation or other professional advice.**

**Financial Adviser**



**Legal Adviser**



## IMPORTANT NOTICES

This target's statement (**Statement**) has been prepared by Wallace Absolute Return Limited ABN 58 100 854 788 in response to the AIC Offer as set out in the bidder's statement of Armidale Investment Company Pty Ltd ACN 143 917 088 (**AIC**) dated 25 June 2010. This statement has been given in accordance with the Corporations Act. You should read this Statement in its entirety.

A number of defined terms are used in this Statement. The first letters of these terms are capitalised and they are explained in Section 9 of this Statement.

All references to time in this Statement are to the time in Sydney, New South Wales.

This Statement is dated, and a copy of this Statement was lodged with ASIC on, 26 July 2010. None of ASIC, ASX or any of their respective officers take any responsibility for the contents of this Statement.

This Statement does not take into account the individual investment objectives, financial situation and needs of any particular Shareholder or any other person. Shareholders should seek independent financial, taxation or other professional advice before making a decision as to whether or not to accept the AIC Offer.

This Statement may include forward looking statements which are based on Wallace's current expectations and assumptions about future events or its current intentions. Statements that are not historical facts should be considered forward-looking statements. Such statements are subject to risks, uncertainties and assumptions that could cause actual results and events to differ materially from the expectations, assumptions or intentions described in such forward-looking statements. These factors include, among other things, matters beyond the control of Wallace, not yet known to Wallace or not currently considered material by Wallace. You should not place undue reliance on forward-looking statements. Wallace, its advisers, persons named in this Statement with their consent and each person involved in the preparation of this Statement makes no representation (express or implied) as to the accuracy or likelihood of fulfilment of any forward-looking statement.

The information in this Statement regarding AIC has been taken from AIC's Bidder Statement and publicly available information. None of the information in this Statement concerning AIC, its intentions or business has been verified by AIC or its board of directors or independently verified by Wallace or the Directors. Accordingly, subject to the Corporations Act, Wallace, its advisers, persons named in this Statement with their consent and each person involved in the preparation of this Statement make no representation (express or implied) as to the accuracy or completeness of such information. The information on AIC in this Statement should not be considered comprehensive.

The Independent Expert's Report set out in Section 7 of this Statement has been prepared by the Independent Expert for the purposes of this Statement and the Independent Expert takes full responsibility for that report. Wallace does not accept or assume any responsibility for the accuracy or completeness of the Independent Expert's Report, other than the factual information provided by Wallace to the Independent Expert for the purposes of the Independent Expert's Report.

If you have any queries in relation to this Statement please contact Michael Birch, Managing Director, Wallace on +61 2 9255 9770 during business hours or by email to [enquiries@wallaceabsolutereturn.com.au](mailto:enquiries@wallaceabsolutereturn.com.au).

#### **IMPORTANT DATES**

Announcement of AIC Offer	4 June 2010
Date of this Statement	26 July 2010
Close of Offer Period	13 August 2010 (unless extended or withdrawn by AIC) at 7.00pm Sydney time



Dear Shareholder

**Takeover offer by Armidale Investment Company Pty Ltd and takeover offer by E-quest Capital Pty Ltd**

Wallace has received:

- on 25 June 2010, the AIC Bidder Statement relating to an off-market takeover offer by AIC of 5.9 cents;
- on 12 July 2010, notice from E-quest of its on-market takeover offer of 6.4 cents;
- on 22 July 2010, notice from AIC that it intends to increase its offer price to 7 cents; and
- on 22 July 2010, notice from E-quest that it intends to increase its offer price to 7.1 cents,

in cash for each of your Shares.

The Board notes that neither of the parties has yet declared its offer final.

**Board recommends Shareholders REJECT the AIC Offer**

The Board recommends Shareholders REJECT the AIC Offer as the E-quest Offer provides Shareholders with greater consideration.

**Board recommends Shareholders ACCEPT the E-quest Offer subject to there being no superior proposal**

The Board recommends Shareholders ACCEPT the E-quest Offer in the absence of a superior proposal. E-quest has stated an intention to formally announce its proposed takeover within two weeks of its initial notice to Wallace on 12 July 2010. E-quest is legally required to proceed with its offer and it is unconditional.

For Shareholders wishing to accept the E-quest Offer (once open), E-quest has informed the Board that E-quest will provide a discounted on-line brokerage facility. This will enable shareholders to sell their Shares for nil brokerage and be guaranteed payment in T+3. This is particularly important for Shareholders with small holdings of Shares.

Shareholders should be aware that because E-quest is proceeding via an on-market offer, if they accept the E-quest Offer (once open), they will not be able to receive the benefit of any potential further increase in the offer price from E-quest (if E-quest later further increases its offer price) or any further increase in the offer price offered by AIC (if AIC further increases its offer price).

The Board notes that neither E-quest nor AIC has yet declared its offer to be final. In the absence of further increases to either offer or the announcement of any other superior proposal, the Board advises Shareholders to ACCEPT the E-quest Offer.

**Findings of Independent Expert's Report**

Lonergan Edwards & Associates Ltd has now completed an independent expert's report in respect of the AIC Offer and E-quest Offer. A copy of the Independent Expert's Report is set out in Section 7 of the Statement. The Independent Expert's Report has valued 100% of the Shares at between 3.5 and 6.6 cents per Share. This valuation range excludes any value attributable to

Wallace's legal action against Wallace Funds Management Pty Ltd (in liquidation), Richard Wallace and his related entities for reasons contained in the Independent Expert's Report.

The Independent Expert's Report has found both the AIC Offer and the E-quest Offer to be fair and reasonable. Importantly, the Independent Expert's Report states that in the opinion of the Independent Expert, the E-quest Offer is superior to the AIC Offer.

#### **Update on Hal Data Services Pty Ltd**

As announced to Shareholders on 27 November 2009, the Company's debt and equity investments in HAL were restructured to provide greater protection to Wallace as well as minimum repayment obligations which are to commence by 31 July 2010.

The Independent Expert's Report has found that the minimum repayments to Wallace are unlikely to be made and that the latest cash flow forecasts (prepared by Wallace based on recent due diligence and information from HAL management) indicate that the cash flows potentially likely to be available to repay the Wallace loan are **significantly** below the total minimum repayments previously announced. According to the Independent Expert's Report, this reflects the fact that, as an unsecured creditor, Wallace ranks behind secured creditors and therefore has a residual interest only in the cash flows generated. In addition, the Independent Expert has stated that "*WAB shareholders should note that...there is a very high risk that WAB will not receive any material return from its investment in HAL*". [Emphasis added.]

Taking into consideration the valuation attributed to HAL by the Independent Expert in its Independent Expert's Report, the Board intends to continue to carry its investment in HAL on its books at nil value.

#### **Update on Tax Losses**

Wallace is carrying forward realised Tax Losses in excess of \$40 million as at 30 June 2009. The Independent Expert has adopted a value for the Tax Losses in the range of \$1 million to \$1.5 million, reflecting the inability of Wallace to significantly utilise the Tax Losses due to the small size of its investment portfolio. In assessing the valuation range for the Tax Losses, the Independent Expert has assumed Wallace will raise additional capital.

Wallace has written down the value of the Tax Losses on its balance sheet to nil because there is no guarantee that it will be able to utilise these losses in the future and the Tax Losses will only be of value if there are offsetting profits and the various requirements of the Tax Act for the utilisation of the Tax Losses are satisfied. Accordingly, the Board continues to consider it prudent to value the Tax Losses at nil.

This Statement contains the response of the Board to the AIC Offer and a copy of the Independent Expert's Report which Wallace commissioned.

The Board encourages you to read this Statement (including the Independent Expert's Report) carefully and to seek your own independent financial, taxation or other professional advice. In making their recommendation, the Board has not considered any individual's investment objectives, financial situation or needs. The Board will keep you informed of any further developments in relation to the AIC Offer and the E-quest Offer.

Yours sincerely



Ken Barry  
Chairman  
Wallace Absolute Return Limited

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## 1 KEY POINTS

### 1.1 Share value

The value attributed to Wallace and offer prices under the AIC Offer and E-quest Offer are as follows:

30 June 2010 net tangible asset value (as per unaudited accounts) <sup>1</sup>	3.3 cents per Share but this will reduce significantly due to expected expenditures. The Independent Expert has valued Wallace's share portfolio and cash (net of estimated liabilities) at between 2.3 to 2.5 cents per Share (see section 14 of the Independent Expert's Report)
Independent Expert's valuation <sup>2</sup>	3.5 - 6.6 cents per Share
AIC Offer price <sup>3</sup>	7 cents per Share
E-quest Offer price	7.1 cents per Share

The Board has valued Wallace's investment in HAL and Wallace's Tax Losses at nil due to the uncertainty of them being of any value (see Sections 5.1 and 5.4 of this Statement for further information).

In relation to HAL, the Independent Expert itself has stated that:

*"WAB shareholders should note that:...there is a **very high risk** that WAB will not receive any material return from its investment in HAL."* [Emphasis added.]

Accordingly, the Board considers it prudent to value Wallace's investment in HAL at nil.

In relation to the Tax Losses, these will only be of value if there are offsetting profits and the various requirements of the *Tax Act* for the utilisation of the Tax Losses are satisfied. Accordingly, the Board also considers it prudent to value the Tax Losses at nil as there is no guarantee that they can or will be utilised.

### 1.2 AIC Offer and E-quest Offer

For the reasons set out in this Statement, the Board recommends that Shareholders, in the absence of a superior proposal:

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<sup>1</sup> As referred to in the ASX announcement made by Wallace on 15 July 2010, this is the unaudited net tangible asset value per share after all taxes, fees and expenses as at 30 June 2010. Subsequent to 30 June 2010, the Board believes that further expenses will be incurred. See Section 5.9 of this Statement for further details.

<sup>2</sup> This valuation range excludes any value attributable to Wallace's legal action against Wallace Funds Management (in liquidation), Richard Wallace and his related entities. See the Independent Expert's Report in Section 7 of this Statement for further details.

<sup>3</sup> AIC has stated that it proposes to vary its bid to increase the offer price to 7 cents per WAB Share.



- reject the AIC Offer; and
- accept the E-quest Offer.

However, Shareholders should be aware that if they accept the E-quest Offer, they will not be able to receive the benefit of any potential increase in either the AIC Offer or the E-quest Offer, if either AIC or E-quest increases its offer price.

The primary reasons for the Directors' recommendation are contained in Section 2.3 of this Statement.

The Board has prepared this Statement in response to the AIC Offer and this Statement relates only to the AIC Offer. Shareholders should carefully consider the AIC Offer (including in light of the E-quest Offer) and review the Board's response to the E-quest Offer which will be detailed in the target statement to be prepared by Wallace in respect of that offer.

E-quest has informed Wallace that E-quest will provide a discounted on-line brokerage facility to enable Shareholders to sell their Shares to E-quest under the E-quest Offer for nil brokerage through Bell Direct.

Although E-quest has not yet made the E-quest Offer, it is required under the Corporations Act to make its takeover bid within 2 months after announcing its proposal to make the bid. E-quest has stated an intention to formally announce its proposed takeover within two weeks of its initial notice to Wallace on 12 July 2010.

A summary of the E-quest Offer is set out in Section 5.4(a) of this Statement.

## 2 OVERVIEW AND WALLACE DIRECTORS' RECOMMENDATIONS

### 2.1 What Shareholders should do

AIC has made an off-market takeover offer for all of the Shares.

As at the date of this Statement, the AIC Offer is scheduled to close at 7.00pm on 13 August 2010 (unless extended or withdrawn by AIC).

Shareholders should:

- carefully read AIC's Bidder Statement and this Statement (including the Independent Expert's Report) in their entirety;
- have regard to their own investment objectives, financial situation and needs;
- seek independent financial, taxation or other professional advice, if necessary; and
- consider their choices as a Shareholder as briefly mentioned in Section 2.2 and set out in more detail in Section 4 of this Statement.

### 2.2 Overview of the choices open to Shareholders

A Shareholder has the choice of:

- **rejecting** the AIC Offer, which is recommended by the Directors (see Section 2.3 of this Statement for the reasons for this recommendation), in which case, subject to the Shareholder not otherwise selling their Shares and their Shares not being compulsorily acquired (see Section 6.3(i) of this Statement) they will remain a Shareholder;
- **waiting and seeing** by taking no action at the present time, and reviewing their situation at a later stage;
- **selling on-market** their Shares, in which case the price they receive may be more or less than the current offer price or any increased offer price and brokerage and other costs may be payable, but the sale will be certain and not subject to conditions such as the condition of the AIC Offer;
- **accepting** the AIC Offer, which is not recommended by the Directors (see Section 2.3 of this Statement for further details); or
- **accepting** the E-quest Offer, which is recommended by the Directors, in the absence of a superior proposal (see Section 2.3 of this Statement for the reasons for this recommendation).

### 2.3 Directors' recommendation

#### (a) Summary

Mr Ken Barry, Mr Michael Birch and Mr Alan Liddle are the directors of Wallace.

**The Directors recommend that Shareholders accept the E-quest Offer and reject the AIC Offer, in the absence of a superior proposal.**

In particular, and for the reasons set out below, the Directors recommend that Shareholders accept a fair and reasonable offer for their Shares, and in particular, the E-quest Offer instead of the AIC Offer, in the absence of a superior proposal.

Notwithstanding their recommendation, the Directors recognise that for various reasons, including those set out below, some Shareholders may not wish to accept any offer for their Shares or may wish to accept the AIC Offer instead of the E-quest Offer.

In making their recommendation, the Directors have not considered any individual's investment objectives, financial situation or needs. Each Shareholder needs to consider their own position and circumstances.

In summary, the Directors have made their recommendation for the reasons set out below.

(b) **Reasons why the Board recommends you accept a fair and reasonable offer for your Shares**

The Board recommends that Shareholders accept a fair and reasonable offer for their Shares for the following reasons:

- Additional capital is required to fund Wallace's activities in the future. Without additional capital and given Wallace's current size and cost structure, it is unlikely that Wallace will generate any profit and its net asset value is likely to decline.
- Wallace is unable to guarantee that a dividend or return on Shares will be paid in the medium term or otherwise.
- The value of Shares is dependent on, among other things, the financial position and performance of Wallace. Its business is subject to a number of risks and uncertainties. For example:
  - Additional capital is required to fund Wallace's activities in the future.
  - There is no guarantee that Wallace will be successful in its legal claim against its former fund manager, Wallace Funds Management (in liquidation), former Managing Director, Richard Wallace, and his related entities. Wallace may be liable to pay the legal costs of those entities in addition to its own legal expenses, and even if Wallace is successful in its claims, there may be no third party assets from which its costs and any judgement can be recovered, particularly in light of the appointment of a liquidator to wind up the affairs of Wallace Funds Management (in liquidation). See section 5.6 for further details of Wallace's litigation against Wallace Funds Management (in liquidation), Richard Wallace and his related entities.

- Wallace's ability to realise value from its investment in HAL is uncertain. The Board recently conducted further due diligence in relation to HAL, the results of which were considered by the Independent Expert when it valued Wallace's investment in HAL at nil to \$2.0 million. However, as noted in section 34 of the Independent Expert's Report "*WAB shareholders should note that...there is a very high risk that WAB will not receive any material return from its investment in HAL.*" [Emphasis added.]
- Whilst Wallace currently has significant carried forward Tax Losses, it has written down the value of the Tax Losses on its balance sheet to nil because there is no guarantee that it will be able to utilise the Tax Losses in the future.
- Wallace currently has a percentage of its tangible assets invested in the share market. The composition and size of the portfolio is outlined in Section 5.10 of this Statement. Any investment in Shares carries investment risk and will subject the assets of Wallace to fluctuations in the share market.
- Wallace's ability to continue to conduct its business operations is dependent on the maintenance of its AFSL or Wallace otherwise being able to rely on an available licensing exception. To maintain its AFSL, Wallace must, among other things, continue to comply with its AFSL conditions (including the key person condition) and the Corporations Act.
- The Board is not aware of any other party who proposes to make an offer for the Shares.

See Section 5.6 of this Statement for further information on the risks associated with holding Shares.

See below for reasons why the Board considers the E-quest Offer to be superior to the AIC Offer, why Shareholders may not wish to accept an offer for their Shares and why Shareholders may wish to accept the AIC Offer.

Before accepting an offer for their Shares, Shareholders should contact their broker to obtain the latest price for Shares and contact their accountant or financial adviser to determine tax implications from the sale of Shares on-market. Further, the Shares have traded above 7.1 cents per Share. Accordingly, Shareholders may be able to realise a higher price for their Shares by selling them on-market (subject to the market price at the time and brokerage and other costs incurred when selling shares on-market). The price for Shares may also be obtained from the ASX website [www.asx.com.au](http://www.asx.com.au) (subject to a 20 minute delay).

(c) **Reasons why the Board considers the E-quest Offer to be superior to the AIC Offer**

The Board considers the E-quest Offer to be superior to the AIC offer for the following reasons:

- The Independent Expert has concluded that:

- although each of the AIC Offer and E-quest Offer is fair and reasonable;
- the E-quest Offer is superior to the AIC Offer.

See Section 7 of this Statement for the Independent Expert's Report.

- The E-quest Offer price is higher than the AIC Offer price.
- E-quest has informed Wallace that E-quest will provide a discounted on-line brokerage facility to enable Shareholders to sell their Shares to E-quest under the E-quest Offer for nil brokerage through Bell Direct.
- Shareholders who accept the E-quest Offer (being an on-market offer) will be paid under the ASX T+3 trading terms, whereas Shareholders who accept the AIC Offer (being an off-market offer) will not be paid the consideration to which they are entitled until on or before 21 days after the later of receipt of their acceptance and the date on which the AIC Offer becomes unconditional.
- The E-quest Offer is unconditional, whereas the AIC Offer is subject to a Condition which is summarised in Sections 3.1 and 6.3 of this Statement. As at the date of this Statement, the Directors are not aware of any matter which would cause a breach, or lead to non-satisfaction, of the Condition of the AIC Offer, however, there is a risk that such Condition will not be satisfied or waived.

However, Shareholders should be aware that if they accept the E-quest Offer, they will not be able to receive the benefit of any potential increase in the AIC Offer or the E-quest Offer, if AIC or E-quest increases its offer price.

(d) **Reasons why you may not wish to accept any offer, or may wish to accept the AIC Offer instead of the E-quest Offer, for your Shares**

Notwithstanding the Directors' recommendation, the Directors' recognise that Shareholders may not wish to accept any offer for their Shares or may wish to accept the AIC Offer instead of the E-quest Offer for various reasons including the following:

- Since E-quest announced its intention on 22 July 2010 to increase the E-quest Offer price, Shares have traded above 7.1 cents per Share. Accordingly, Shareholders may be able to realise a higher price for their Shares by selling them on-market (subject to the market price at the time and brokerage and other costs incurred when selling shares on-market). Shareholders should contact their broker to obtain the latest price for Shares and contact their accountant or financial adviser to determine tax implications from the sale of Shares on-market. The price for Shares may also be obtained from the ASX website [www.asx.com.au](http://www.asx.com.au) (subject to a 20 minute delay).
- Shareholders who accept an offer (whether it be the AIC Offer, the E-quest Offer or a third party offer) will forgo any potential increase in the price of the Shares that may occur in the future (assuming that their Shares are not compulsorily acquired). Such increase may result, for example, from:

- Wallace succeeding in its litigation claims against Wallace Funds Management (in liquidation), Richard Wallace and his related entities (assuming that there are third party assets from which any judgement in Wallace's favour, or the costs incurred by Wallace in pursuing the litigation, can be recovered);
- an improvement in the share market, increasing the value of Wallace's share holdings;
- an increase in the value of Wallace's investment in HAL; or
- Wallace obtaining the benefit of the tax losses referred to in Section 5.4(d) of this Statement.

The Board makes no representation or guarantee that the price of the Shares will increase in the future. See Section 5.6 of this Statement for the risks involved in holding the Shares.

- The intentions of E-quest may impact on a Shareholders decision whether to accept any offer for their Shares.
- The Shares have limited liquidity, which may be affected if larger Shareholders accept the AIC Offer.
- AIC has stated that, subject to Wallace continuing to meet the requirements of the ASX Listing Rules, it has no present intention of compulsorily acquiring outstanding Shares if it and its associates gain a relevant interest in at least 90% of the Shares. If AIC acquires a majority of the Shares and does not proceed to compulsory acquisition, Shareholders who have not accepted the AIC Offer risk becoming minority shareholders with limited liquidity for, and opportunity to sell, their Shares. Further, if, on completion of the AIC Offer, Wallace is unable to satisfy the requirements for continuation of its listing on ASX or for any other reason application is made by Wallace to be delisted, Shareholders who have not accepted the AIC Offer would become minority shareholders in an unlisted company.
- In the absence of the AIC Offer, the E-quest Offer or takeover speculation, the Shares may trade on the ASX below the current market price of Shares and the opportunity to realise the takeover premium attributable to the AIC Offer may not otherwise be available.

The above considerations are not exhaustive and there may be additional reasons why Shareholders may not wish to accept any offer for their Shares or to accept the AIC Offer instead of the E-quest Offer.

As set out in Section 4 of this Statement, there may be consequences associated with accepting the AIC Offer now. For example, Shareholders who accept the AIC Offer, should be aware that although they will benefit from any higher consideration offered by AIC, they will be precluded (except in limited circumstances provided in the Corporations Act) from accepting a higher offer from a third party, such as E-quest, and from selling their Shares on-market. Although AIC has not indicated that the AIC Offer price is final, it has also not indicated an intention to increase the offer price under the AIC Offer above 7.1 cents per Share (being the E-quest Offer price). In addition, the Board is not aware of any other party who proposes to make

an offer for the Shares. See Section 5.4(a) of this Statement in relation to the consequence of accepting the E-quest Offer.

In assessing the AIC Offer the Directors have had regard to a number of considerations including the information set out in AIC's Bidder Statement.

#### 2.4 Intentions of Directors

Each of the Directors has indicated their intention to not accept, or procure that third party holders associated with them not accept, the AIC Offer and accept the Proposed E-quest Offer, in the absence of a superior proposal.

The number of Shares in which the Directors and their associates have an interest is as follows:

<b>Director</b>	<b>Shares</b>
Kenneth Barry*	54,724
Alan Liddle	23,467
Michael Birch*	143,350

\*Held through associated entities and persons

#### 2.5 Further information

Wallace will continue to keep you informed of all material developments in relation to its business, the AIC Offer and the E-quest Offer on a timely basis, through communications to you directly and through announcements posted on the ASX website, [www.asx.com.au](http://www.asx.com.au).

### 3 SUMMARY OF AIC OFFER AND FREQUENTLY ASKED QUESTIONS

#### 3.1 Summary of the AIC Offer

This Section provides you with a summary of the AIC Offer. You should read AIC's Bidder Statement and this Statement and the information released to the market about the E-quest Offer in their entirety before deciding whether to accept the AIC Offer.

<b>THE AIC OFFER</b>	AIC is offering to acquire all or any of your Shares.
<b>OFFER PRICE</b>	If you accept the AIC Offer, subject to satisfaction of the Condition, for each Share you hold you will receive 7 cents.
<b>CONDITIONS OF THE AIC OFFER</b>	<p>The AIC Offer is conditional on there being no Prescribed Occurrences (<b>Condition</b>).</p> <p>AIC may choose to waive the Condition to the AIC Offer. For the full text of the Condition and other terms of the AIC Offer, you should refer to Section 12 of AIC's Bidder Statement.</p> <p>If the Condition is not satisfied or waived by the Closing Date, the AIC Offer will lapse.</p>
<b>CLOSING DATE</b>	The AIC Offer will close on the Closing Date which is currently 7.00pm Sydney time on 13 August 2010 unless it is extended or withdrawn by AIC. The AIC Offer may be extended as provided for or permitted by the Corporations Act.
<b>WHEN WILL YOU BE PAID?</b>	If you accept the AIC Offer, AIC will pay you the consideration to which you are entitled on or before 21 days after the later of receipt of your acceptance and the date on which the AIC Offer becomes unconditional.
<b>HOW TO ACCEPT THE AIC OFFER</b>	<p>You can accept the AIC Offer for all or any of your Shares, by completing the acceptance form accompanying AIC's Bidder Statement and returning it to the address indicated on the form, before the AIC Offer closes.</p> <p>See Sections 3, 12.3 and 12.4 of AIC's Bidder Statement for details.</p>
<b>FURTHER INFORMATION</b>	<p>You should carefully read this Statement.</p> <p>If you have any questions:</p> <ul style="list-style-type: none"><li>• in relation to the AIC Offer you should first contact your financial, taxation or other professional adviser;</li><li>• on how to accept the AIC Offer, you should read the instructions for filling out the acceptance form accompanying AIC's Bidder Statement;</li><li>• in relation to your shareholding in Wallace, please contact Link Market Services Limited on +61 2 8280 7111; and</li><li>• in relation to this Statement, please contact Michael Birch, Managing Director, Wallace Absolute Return Limited on +61 2 9255 9770 during business hours or by email to <a href="mailto:enquiries@wallaceabsolutereturn.com.au">enquiries@wallaceabsolutereturn.com.au</a>.</li></ul>



## 3.2 Frequently asked questions

### What choices do I have as a Shareholder?

As a Shareholder, you can:

- **reject the AIC Offer** by doing nothing;
- **wait and see** by taking no action at the present time;
- **sell your Shares on-market** (unless you have previously accepted the AIC Offer and not validly withdrawn your acceptance) which may incur brokerage and other costs;
- **accept the AIC Offer** by completing the acceptance form accompanying AIC's Bidder Statement and otherwise following the instructions in AIC's Bidder Statement; or
- **accept the E-quest Offer** on-market when it commences by following the instructions in the bidder's statement to be given by E-quest.

See Section 4 of this Statement for further details.

### Can I accept the AIC Offer for part of my Wallace shareholding?

Yes. You can accept for all or part of your Wallace shareholding. However, as detailed in Section 4 of AIC's Bidder Statement if you do not specify the number of Shares for which you are accepting the AIC Offer or you specify a number greater than your holding on your acceptance form, you will be taken to have accepted the AIC Offer for all of your Shares. Similarly, if accepting the AIC Offer would leave you with less than a marketable parcel of Shares<sup>4</sup>, you will be taken to have accepted the AIC Offer for all of your Shares.

### Will I pay any brokerage or stamp duty if I accept the AIC Offer?

No. You will not pay brokerage if your Shares are registered in an Issuer Sponsored Holding and you deliver them directly to AIC. You may incur brokerage and other costs if you choose to sell your Shares on the ASX or if you instruct your broker to accept the AIC Offer on your behalf.

AIC has stated in Section 12.14 of AIC's Bidder Statement that it will pay any stamp duty on the transfer of your Shares to it.

See Sections 2.7 and 4 of AIC's Bidder Statement for information regarding payment of brokerage fees.

### What happens if I do not accept the AIC Offer?

If you do not accept the AIC Offer and AIC and its associates acquire a relevant interest in 90% of the Shares, AIC will become entitled to acquire your Shares compulsorily under the Corporations Act. However, AIC has stated that, subject to Wallace continuing to meet the requirements of the ASX Listing Rules, it has no

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<sup>4</sup> A marketable parcel of Wallace Shares is a holding of Wallace Shares with a value of not less than \$500 based on the ASX closing price for Wallace Shares on the date you accept the AIC Offer.

present intention to compulsorily acquire outstanding Shares if it and its associates gain a relevant interest of more than 90% in Wallace. This means that if you do not accept the AIC Offer you risk becoming a minority shareholder with limited liquidity for, and opportunity to sell, your Shares if AIC and its associates acquire a relevant interest in 50% or more of the Shares. Further, if, on completion of the AIC Offer, Wallace is unable to satisfy the requirements for continuation of its listing on ASX or for any other reason application is made by Wallace to be delisted, you would become a minority shareholder in an unlisted company.

If your Shares are compulsorily acquired, you will receive the consideration for the acquisition of your Shares later than those Shareholders (if any) who voluntarily choose to accept the AIC Offer.

There is no guarantee that AIC and its associates will acquire a relevant interest in 90% of the Shares.

See Sections 4 and 9 of AIC's Bidder Statement regarding its intentions in relation to compulsorily acquiring Shares from those Shareholders who do not accept the AIC Offer.

### **What are the Directors recommending?**

The Directors recommend that you reject the AIC Offer and accept the E-quest Offer in the absence of a superior proposal. See Section 2.3 of this Statement for further details of the Directors' recommendation.

### **What are the consequences of accepting the AIC Offer now?**

If you accept the AIC Offer, unless withdrawal rights remain available (see next question and answer), you will give up your right to sell your Shares (including to E-quest under the E-quest Offer) while the AIC Offer remains open.

See Section 12.5 of AIC's Bidder Statement in relation to the effect of acceptance of the AIC Offer.

### **If I accept the AIC Offer, can I withdraw my acceptance at any time?**

If you accept the AIC Offer, you may only withdraw your acceptance if a withdrawal right arises under the Corporations Act - for example if, after you have accepted the AIC Offer, the bid remains conditional and AIC varies the AIC Offer in a way that postpones, for more than one month, the time when AIC is required to meet its obligations under the AIC Offer.

See Section 4 of AIC's Bidder Statement for information in this regard.

### **What happens if the Condition of the AIC Offer is not satisfied or waived?**

If the Condition of the AIC Offer is not satisfied or waived before the AIC Offer closes, the AIC Offer will lapse.

You will then be free to deal with your Shares even if you have accepted the AIC Offer.

## **Will Wallace remain listed on ASX?**

Subject to satisfying the ongoing requirements under the ASX Listing Rules (including that there is a sufficient number and spread of Shareholders), AIC has stated that it currently intends to:

- retain the listing of Wallace on ASX if AIC and its associates acquire a relevant interest in 90% or more of the Shares; and
- support retaining the listing of Wallace on ASX if it and its associates have a relevant interest in less than 90% of the Shares.

See Section 9 of AIC's Bidder Statement for a description of AIC's intentions upon acquiring the Shares. The intentions of E-quest may impact on a Shareholder's decision whether to accept any offer for their Shares.

## **What are the tax implications of accepting the AIC Offer?**

The tax implications of accepting the AIC Offer are set out in Section 10 of AIC's Bidder Statement.

Shareholders are advised to seek taxation advice in respect of the AIC Offer from their accountants or financial advisers.

## **When do I have to make a decision?**

If you wish to accept the AIC Offer you should complete the acceptance form accompanying AIC's Bidder Statement and follow the instructions set out in AIC's Bidder Statement. As at the date of this Statement the AIC Offer remains open until 7.00pm Sydney time on 13 August 2010 unless it is extended or withdrawn by AIC. It is possible that AIC may choose to extend the AIC Offer Period in accordance with the Corporations Act, however AIC cannot close the AIC Offer earlier than this date, except in accordance with the Corporations Act.

If you do not wish to accept the AIC Offer, you do not need to take any action.

## **What should I do?**

- **Step 1** - Read this entire Statement carefully and consider the information provided by Wallace.
- **Step 2** - Read AIC's Bidder Statement.
- **Step 3** - Consider your choices as a Shareholder as discussed in Section 4 of this Statement.
- **Step 4** - If you are in any doubt about what to do, you should consult your financial, taxation or other professional adviser as soon as possible. If you have any queries about this Statement please call Wallace on +61 2 9255 9770 during business hours or email it at [enquiries@wallaceabsolutereturn.com.au](mailto:enquiries@wallaceabsolutereturn.com.au).
- **Step 5** - If you wish to accept the AIC Offer, follow the steps set out in Section 3 of AIC's Bidder Statement.

## 4 WHAT CHOICES DO I HAVE AS A SHAREHOLDER?

As discussed below in this Section, Shareholders can choose to:

- reject the AIC Offer;
- wait and see by taking no action at the present time;
- sell their Shares on-market;
- accept the AIC Offer; or
- accept the E-quest Offer.

The Directors recommend Shareholders obtain professional taxation advice in relation to their specific circumstances.

### 4.1 **Reject the AIC Offer**

Shareholders may wish to reject the AIC Offer. Reasons for rejecting the AIC Offer or any offer for the Shares include those contained in Section 2.3 of this Statement.

Shareholders should be aware that if they decide not to accept the AIC Offer and to accept the E-quest Offer, they will not be able to receive the benefit of any potential increase in either the AIC Offer or the E-quest Offer, if either AIC or E-quest decide to increase its offer price.

### 4.2 **Wait and see**

Shareholders may decide to wait and see by taking no action at the present time in relation to the AIC Offer.

Shareholders should note that if they elect not to accept the AIC Offer they will not receive any consideration from AIC unless AIC becomes entitled to compulsorily acquire the remaining Shares that it did not acquire under the AIC Offer. (See Section 6.3(i) of this Statement and Sections 4 and 9 of AIC's Bidder Statement for further information regarding compulsory acquisition including AIC's intentions.)

It is possible that the AIC Offer is successful (that is, the AIC Offer is declared or becomes unconditional) but AIC does not become entitled to, or does not, compulsorily acquire the remaining Shares that it did not acquire under the AIC Offer. In those circumstances, those Shareholders that have not accepted the AIC Offer and continue to hold Shares will be exposed to the risks associated with being minority shareholders of Wallace. As set out in Sections 4 and 9 of AIC's Bidder Statement, AIC has no present intention to compulsorily acquire Shares.

### 4.3 **Sell your Shares on-market**

Shareholders can sell their Shares on-market for cash (including into the E-quest Offer) if they have not accepted the AIC Offer.

See Section 5.2 of this Statement for historical information about the market price of Shares sold on-market.

Shareholders who sell their Shares on-market for cash:

- will receive the consideration for the sale of their shares sooner than if they accept a takeover offer that is subject to outstanding conditions;
- may incur a brokerage charge; and
- will not receive the benefit of any subsequent increase in the consideration offered under the AIC Offer or the E-quest Offer or any increase in the market price, should this eventuate.

Shareholders should contact their broker to obtain the latest price for Shares and contact their accountant or financial adviser to determine tax implications from the sale of Shares on-market.

The price for Shares may also be obtained from the ASX website [www.asx.com.au](http://www.asx.com.au) (subject to a 20 minute delay).

Wallace encourages Shareholders to consider their own personal risk profile, portfolio strategy, tax position and financial circumstances and seek professional advice before making any decision in relation to their Shares.

#### 4.4 **Accept the AIC Offer**

Notwithstanding the Directors' recommendation to reject the AIC Offer and to accept the E-quest Offer in the absence of a superior proposal, the Directors recognise that Shareholders may choose to accept the AIC Offer. See Section 2.3 of this Statement.

See Sections 3 and 12.3 of AIC's Bidder Statement, as well as the instructions on the acceptance form accompanying AIC's Bidder Statement, for instructions on how to accept the AIC Offer.

If you intend to accept the AIC Offer, you should think carefully about the timing of your acceptance. One of the consequences of accepting the AIC Offer in respect of your Shares is that you will not be able to sell your Shares to another bidder (such as E-quest) or on-market, unless, at the time you decide you no longer wish to accept the AIC Offer, you have the right to withdraw your acceptance. The circumstances in which you will have the right to withdraw your acceptance of the AIC Offer are set out in Sections 2.2 and 6.3(e) of this Statement and Section 4 of AIC's Bidder Statement.

#### 4.5 **Accept the E-quest Offer**

Once E-quest makes the E-quest Offer, Shareholders may wish to accept the E-quest Offer in the absence of a superior proposal. Reasons for accepting the E-quest Offer are contained in Section 2.3 of this Statement.

Details of how to accept the E-quest Offer will be set out in E-quest's bidder's statement. E-quest has stated that it anticipates serving its bidder's statement on Wallace within 2 weeks of the notice of the E-quest Offer.

## 5 INFORMATION ABOUT WALLACE

### 5.1 Wallace's business activities

Wallace was listed on the ASX on 28 January 2003 to offer investors the opportunity to participate in an absolute return product. As a company listed on ASX, Shares may be bought and sold on the ASX.

Wallace's original fund manager, Wallace Funds Management (in liquidation), managed Wallace's portfolio until 26 March 2009 when the management agreement between the companies was terminated because of breaches by Wallace Funds Management (in liquidation) of its contractual and fiduciary obligations to Wallace.

Since the termination of the management agreement, Wallace has been responsible for managing its portfolio internally. During this time, Wallace has been conservatively managing its portfolio, with a mix of cash and investments in companies in the ASX200 index. The Managing Director is required to maintain a detailed schedule of all securities held at any time and provide this schedule to the Board at the end of each month.

In addition, Wallace has been focussed on maximising the value of its investment in HAL, an unlisted lease company. In August 2008 Wallace's previous Managing Director, Richard Wallace, restructured Wallace's investment in HAL without obtaining security for Wallace's investment. Due to the failure to obtain security, which ranked Wallace behind all other secured creditors, this transaction led to Wallace being significantly worse off than before these transactions were entered into.

Wallace entered into a revised loan facility agreement with HAL in November 2009. See section 5.7(b) of this Statement for further details of the revised loan facility.

As stated in Section 2.3 of this Statement, Wallace's ability to realise value from its investment in HAL is uncertain. Although the Independent Expert valued Wallace's investment in HAL at nil to \$2.0 million, it is stated in section 34 of the Independent Expert's Report that:

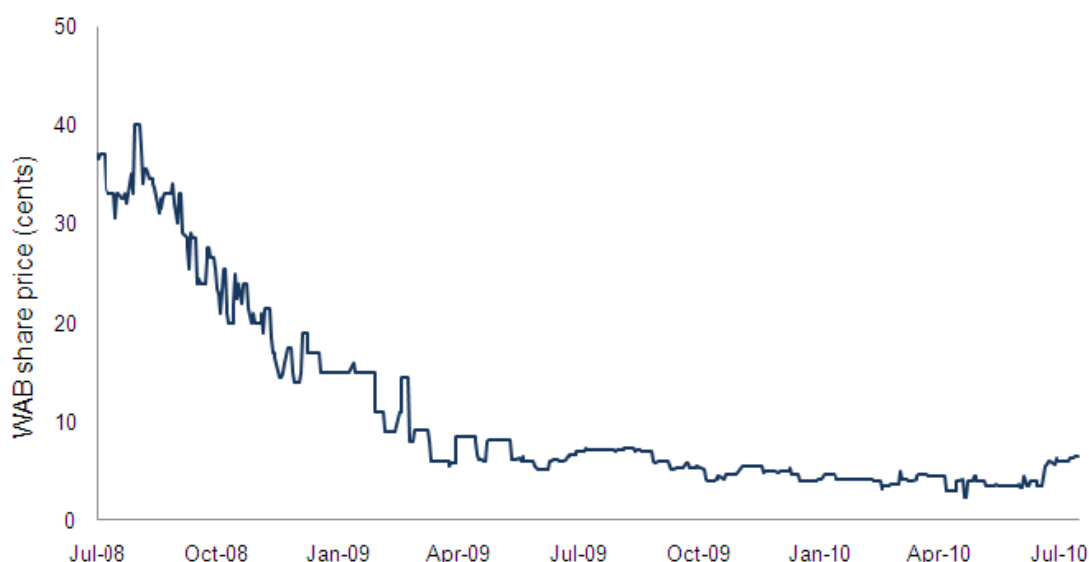
*"WAB shareholders should note that:...there is **a very high risk** that WAB will not receive any material return from its investment in HAL."* [Emphasis added.]

For details of Wallace's historical financial position and performance see the financial statements for Wallace in Wallace's annual report for the year ended 30 June 2009.

A list of announcements made by Wallace to ASX between lodgement of its annual report for the year ended 30 June 2009 (being the most recent annual report lodged with ASIC by Wallace) and the lodgement of this Statement is set out in Attachment 1.

### 5.2 Historical market price of Shares

Set out below is a table depicting the historical market price of the Shares sold on-market over the 2 year period between July 2008 and July 2010.



### 5.3 Directors

Brief background information on each Wallace Director is set out below:

#### **Kenneth Barry – LL.B (Chairman and Non-Executive Director)**

Ken Barry is a lawyer who was previously national chairman of Deacons (now Norton Rose Australia), an Australian law firm. He is chairman of Next Generation Clubs Australia Pty Ltd, IOOF Holdings Trustee Pty Ltd, MAP Venture Capital Pty Ltd and the Australian board of management of Coolmore Australia as well as chairman of the charity, Doxa Youth Foundation. He is also a director of DWS Advanced Business Solutions Ltd and Thoroughbred Breeders Australia Ltd. Mr Barry is a member of Wallace's Audit Committee.

#### **Alan Liddle – BA (Hons), MBA, FAICD (Non-Executive Director)**

Alan Liddle is a professional director and investor. He was the co-founder of the ASX listed Micromedical Industries Limited and its Chief Executive Officer from 1986 to 1998. He held senior management roles with fund manager Edward Lumley Limited and was a lecturer in advanced financial management for the Institute of Chartered Secretaries and Administrators. He has advised numerous public and private companies on issues relating to organisational structure, valuation and raising capital. He is currently Chief Executive Officer of Immune System Therapeutics Limited. Mr Liddle is the Chairman of Wallace's Audit Committee.

#### **Michael Birch – B.EC, LL.B, M.ACC, M.Bus (Managing Director)**

Michael Birch has over 15 years experience in the finance industry and in addition to his role at Wallace, he is the Managing Director of Huon Capital Pty Ltd. Previously, Mr Birch has been employed with Wallace Funds Management (in liquidation), UBS Australia, Macquarie Bank and ANZ Bank. In addition to his executive roles, Mr Birch was a non-executive of HAL from September 2007 until August 2008. Mr Birch is the sole responsible manager and key man on Wallace's AFSL.

## 5.4 Material developments

### (a) The E-quest Offer

On 12 July 2010, Wallace received notice of a proposed on-market takeover offer from E-quest to acquire all of the Shares. The cash offer price under the E-quest Offer was initially 6.4 cents per Share however, on 22 July 2010 E-quest notified Wallace that it will increase its offer price to 7.1 cents per Share. As the E-quest Offer is an on-market offer, it is unconditional and payment of the consideration will be by way of cash. E-quest stated that it anticipates serving its bidder's statement on Wallace within 2 weeks of the notice of the E-quest Offer.

Subsequent to the notice of 12 July 2010, E-quest has:

- informed Wallace that E-quest will provide a discounted on-line brokerage facility to enable Shareholders to sell their Shares to E-quest under the E-quest Offer for nil brokerage through Bell Direct; and
- requested that Wallace agree to appoint to the board a director nominated by E-quest once E-quest has voting power in at least 20% of Wallace.

The Directors recommend that Shareholders reject the AIC Offer and accept the Proposed E-quest Offer, in the absence of a superior proposal. However, Shareholders should be aware that if they accept the E-quest Offer, they will not be able to receive the benefit of any potential increase in either the AIC Offer price or the E-quest Offer price, if either AIC or E-quest increases its offer price. While AIC and E-quest have not announced that their Offers are final, AIC and E-quest have not indicated an intention to increase its offer prices above those indicated in their respective notices of 22 July 2010. The primary reasons for the Directors' recommendation are contained in Section 2.3 of this Statement.

Further information in relation to the E-quest Offer will be contained in E-quest's bidder's statement (a copy of which has not yet been provided to Wallace), Wallace's target statement to be prepared in response to the E-quest Offer and through communications to you directly and through announcements posted on the ASX website.

### (b) Material litigation

As previously announced, Wallace filed a damages claim in the Supreme Court of New South Wales against its former fund manager, Wallace Funds Management (in liquidation) and former Managing Director, Richard Wallace and his related entities. Wallace Funds Management (in liquidation) filed cross-claims against Wallace, including in relation to unpaid fees and other expenses.

On 15 June 2010, administrators were appointed to Wallace Funds Management (in liquidation). Wallace has been informed by the administrators that Wallace Funds Management (in liquidation) has been placed into liquidation and that the administrators are not in a position to



continue any legal proceedings in the name of Wallace Funds Management (in liquidation). Wallace will continue to update shareholders in relation to the external administration of Wallace Funds Management (in liquidation) as appropriate.

If Wallace pursues the litigation against Wallace Funds Management (in liquidation), Richard Wallace and his related entities, there is no guarantee that Wallace will be successful in its claim and, even if it is successful in such claim, there may be no third party assets from which any judgement in Wallace's favour, or the costs incurred by Wallace in pursuing the litigation, can be recovered particularly in light of the appointment of the liquidators of Wallace Funds Management (in liquidation).

Wallace is seeking legal advice as to implications for the litigation of Wallace Funds Management (in liquidation) being put into liquidation.

Further, if Wallace loses its litigation against Wallace Funds Management (in liquidation), Richard Wallace and his related entities then it may also be liable to pay the legal costs of those entities in addition to its own legal expenses.

(c) **Investment in HAL**

In 2009, together with legal, financial and commercial advisers, the Board conducted a review of Wallace's investment in HAL. This resulted in a restructuring of the exposure to HAL and Wallace now has greater rights than it did prior to the restructuring.

As previously announced to the ASX, Wallace received a written unconditional offer from HAL to acquire all of the debt and equity interests in HAL held by Wallace and another third party, the Solar Fund. The total consideration offered to both parties was \$1.75 million to be paid in cash and shared between the parties in proportion to their outstanding exposure, with the expectation that Wallace would receive approximately \$1.5 million. The offer was open for seven days and lapsed on 11 May 2010. Subsequently, Wallace received a renewed offer of the same amount from HAL to acquire all of Wallace's and the Solar Fund's debt and equity interests in HAL. Wallace unsuccessfully sought clarification of a number of matters in relation to HAL's offers, both of which have now lapsed.

Wallace has had other confidential approaches from time to time 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.

As announced to shareholders on 27 November 2009, Wallace's debt and equity investments in HAL were restructured to provide greater protection to Wallace as well as minimum repayment obligations which commence on 31 July 2010.

The Independent Expert has stated in section 29 of the Independent Expert's Report that HAL's business performance to 31 May 2010 implies that the minimum loan repayments to be made by HAL to Wallace are

unlikely to be met. As a result of Wallace and the Solar Fund ranking behind secured creditors of HAL (and therefore having a residual interest only in the cash flows generated), the Independent Expert has found that the latest cash flow forecasts (prepared by Wallace based on recent due diligence and information from HAL management) indicate that the cash flows potentially likely to be available to repay Wallace are **significantly** below the total minimum repayments payable by HAL. Under the terms of the restructured loan facility agreement with Wallace, failure to meet the minimum repayments is an event of default by HAL and Wallace will reserve all of its rights in relation to this default.

The Board will continue to consider and assess any approaches it receives in relation to Wallace's investment in HAL and will provide, as appropriate, updates in relation to such approaches and any material developments. In the meantime, taking into account the valuation of HAL by the Independent Expert, Wallace's investment in HAL continues to be carried at nil in Wallace's accounts because:

- of the long period of time until a return on the investment is expected;
- the high risk that the return will be nil; and
- there are a number of secured creditors ranking ahead of Wallace.

See Section 7 of this Statement for the Independent Expert's Report including the Independent Expert's valuation of Wallace's investment in HAL and the statement that:

*"WAB shareholders should note that:...there is a **very high risk** that WAB will not receive any material return from its investment in HAL." [Emphasis added.]*

See Sections 5.1 and 5.7 of this Statement for further information in relation to Wallace's investment in HAL.

(d) **Tax Losses**

(i) **Realised Tax Losses**

Wallace is carrying forward realised Tax Losses in excess of \$40 million as at 30 June 2009. Wallace has written down the value of these losses on its balance sheet to nil because there is no guarantee that it will be able to utilise these losses in the future.

Broadly, the availability of the Tax Losses is conditional on Wallace being able to demonstrate continuity in the majority of its ownership or, failing this, that it has carried on the same business and has not entered any new types of transactions, until the time the Tax Losses are to be utilised. If there is a significant change in its ownership, Wallace may no longer be able to demonstrate the requisite continuity of ownership, in which case it would need to be able to demonstrate that it has continued to carry on the same business and has not entered any new types of transactions, until the time

the Tax Losses are to be utilised. Whether Wallace is able to utilise the losses in the future will be assessed in the tax year in which the losses are to be used (if any). Furthermore, Tax Losses can only be utilised if Wallace is profitable, and no assurance is given that Wallace will make a profit.

(ii) **Unrealised Tax Losses**

As a consequence of its write-off of its investment in HAL (noted in Section 5.4(c) above), Wallace may realise additional losses estimated to exceed \$41 million in the future. If there is a substantial change in the ownership or voting control of Wallace, these losses may only be available to Wallace if Wallace is able to demonstrate that it has continued to carry on the same business and has not entered any new types of transactions. Whether Wallace will continue to be able to carry forward these losses can only be properly assessed at the time a substantial change in the ownership or voting control of Wallace occurs.

(iii) **Independent Expert's Report**

The Independent Expert has adopted a value for the Tax Losses in the range of \$1 million to \$1.5 million, reflecting the inability of Wallace to significantly utilise the Tax Losses due to the small size of its investment portfolio. In assessing the valuation range for the Tax Losses, the Independent Expert has assumed Wallace will raise additional capital.

The Board, however, continues to consider it prudent to value the Tax Losses at nil given there is no guarantee that Wallace will be able to utilise these losses in the future and the Tax Losses will only be of value if there are offsetting profits and the various requirements of the Tax Act for the utilisation of the Tax Losses are satisfied.

## 5.5 **Wallace's dividend policy**

The dividend policy of Wallace is determined by the Directors.

During the financial year to 30 June 2009 Wallace did not pay any dividends and no dividend has been paid by Wallace since declaring an interim dividend in February 2007. Wallace does not have any franking credits available for future years.

No assurance can be given as to the timing or amount, if any, of future dividends. There are many factors which would influence whether dividends are declared by Wallace, including whether Wallace's assets exceed its liabilities immediately before a dividend is declared and the excess is sufficient for the payment of the dividend and whether it is fair and reasonable to the Shareholders as a whole and does not materially prejudice Wallace's ability to pay its creditors.

## 5.6 **Risks**

Shareholders should be aware that holding Shares involves various risks.

(a) **General risks**

There are general risks associated with owning securities in publicly listed companies. The price of securities can go down as well as up due to factors outside the control of Wallace. These factors include (but are not limited to) Australian and worldwide economic and political instability; natural disasters; social upheaval or war in Australia or elsewhere; the performance of the Australian stock market and foreign stock markets; Australian and international interest rates and inflation rates and foreign exchange rates.

There may be changes in the taxation, legal and regulatory environments in Australia. These may come about by way of new statutory provisions supplementing, amending or replacing existing statutes or by reason of a change in interpretation. An example of a detrimental change that could occur would be an increase in the rates of taxation applicable to Wallace or companies in which it invests. Similarly, changes in government policy relating to taxation or investment may impact on the value of an investment in Wallace.

(b) **Specific risks**

The operating results and profitability of Wallace are sensitive to a number of factors specific to Wallace. The following matters, as well as others described elsewhere in this Statement (especially those set out in Sections 5.4 and 5.5 and the consequences of being a minority Shareholder as set out in Section 5.4), should be carefully considered in evaluating Wallace and its prospects when determining whether or not to accept the AIC Offer:

(i) **Australian financial services licence and key personnel**

Wallace holds an AFSL (licence number 221282) authorising it to deal in financial products (by issuing, applying for, acquiring or disposing of derivatives, interests in managed investment schemes and securities) to retail and wholesale clients.

The ability of Wallace to continue to conduct its business operations is dependent on the maintenance of its AFSL (or Wallace otherwise relying on an available licensing exception) and its continued solvency. Maintenance of Wallace's AFSL depends, among other things, on Wallace continuing to comply with ASIC imposed licence conditions and the Corporations Act. In particular, Wallace's AFSL is subject to a key person condition.

As set out in Section 9 of AIC's Bidder Statement, depending on the relevant interests AIC and its associates acquire in the Shares, AIC has stated that it intends to terminate (or seek to procure the termination of) Michael Birch as Managing Director and Company Secretary of Wallace following completion of the AIC Offer. As Mr Birch is named as a key person on Wallace's AFSL, if he leaves Wallace, Wallace will be required to nominate another person to replace him (or if no-one is so appointed, give ASIC reasons as to why no person has been appointed) and give a detailed description of how Wallace will continue to comply with the Corporations Act

and the conditions of its AFSL with respect to its financial services business, following Mr Birch's departure from Wallace.

Wallace's future ability to recruit and retain highly qualified management personnel will also be critical to its success. There is no guarantee that Wallace will be able to recruit and retain suitable personnel to satisfy the key person condition of its AFSL or otherwise.

A failure by Wallace to comply with its AFSL conditions or the Corporations Act may result in penalties being levied against it or the loss of its AFSL.

(ii) **Investment risk**

There are several types of investment risk that may affect your investment in Wallace, including a decline in the value of your Shares (the initial capital value may decrease especially if you are investing for the short term), you may not receive any income and even if you do the amount you receive may vary over time or the value of your investment may not keep pace with inflation.

(iii) **No guarantee of returns on investment**

No guarantee can be given in respect of the future earnings of Wallace and Wallace cannot provide a guaranteed level of return to investors.

(iv) **Net asset value and further capital requirements**

Additional capital is required to fund Wallace's activities in the future. Without additional capital, Wallace's net asset value is likely to decline. In particular, Wallace has already incurred significant expenses as a result of conducting the withdrawn rights issue, appearing before the Takeovers Panel, dealing with the AIC Offer, conducting Wallace's audit and conducting the litigation against Wallace Funds Management (in liquidation), Richard Wallace and his related entities.

As at 30 June 2010, the unaudited net tangible assets of Wallace were \$2,762,270, equating to a value of 3.3 cents per share. Since 30 June Wallace has continued to incur significant costs in relation to the above matters as well as additional costs related to conducting due diligence on HAL and responding to the AIC Offer and the E-quest Offer. See Section 5.9 of this Statement for further information.

Market conditions which are prevailing at the time of any further efforts to raise funds will impact on the price or cost at which Wallace will be able to raise funds. No assurance can be given that such funding will be available on terms acceptable to Wallace or available at all. In addition, any additional equity financing may dilute shareholdings, and debt financing (subject to availability) may result in restrictions on financing and operating activities of Wallace.

If Wallace is unable to obtain additional financing as needed in the future, it may be required to reduce the scope of its operations and scale back its investments as the case may be.

(v) **Price and liquidity for Shares**

An investment in Shares should be regarded as speculative. The price of Shares can rise or fall. It can be affected by a range of factors affecting stock markets generally, industries in which Wallace operates and securities in which Wallace invests. Those matters are often beyond the control of Wallace. In addition, liquidity in the trading of Shares (whether on ASX or otherwise) can be affected by a range of matters beyond the control of Wallace. There is no guarantee of any return in respect of an investment in Shares, whether by way of profit or capital. In particular, the price of many stocks listed on ASX have, in recent times, been subject to large fluctuations which, in some cases, may have been unrelated to the operating performance of the individual companies concerned. Such fluctuations may adversely affect the market price of Shares.

Given the takeover premium represented in the AIC Offer price and the E-quest Offer price, if both the AIC Offer and the E-quest Offer fail (or in the absence of takeover speculation), there is also a risk that Shares may trade on the ASX below the prices offered by those parties.

In addition, if Wallace retains its listing on ASX after the close of the AIC Offer and the E-quest Offer, there is a risk that the market price of the Shares will be at a discount to the prevailing net tangible asset value.

(vi) **Operating expenses**

If Wallace fails to generate sufficient profit from its investments to cover the operating expenses, Wallace's net asset value will fall.

(vii) **Poor investment performance**

The financial performance of Wallace is reliant on the investment performance of its portfolio of investments. There is no guarantee that the value of Wallace's investments will increase in value and some, or possibly all, of the money invested in the portfolio of investments may be lost.

(viii) **ASX listing**

Wallace's listing on the ASX is subject to it meeting the requirements of the ASX Listing Rules (including there being a sufficient spread of Shareholders). If Wallace fails to satisfy those requirements, Wallace may be removed from the official list of the ASX and Shareholders will be left with shares in an unlisted company. In particular, if Wallace is unable to satisfy the requirements for continuation of its listing on ASX after completion of the AIC Offer or for any other reason or an application is made by

Wallace to be delisted, Shareholders will hold shares in an unlisted company.

In addition, due to the costs involved in maintaining Wallace's listing on the ASX, if all offers for Shares fail, the Board will need to consider whether it should delist. Delisting the Shares will reduce Wallace's costs, however, as stated above Shareholders will be left with shares in an unlisted company.

The above list of risks is not exhaustive and other factors may in future affect the performance of Wallace and the value of Shares. Wallace makes no assurances or guarantees of future profitability, distributions, payment of dividends, returns of capital or performance of Wallace or its securities.

## 5.7 **Material contracts**

### (a) **Settlement with AIC and E-quest**

On 18 June 2010, Wallace reached an agreement with AIC and E-quest in relation to AIC's application to the Australian Takeovers Panel lodged on 8 June 2010 in relation to the Rights Issue.

Under the terms of the settlement, AIC agreed to withdraw its application to the Takeovers Panel and serve a bidder's statement in relation to a takeover offer for up to 100% of the Shares at 5.9 cents in cash per share by 25 June 2010, on the basis that:

- Wallace withdrew its Rights Issue and refunded all application monies (without interest) that it received under the prospectus for the Rights Issue;
- Wallace and E-quest terminated the underwriting agreement between them in relation to the Rights Issue;
- E-quest withdrew the nomination of Mr Spiro Paule and Mr Anthony Roussos to the Board and Wallace not, by Board resolution, appoint Mr Paule and Mr Roussos to the Board within a period of 4 months; and
- Wallace agreed to appoint to the Board an independent director nominated by AIC once AIC has voting power in at least 20% of Wallace, subject to the Board approving the relevant nominee and AIC complying with the terms of the settlement agreement. AIC has subsequently nominated Mark Schiliro as the independent director. Further details about Mr Schiliro are set out in Section 9.3 of AIC's Bidder Statement.

In addition, Wallace agreed:

- to pay E-quest a fee equivalent to the underwriting commission E-quest would otherwise have earned under the Rights Issue (for which AIC has indemnified Wallace) for the termination of the underwriting agreement between Wallace and E-quest;

- to pay E-quest the legal fees and disbursements incurred by E-quest in relation to the underwriting, the Rights Issue and AIC's application to the Takeovers Panel; and
- that the Board expected to recommend the AIC Offer, subject to an independent expert's report opining that the AIC Offer is fair and reasonable and in the absence of a superior proposal.

(b) **HAL**

On 26 November 2009, Wallace and HAL agreed to restructure Wallace's investments in HAL.

Prior to the restructuring, Wallace held:

- an unsecured loan note from HAL having a principal amount of approximately \$37 million; and
- approximately 11.5% of HAL's issued shares at a cost of approximately \$4.6 million.

Under the terms of the restructuring, the new terms and conditions agreed by the parties apply in substitution for the previous agreed terms and conditions. Such terms and conditions include:

- HAL is required to pay Wallace (among other parties) an agreed percentage of free cash flow from its operations, after servicing commitments to secured creditors, towards repayment of the principal outstanding under the loan facility.
- HAL's minimum repayment obligations to Wallace are as follows:
  - \$53,679 payable on 31 July 2010;
  - \$4,048,740 payable on 31 July 2011; and
  - \$4,231,294 payable on 31 July 2012.
- HAL will commit an event of default under the loan facility if (among other things) the total receipts received during any period is less than the minimum repayment amount for that period. If HAL commits an event of default, Wallace may require HAL to repay the principal outstanding and all other amounts outstanding under the loan facility immediately.
- The due and punctual performance and payment of all liabilities and obligations of HAL that arise in relation to the loan facility provided by Wallace are guaranteed by Technology Leasing Limited, Hal Financial Services Pty Ltd, Technology Security Leasing Pty Ltd and Technology Leasing Partnership. If Wallace has limited or no legal right to enforce against HAL, or HAL is not bound by any obligations guaranteed by the parties or what would otherwise have been guaranteed obligations, the guarantors also indemnify Wallace



for any amounts Wallace would be entitled to recover but for those circumstances.

- HAL undertook to, among other things:
  - comply with various ongoing reporting requirements, (including the obligation to give Wallace copies of its management accounts and consolidated audited accounts);
  - ensure that it and each guarantor to the agreement notify Wallace as soon as it becomes aware of any event of default or potential event of default under the loan facility;
  - inform Wallace promptly on becoming aware of any litigation, arbitration or administrative proceedings in respect of a group company being commenced, or to its knowledge threatened, which may have a material adverse effect; and
  - permit Wallace and its officers, advisors or nominees, on reasonable notice during normal business hours to have access to and inspect the premises, assets, books, accounts and records of each member of the Wallace group.
- HAL indemnifies Wallace against any liability, loss, cost and expense which Wallace incurs in or as a result of or in connection with:
  - an event (or potential event) of default or breach of a finance document;
  - any exercise or attempted exercise of any right, power or remedy under any finance document or any failure to exercise any right, power or remedy; or
  - the mortgaged property (being HAL shares and rights held by various named parties associated with HAL) or the existence of any interest in or control, right or power or remedy with respect to the mortgaged property.
- The loan facility will not bear interest. Instead, HAL has granted Wallace an option to be issued with ordinary shares in HAL. The option is exercisable:
  - when HAL has fully repaid the principal outstanding under the loan facility, in which case Wallace has the right to require HAL to issue to it that number of shares that takes Wallace's total shareholding in HAL to 45%; or
  - if HAL has committed an event of default, when Wallace gives HAL a notice requiring HAL to immediately repay the principal outstanding together with all other amounts outstanding under the loan facility, in which case Wallace has the right to require HAL to issue to it shares that takes

Wallace's shareholding in HAL to between 45% and 90%, depending on the level of principal remaining outstanding under the loan facility at the time of default.

Wallace wrote down its investment in HAL to nil in its 30 June 2009 accounts. Further details of Wallace's investment in HAL are set out in Section 5.4(c) of this Statement.

(c) **Executive services agreement**

Michael Birch was engaged, through an associated company, as an independent contractor by Wallace with effect from 4 December 2008 to perform the role of Chief Executive Officer and Company Secretary of Wallace.

For his role as Chief Executive Officer of Wallace, Mr Birch's associated company is entitled to receive \$2,000 per week plus GST with an additional \$250 per hour plus GST for any time spent in providing the services that are in addition to eight hours per week in any one given week. The fees payable to Mr Birch's associated company exclude any additional fee for service based arrangements with Wallace which may be agreed from time to time.

Given AIC's intention to terminate (or attempt to procure the termination of) Mr Birch's engagement as Managing Director and Company Secretary of Wallace (see Section 9 of AIC's Bidder Statement), the termination provisions of the executive services agreement are summarised below.

The agreement may be terminated by:

- Wallace immediately by written notice in certain circumstances including, among other things, if Mr Birch engages in serious or wilful misconduct or gross negligence in performing the agreed services, in which case Wallace's payment to Mr Birch's associated company will be limited to the amount of any fees due to the date that the agreement is terminated;
- Wallace giving the Mr Birch's associated company three months notice of termination of the agreement, in which case Wallace will pay Mr Birch's associated company the amount of fees due to the date that the agreement is terminated;
- Mr Birch or his associated company where Wallace is in breach and fails to remedy that breach within 3 months after notice was provided; or
- by mutual agreement between the parties on such conditions as agreed, in which case Wallace will pay Mr Birch's associated company the amount agreed.

Any payments to be made by Wallace under the agreement must be within the limits prescribed by the Corporations Act and any other laws (including the ASX Listing Rules) that require Shareholder approval (in which case, Wallace must take all steps necessary to attempt to obtain the necessary Shareholder approval). If a termination benefit becomes payable under the

agreement which requires Shareholder approval and such approval has not been granted, then such benefit will be reduced (pro rata to the termination amounts payable) to the maximum extent necessary to avoid the requirement for Shareholder approval.

On termination of the agreement, Mr Birch and his associated company must immediately deliver up to Wallace any property of Wallace which may be in their possession, power or control. Mr Birch must also immediately resign as Chief Executive Officer and Company Secretary of Wallace.

Under the terms of the executive services agreement, Wallace must indemnify Mr Birch on a full indemnity basis and to the fullest extent permitted by law, against all losses or liabilities incurred by him as an officer of Wallace. As referred to in Section 8.6 of this Statement, Wallace's constitution provides an indemnity for its officers and directors and Wallace has granted a separate indemnity to Mr Birch in his role as a director and officer of Wallace.

As part of cost reduction initiatives undertaken by Wallace in November 2009, Mr Birch currently pays for the costs of a Bloomberg terminal and SAS licence. Mr Birch does not have to provide any notice to terminate this arrangement with Wallace.

(d) **Services and infrastructure agreement**

Wallace entered into the Services and Infrastructure Agreement with APAM on 23 March 2010 pursuant to which APAM provides Wallace with the use of the office premises located at Level 3, 20 Loftus Street, Sydney NSW together with Services, for a period of 12 months commencing on 1 January 2010.

In consideration of the provision of the Services and the office premises, Wallace pays APAM:

- a monthly fee of \$2,000 plus GST, payable monthly in arrears from 1 January 2010 for the provision of the Services; and
- a monthly fee of \$3,333 plus GST for the provision of back office and settlement services relating to Wallace's share trading portfolio.

AIC has stated its intention to relocate (or attempt to procure the relocation of) Wallace's registered office (see Section 9 of AIC's Bidder Statement). In this regard, the Services and Infrastructure Agreement may be terminated by:

- a party giving no less than 30 days written notice to the other party if Mr Birch ceases to be an employee of Wallace, or otherwise, 100 days written notice;
- a party where the other party commits a fundamental breach of the agreement and fails to remedy it within 14 days after receiving notice specifying such breach and requiring its remedy; or

- APAM on at least 7 days written notice to Wallace if there is a change of control of Wallace.

Neither party will be liable for any claim for consequential damages, costs, expenses or compensation as a result of termination under the agreement but without limiting the liability of either party for any antecedent breach.

(e) **Advisory agreement**

Wallace engaged Allier Capital from 29 March 2010 as Wallace's exclusive financial advisor in relation to the review of strategic alternatives for Wallace's future and any subsequent transaction resulting from such review.

In addition to a retainer fee, the parties have agreed that, if there is a change in control of Wallace as a result of a takeover offer or scheme of arrangement, Wallace will pay Allier Capital an amount equal to 5% of Wallace's market capitalisation at the relevant offer price with a cap on the fee of \$300,000.

## 5.8 **Information about the Shares**

As at the date of this Statement, there are 84,455,052 ordinary shares on issue in Wallace. There are no other issued securities in Wallace.

Section 7 of this Statement contains further information regarding Wallace and the Shares. Any continuous disclosure notices given by Wallace in the period between lodgement of Wallace's most recent annual financial report and the lodgement of this Statement with ASIC are listed in Attachment 1.

## 5.9 **Recent net asset value of Wallace Absolute Return Limited**

As at 30 June 2010, the unaudited net tangible assets of Wallace were \$2,762,270, equating to a value of 3.3 cents per Share. Subsequent to 30 June, Wallace has continued to incur significant costs. These costs have included or will include dealing with the AIC Offer, conducting Wallace's audit, conducting litigation against Wallace Funds Management (in liquidation), Richard Wallace and his related entities, conducting due diligence on HAL and responding to the E-quest Offer. Subsequent to the 30 June net tangible assets calculation, the Board anticipates that approximately \$885,000 in expenses will be incurred before the close of the AIC Offer.

The breakdown of these costs (exclusive of GST) is shown in the table below.

	<b>Anticipated costs</b>
Director fees	\$110,000
Legal advisory fees	\$72,000
Financial advisory fees (including 5% completion fee) <sup>5</sup>	\$350,000
Independent Expert fees	\$30,000
HAL due diligence fees	\$57,000
Audit and accounting	\$42,000
Printing and postage costs associated with the AIC Offer	\$30,000
Other (including fund administrator fees, rent and costs associated with the rights issue)	\$194,000
<b>Total anticipated costs</b>	<b>\$885,000</b>

The anticipated costs above, if incurred, will result in a net tangible asset value of approximately 2.3 cents per Share.

Wallace provided the Independent Expert with earlier estimated costs incurred or to be incurred to assist in the preparation of its Independent Expert's Report. Those estimated costs were \$50,000 less than the costs set out above.

#### 5.10 **Unaudited share portfolio and cash holding**

Wallace's unaudited asset value as at 30 June 2010 was \$2,762,270. This consisted of \$1,554,704 in listed equities and \$1,207,566 in cash net of liabilities held in Wallace's cash management accounts and on deposit.

As at the close of trading on the ASX on 23 July 2010 Wallace's listed share portfolio had a market value of \$1,599,252 which was invested in companies that are in the ASX200 Index. The positions held by Wallace as at 23 July 2010 are listed below.

During this time, Wallace has been conservatively managing its portfolio, with a mix of cash and investments in companies in the ASX200 index.

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<sup>5</sup> This fee has been calculated based on the E-quest Offer price of 7.1 cents per Share.

<b>Name</b>	<b>Number of Shares</b>	<b>Market Value (as at 23 July 2010)</b>
Australia and New Zealand Banking Group Limited (ANZ)	7,200	\$161,352
BHP Billiton Limited (BHP)	5,000	\$198,400
Commonwealth Bank of Australia (CBA)	3,000	\$153,720
Leighton Holdings Limited (LEI)	5,000	\$148,300
National Australia Bank Limited (NAB)	5,800	\$141,346
QBE Insurance Group Limited (QBE)	7,800	\$140,166
Rio Tinto Limited (RIO)	2,600	\$181,636
Westpac Banking Corporation (WBC)	6,400	\$145,472
Wesfarmers Limited (WES)	6,000	\$172,840
Woolworths Limited (WOW)	6,000	\$154,020
<b>Total</b>		<b>\$1,599,252</b>

Portfolio holdings may change as securities are bought or sold by Wallace.

## 6 INFORMATION ABOUT AIC AND THE AIC OFFER

### 6.1 Source of information

The information in this Statement (including this Section 6) has been taken from AIC's Bidder Statement and publicly available information. None of the information in this Statement concerning AIC, its intentions or business has been verified by AIC or its board of directors or independently verified by Wallace or the Directors. Accordingly, subject to the Corporations Act, Wallace, its advisers, persons named in this Statement with their consent and each person involved in the preparation of this Statement makes no representation (express or implied) as to the accuracy or completeness of such information.

The information in this Statement regarding AIC and the AIC Bidder Statement is a summary and should not be considered comprehensive. Shareholders should carefully read the AIC Bidder Statement in its entirety.

### 6.2 Details about AIC

AIC is an Australian proprietary company incorporated in NSW on 27 May 2010 for the principal activity of acquiring Shares.

AIC's sole director and shareholder is Mr Mark Smith, who is also the sole director of Presmore.

Presmore has agreed to loan, through its subsidiary New England Investment Company Pty Limited (ACN 143 925 544), \$4.5 million to AIC to fund the AIC Offer. See Sections 8.2 and 8.3 of AIC's Bidder Statement for further details of the loan.

As at 20 July 2010, AIC and its associates had a relevant interest in 13,662,234 Shares (equating to approximately 16.2% of the total Shares on issue). The number of Shares held by AIC and each of its associates as at 20 July 2010 is set out in the table below.

Name	Number of Shares held	Percentage of total Shares held
AIC	3,447,050	4.1%
Presmore	9,842,374	11.7%
Sandon Capital Pty Limited (ACN 130 853 691)	372,810	0.4%
<b>Total</b>	<b>13,662,234</b>	<b>16.2%</b>

AIC has no trading history.

See Section 5 of AIC's Bidder Statement for further information regarding AIC and its sole director and shareholder, Mr Mark Smith.

### 6.3 The AIC Offer

AIC's intention to make an offer to the Shareholders to acquire all of the Shares was announced on 4 June 2010.

On 25 June 2010, AIC served Wallace with a copy of AIC's Bidder Statement, which contains the AIC Offer.

A summary of some key terms of the AIC Offer is set out below and in Section 3 of this Statement. For further information regarding the terms of the AIC Offer please refer to Section 12 of AIC's Bidder Statement.

(a) **Notice of status of Condition**

AIC's Bidder Statement indicates that the date for AIC to give a notice on the status of the Condition as required by section 630(1) of the Corporations Act is 5 August 2010, subject to extension in accordance with section 630(2) of the Corporations Act if the AIC Offer Period is extended.

(b) **AIC Offer Period**

Unless withdrawn, the AIC Offer will remain open for acceptance during the period commencing on the date of the offer and ending at 7.00pm (Sydney time) on the later of 13 August 2010 or any date to which the AIC Offer Period is extended.

The circumstances in which AIC may extend or withdraw the AIC Offer are set out in Sections 6.3(c) and 6.3(d) respectively of this Statement.

(c) **Extension of the AIC Offer Period**

The AIC Offer Period can be extended at AIC's election or otherwise in accordance with the Corporations Act. See Sections 4 and 12.2 of AIC's Bidder Statement for further details. If, within the last 7 days of the AIC Offer Period, the AIC Offer is varied to improve the consideration offered, then , the AIC Offer Period will be automatically extended so that it ends 14 days after the event in accordance with section 624(2) of the Corporations Act.

(d) **Withdrawal of the AIC Offer**

AIC may withdraw unaccepted AIC Offers at any time with the written consent of ASIC and subject to the conditions (if any) specified in such consent.

If at the time AIC withdraws the AIC Offer it is subject to the Condition, all contracts resulting from its acceptance will become void (whether or not the events referred to in the relevant Condition have occurred). However, if at the time AIC withdraws the AIC Offer it has been freed from the Condition, all contracts arising from acceptance of the AIC Offer before it was withdrawn will remain enforceable.

See Section 12.12 of AIC's Bidder Statement for further details in relation to the withdrawal of the AIC Offer.



(e) **Effect of acceptance and your ability to withdraw your acceptance**

The effect of accepting the AIC Offer is set out in Sections 4 and 12.5 of AIC's Bidder Statement.

The Directors urge you to read AIC's Bidder Statement in full to understand the effect that acceptance of the AIC Offer will have on the rights attaching to your Shares and the representations and warranties that you give AIC by accepting the AIC Offer.

As set out in Section 4 of AIC's Bidder Statement, a Shareholder who accepts the AIC Offer cannot withdraw its acceptance unless a withdrawal right arises under the Corporations Act. Such a withdrawal right will arise if, after the Shareholder has accepted the AIC Offer, the AIC Offer remains conditional and AIC varies the AIC Offer in a way that postpones, for more than one month, the time when AIC has to meet its obligations under the AIC Offer. See Section 12.5 of AIC's Bidder Statement for further details.

Unless a withdrawal rights arises, a Shareholder who accepts the AIC Offer will not be able to accept the E-quest Offer or an offer from a third party. As at the date of this Statement, the Board is not aware of any third party who proposes to make an offer for the Shares.

As set out in Section 12.13 of AIC's Bidder Statement, AIC may vary the AIC Offer.

(f) **When will I receive my consideration if I accept the AIC Offer?**

Subject to Section 12.6 of AIC's Bidder Statement and the Corporations Act, AIC must provide the consideration due to you for your Shares on or before the earlier of:

- 21 days after the date of your acceptance of, if the AIC Offer is subject to a defeating condition when you accept the AIC Offer, within 21 days after the AIC Offer becomes unconditional; and
- 21 days after the end of the AIC Offer Period.

However there are certain exceptions to the above timetable for the payment of consideration.

AIC will pay the consideration payable to you under the AIC Offer by cheque in Australian currency.

Further details of when and how you will receive your consideration are set out in Section 12.6 of AIC's Bidder Statement.

(g) **Effect of an improvement in consideration under the AIC Offer on Shareholders**

If AIC increases the consideration payable under the AIC Offer, all Shareholders who sell their Shares under the AIC Offer, whether or not they have accepted the AIC Offer prior to the increase in consideration, will be entitled to the benefit of the increased consideration. For example, AIC has notified Wallace that it proposes to increase its offer price to 7 cents per

Share. The increase in the AIC Offer price will apply to all Shareholders who have already accepted the AIC Offer.

If a competing bid for Wallace is made at a higher price than the AIC Offer (such as the E-quest Offer), Shareholders who have already accepted the AIC Offer will not be able to sell their Shares to the competing bidder. Rather, AIC could declare the AIC Offer free from the Condition and accept the higher bid in respect of Shares acquired by AIC. If that occurred AIC would retain the excess of the higher competing bid offer price over that offered under the AIC Offer.

(h) **Lapse of the AIC Offer**

The AIC Offer will lapse if the Condition is not waived or fulfilled by the end of the AIC Offer Period, in which case any contract resulting from acceptance of the AIC Offer will automatically be void. In such circumstances, if you have previously accepted the AIC Offer, you will be free to deal with your Shares as you wish.

(i) **Compulsory acquisition**

AIC will be able to compulsorily acquire any outstanding Shares for which it has not received acceptances on the same terms as the AIC Offer if during, or at the end of, the AIC Offer Period, AIC and its associates have:

- a relevant interest in at least 90% (by number) of the Shares; and
- acquired at least 75% (by number) of the Shares for which it has made an offer.

If these thresholds are met, AIC will have one month from the end of the AIC Offer Period within which to give compulsory acquisition notices to Shareholders who have not accepted the AIC Offer. The consideration payable by AIC will be the AIC Offer price last offered under the AIC Offer.

If AIC does not become entitled to compulsorily acquire Shares in accordance with the above procedures, it may nevertheless become entitled to exercise general compulsory acquisition rights under Part 6A.2 Division 1 of the Corporations Act.

Shareholders may challenge any compulsory acquisition, but this would require the relevant Shareholders to establish to the satisfaction of a court that the terms of the AIC Offer do not represent fair value for the Shares. If Shares are compulsorily acquired, Shareholders are not likely to receive any payment until at least one month after the compulsory acquisition notices are sent.

AIC has indicated in AIC's Bidder Statement that it has no present intention of compulsorily acquiring outstanding Shares if it and its associates acquire a relevant interest of more than 90% of the Shares. However, this intention is subject to Wallace continuing to meet the requirements of the ASX Listing Rules. If AIC and its associates acquire a relevant interest of more than 90% of the Shares and Wallace no longer meets the requirements of the

ASX Listing Rules, AIC may decide to compulsorily acquire outstanding Wallace Shares.

Wallace's intentions may be affected by the rights of remaining holders of Shares under the Corporations Act. If AIC decides not to proceed with compulsory acquisition it may still need to offer to buy outstanding Shares under section 662A of the Corporations Act.

There is no guarantee that AIC and its associates will acquire a relevant interest in 90% of the Shares or proceed to compulsorily acquire outstanding Shares.

See Sections 4 and 9 of AIC's Bidder Statement for further details of AIC's intentions in relation to Wallace, including in relation to the compulsory acquisition of outstanding Shares.

(j) **AIC's intentions**

Section 9 of AIC's Bidder Statement sets out AIC's current intentions in relation to the continuation of Wallace's business (including any major changes to such business), the redeployment of Wallace's fixed assets and the future employment of Wallace's present employees.

In general, if AIC and its associates acquire a relevant interest in 90% or more of the Shares, AIC has stated that it intends to:

- appoint four new directors to the Board and request that the three existing Directors retire (details of the proposed four new directors are set out in Section 9.3 of AIC's Bidder Statement);
- not compulsorily acquire outstanding Shares (but AIC reserves the right to proceed with compulsory acquisition in accordance with the Corporations Act if Wallace ceases to comply with the ASX Listing Rules);
- retain Wallace's listing on ASX, subject to satisfying the ongoing requirements under the ASX Listing Rules;
- relocate Wallace's head office and seek to change Wallace's name to a name yet to be determined;
- review Wallace's dividend policy;
- undertake a review of Wallace's investments (including HAL). Subject to the results of the review, AIC has no present intention to sell any specific part of Wallace's business or assets or to downsize any specific part of Wallace's business; and
- terminate the employment of Mr Michael Birch as Managing Director and Company Secretary of Wallace following completion of the AIC Offer.

Broadly, if AIC and its associates acquire a relevant interest in less than 90% of the Shares, AIC has stated that it intends to nominate up to 4 new

directors for the Board, support retaining the listing of Wallace on the ASX (subject to satisfying the ongoing requirements under the ASX Listing Rules) and seek to procure that the Board implement the strategies and goals outlined in Section 9.3 of AIC's Bidder Statement to the extent possible and to the extent appropriate in the circumstances. See Sections 9.4, 9.5 and 9.6 of AIC's Bidder Statement for further details.

AIC's statements of intention may change as new information becomes available or circumstances change and they are subject to the Board's obligation to have regard to the interests of Wallace and all Shareholders, the Corporations Act, the ASX Listing Rules and any required approvals of minority Shareholders.

#### **6.4 Minority ownership consequences**

The AIC Offer is not subject to a minimum level of acceptance by Shareholders.

As at 20 July 2010, AIC held 4.1% of Wallace's issued shares and together with its associates held a relevant interest in 16.2% of Shares.

If AIC obtains more than 50% of the Shares then assuming all Conditions of the AIC Offer are satisfied or waived, AIC will acquire a majority shareholding in Wallace. Sections 9.3, 9.4 and 9.5 of AIC's Bidder Statement sets out AIC's current intentions upon AIC acquiring more than 50% of the Shares.

Accordingly, Shareholders who do not accept the AIC Offer may become minority shareholders in Wallace if AIC and its associates acquire a relevant interest in 50% or more of the Shares. This has a number of possible implications including:

- provided that Wallace remains on the official list of the ASX, the market price of Shares may substantially fall, particularly if the current Share price incorporates a takeover premium element;
- Shareholders will continue to have the right to offer their Shares for sale on the ASX (unless their shares are compulsorily acquired or Wallace is no longer on the official list of the ASX) although there may be a reduction in the level of liquidity in the market for Shares, where Shares are already thinly traded (see Section 9.3(c) of AIC's Bidder Statement for further details); and
- a change to the Wallace board – AIC's Bidder Statement states that AIC will seek to replace the members of the Board with nominees of AIC.

For further details regarding AIC's intentions, see Section 9 of AIC's Bidder Statement.

## 7 INDEPENDENT EXPERT'S REPORT

# LONERGAN EDWARDS & ASSOCIATES LIMITED

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23 July 2010

**Subject: Takeover offer for Wallace Absolute Return Limited**

Dear Directors

### Introduction

- 1 Wallace Absolute Return Limited (WAB) is an Australian Securities Exchange (ASX) listed investment company. Its principal assets comprise a share portfolio, cash and an investment in HAL Data Services Pty Limited (HAL).
- 2 On 4 June 2010 Armidale Investment Company Pty Limited (AIC) announced its intention to make a takeover offer for all the ordinary shares in WAB at a cash offer price of 5.9 cents per share (the AIC Offer).
- 3 The AIC Offer is conditional upon no event taking place between 4 June 2010 and the end of the bid period that would fall within the matters set out in section 652C(1)(a)-(h) of the *Corporations Act 2001* (Cth). Further detail on this condition is set out in Appendix C.
- 4 On 12 July 2010 E-quest Capital Pty Ltd (E-quest) advised WAB that it intends to make an on-market takeover offer to acquire all the ordinary shares in WAB for 6.4 cents cash per share (the E-quest Proposed Offer). WAB shareholders who wish to accept the E-quest Proposed Offer, which is unconditional, will therefore need to sell their shares on the ASX during the period of the E-quest Proposed Offer. We understand that WAB shareholders will be able to accept the E-quest Proposed Offer without incurring brokerage if they sell their shares on-market through Bell Direct.
- 5 On 22 July 2010 AIC announced that it intended to purchase WAB shares on-market at prices up to 7.0 cents per share and that, if it did so, it would increase its offer for WAB shares equal to the highest price paid. Subsequently, WAB has been advised that AIC intends to increase the AIC Offer to 7.0 cents cash per WAB share.
- 6 Subsequently, E-quest increased the E-quest Proposed Offer to 7.1 cents cash per share.

- 7 The Directors of WAB have requested that LonerGAN Edwards & Associates Limited (I.F.A) prepare an IER stating whether, in LEA's opinion, the AIC Offer and the E-quest Proposed Offer is "fair and reasonable".
- 8 LEA is independent of WAB, AIC and E-quest and has no other involvement or interest in the outcome of the AIC Offer or the E-quest Proposed Offer, other than the preparation of this report.

### Valuation of WAB

- 9 LEA has valued 100% of the ordinary shares in WAB at between 3.5 and 6.6 cents per share<sup>1</sup>, as summarised below:

	Low \$000	High \$000
Share portfolio	1,518	1,687
Cash net of estimated liabilities	399	399
Investment in HAL	-	2,000
Value of taxation losses	1,000	1,500
Value of WAB	2,917	5,586
Number of shares on issue (000's)	84,455	84,455
Value of WAB per share	3.5 cents	6.6 cents

- 10 It should be noted that the above valuation range **excludes** any value attributable to WAB's legal action against Wallace Funds Management (WFM), Richard Wallace and his related entities. As discussed in paragraphs 35 to 44 of this report, this is because it is not possible to reliably estimate the likely damages award or WAB's ability to recover any such damages.
- 11 The wide valuation range largely reflects the uncertainty surrounding the realisable value of WAB's investment in HAL. There is a high risk that WAB will not realise any significant value from its investment in HAL.

### Share portfolio and net cash

- 12 As at 30 June 2010 WAB held the following shares in ASX listed companies. For the purposes of this report we have valued these shares based on their trading range in the one month period up to 30 June 2010 less an allowance of 0.2% for realisation costs, as shown below:

Share portfolio		Recent trading range <sup>(1)</sup>		Assessed value range	
Stock	No. of shares	Low \$ per share	High \$ per share	Low \$000	High \$000
ANZ Bank	7,200	21.34	23.68	154	170
BHP Billiton	5,000	36.30	40.13	182	201
Commonwealth Bank	3,000	48.06	53.48	144	160
Leighton Holdings	5,000	28.52	33.69	143	168
National Australia Bank	5,800	22.71	25.57	132	148
QBE Insurance	7,800	17.91	19.55	140	152

<sup>1</sup> Excluding any value attributable to WAB's legal action against Wallace Funds Management (WFM), Richard Wallace and his related entities (refer paragraphs 35 to 44).

<b>Share portfolio</b>					
<b>Stock</b>	<b>No. of shares</b>	<b>Recent trading range<sup>(1)</sup></b>		<b>Assessed value range</b>	
		<b>Low \$ per share</b>	<b>High \$ per share</b>	<b>Low \$000</b>	<b>High \$000</b>
Rio Tinto	2,600	64.72	72.85	168	189
Westpac	6,400	21.60	23.99	132	154
Wesfarmers	6,000	28.00	30.00	168	180
Woolworths	6,000	26.30	28.02	158	168
				<u>1,521</u>	<u>1,690</u>
Less allowance for realisation costs (0.2%)				(3)	(3)
Valuation range				<u>1,518</u>	<u>1,687</u>

**Note:**

1 Trading range from 1 June 2010 to 30 June 2010.

- 13 In addition, as at 19 July 2010 WAB had cash net of estimated liabilities of approximately \$399,000<sup>2</sup>. This figure is calculated after making allowance for actual and estimated costs associated with:
- (a) legal and underwriting expenses related to the proposed rights issue (which has been cancelled due to the AIC Offer)
  - (b) responding to the AIC Offer and the E-quest Proposed Offer, including costs associated with the Takeovers Panel proceedings, preparation of the Target Statement and associated legal and advisory expenses
  - (c) an investigating accountants report on HAL
  - (d) audit and accounting fees in connection with the year end accounts.
- 14 The value of WAB's share portfolio and net cash therefore represents some 2.3 to 2.5 cents per share, as shown below:

	<b>Low \$000</b>	<b>High \$000</b>
Value of share portfolio	1,518	1,687
Cash (net of estimated liabilities)	399	399
	<u>1,917</u>	<u>2,086</u>
WAB shares on issue (000's)	84,455	84,455
Total per share (cents)	<u>2.3</u>	<u>2.5</u>

<sup>2</sup> Based on unaudited management accounts.

## **HAL Data Services Pty Limited**

### **Overview of HAL**

- 15 HAL is an equipment leasing and trading company. Its finance leasing business provides operating leases to clients across a range of assets. Leases range in size from consumer leases for IT and electrical equipment to large corporate and government transactions. Income is generated from the origination of lease rental streams (“primary” income), “inertia” rentals (lease rentals after the expiry of the initial lease agreement) and the sale of used equipment (“secondary” income). As at 30 June 2010 HAL had approximately 10,229 active rental contracts with an original equipment cost of approximately \$163 million.
- 16 The trading division sources equipment for leasing and disposes of equipment at expiry of the lease term.
- 17 HAL was founded in 1993 and operates from premises in Roseville in New South Wales.

### **WAB investment in HAL**

- 18 WAB acquired 11.5% of the shares in HAL in April 2008 for \$4.6 million. In addition, as at 30 June 2010 WAB was owed approximately \$37.0 million from HAL. This loan is unsecured.
- 19 Both the equity investment in and loans to HAL have been written down to nil in WAB’s financial statements. The decision to adopt a nil value for the investment in HAL was described in WAB’s latest Net Tangible Asset Value release (dated 15 July 2010) as a “conservative approach” and reflects the WAB Board’s considered view of:
  - (a) the uncertainty, associated risks and likelihood of meaningful recovery of the HAL investment
  - (b) HAL’s trading conditions (which remain difficult)
  - (c) the amount of prior ranking debt in HAL.

### **Restructure of HAL investment**

- 20 In November 2009 WAB and HAL agreed new terms in connection with WAB’s loan to HAL.



- 21 Under the amended loan note documentation HAL is required to apply an agreed percentage of free cash flow from its operations (after servicing commitments to secured creditors and paying 15% of the residual cash flow to entities associated with HAL management as an incentive to maximise returns) towards repayment of the principal outstanding under the loan agreement. HAL has the following minimum repayment obligations to WAB under this agreement:

Year	Minimum repayment obligation <sup>(1)</sup> \$000
FY10	54
FY11	4,049
FY12	4,231
FY13	1,574
FY14	-
FY15	5
FY16	19
FY17	1,322
Total	11,254

**Note:**

- 1 To be paid by 31 July following each year end.

- 22 However, the loan does not bear interest. Instead, HAL has granted WAB an option to be issued ordinary shares in HAL. The option is exercisable in the following scenarios:
- (a) where HAL has fully repaid the principal outstanding<sup>3</sup>, WAB has the right to acquire 45% of HAL's equity
  - (b) where HAL defaults under the loan agreement, WAB can acquire between 45% and 90% of HAL's equity, depending on the level of principal remaining outstanding under the loan agreement at the time of the default<sup>4</sup>.

**Offers for HAL**

- 23 On 4 May 2010 WAB received a written unconditional offer from HAL to acquire all of the debt and equity interests in HAL held by WAB and another third party, the Solar Fund. The total consideration offered to both parties was \$1.75 million in cash. This consideration would be shared between the parties in a manner to be agreed but it was expected that WAB's consideration would be in excess of \$1.5 million. The offer was open for seven days and lapsed on 11 May 2010. Subsequently, on 13 May 2010 WAB received a renewed offer at the same price from HAL to acquire all of its debt and equity interests in HAL. WAB sought clarification on a number of matters in relation to the offers (including, for example, funding capacity, identity of the purchaser and the consent of secured lenders). However, on 19 May 2010 the renewed offer lapsed.

<sup>3</sup> Based on current projections the loan amount will not be fully repaid.

<sup>4</sup> Current projections indicate that HAL will not be able to make the above minimum repayment obligations.

- 24 WAB has had other confidential approaches from time to time in respect of its investment in HAL. However, no unconditional offers (other than the offer from HAL referred to in paragraph 23) have been received by WAB.

**Valuation**

- 25 As HAL is a private company we are not able to publicly disclose detailed information on HAL's recent financial performance and position. However, we note that HAL's financial performance over recent years has been poor and the company's ability to continue operating as a going concern is largely dependent on:
- (a) HAL continuing to receive the support of its lenders; and
  - (b) the ability of HAL to generate a commercial level of return from its operations.
- 26 In order to assess the current market value of WAB's investment in HAL we have had regard to:
- (a) HAL's financial performance over recent years and its net asset position as at 31 May 2010
  - (b) HAL's budgeted performance for FY11
  - (c) the extent to which HAL's actual performance since the WAB loan was restructured in November 2009 has compared to HAL management's expectations at that date
  - (d) the results of WAB's recent due diligence investigations on HAL
  - (e) HAL and WAB's latest cash flow projections for HAL (based on the results of recent due diligence by WAB and results to date)
  - (f) the high level of uncertainty associated with the achievement of the projected cash flows in (e) above (which in our view would result in a prospective purchaser substantially lowering the projections and/or applying very high discount rates)
  - (g) the results of our discounted cash flow (DCF) analysis on the projected cash flow returns to WAB, adopting discount rates of 30% to 35% per annum (refer below)
  - (h) the unsecured nature of WAB's loan to HAL and the level of prior ranking (secured) debt owed to other lenders
  - (i) the likely return to WAB in the event that funding to HAL is withdrawn
  - (j) the risk of HAL being placed in administration in the future
  - (k) discussions with the WAB Board in relation to HAL's prior offer to acquire WAB's debt and equity interests in HAL (and the other conditional offers received).

***Business performance since 1 November 2009***

- 27 The minimum loan repayments to WAB committed to by HAL shown in paragraph 21 were agreed in November 2009 based on HAL and WAB management's best estimate at the time of the likely residual cash flows which would be available to repay the WAB loan assuming an orderly "run off" of the lease book<sup>5</sup>.
- 28 Based on our review of HAL's unaudited results for the 7 months ended 31 May 2010 we note that the level of cash generated by the HAL business prior to amounts paid to or received from corporate debt holders<sup>6</sup> has been below management's forecasts at November 2009.

***Updated cash flow projections***

- 29 HAL's business performance to 31 May 2010 therefore implies that the minimum loan repayments to WAB as set out in paragraph 21 are unlikely to be met. In this regard we note that the latest cash flow forecasts (prepared by WAB based on the results of recent due diligence and input from HAL management) indicate that the cash flows potentially likely to be available to repay the WAB loan are **significantly** below the \$11.25 million (in total) set out in paragraph 21. This reflects the fact that, as an unsecured creditor, WAB and the Solar Fund rank behind secured creditors and therefore have a residual interest only in the cash flows generated.

***Discount rate***

- 30 Having regard to the interest rate recently negotiated on one of HAL secured debt facilities<sup>7</sup>, in our opinion, a pre-tax discount rate of 30% to 35% per annum should be used to determine the present value of the possible loan repayments to WAB.
- 31 This discount rate is considered appropriate given:
- (a) the high level of uncertainty associated with the achievement of the projected loan repayments
  - (b) the effective equity risk borne by WAB by virtue of the fact that WAB's returns from HAL are a function of the residual cash flows after payments to secured creditors.
- 32 In particular we note that the projected loan repayments to WAB are very sensitive to small changes in key assumptions such as the level of secondary income generated from the lease book and the level of delinquent accounts and future recoveries.
- 33 Accordingly, in our opinion, potential purchasers of WAB's interest in HAL are likely to apply a further discount to the theoretical net present value to reflect an appropriate "margin of safety".

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<sup>5</sup> Due to HAL's poor financial performance and difficult credit markets HAL has not been able to raise required additional funding to originate any significant new lease business.

<sup>6</sup> Being debt holders other than lease finance facilities which are secured against lease receivables and residuals.

<sup>7</sup> We are not able to disclose this interest rate as it is considered commercially sensitive.

**Conclusion**

- 34 Based on the above, and in particular the results of our DCF analysis and the recent offer for WAB's interest in HAL (which has now lapsed), we have adopted a valuation range for WAB's debt and equity in HAL of nil to \$2.0 million. However WAB shareholders should note that:
- (a) any material return from WAB's investment in HAL is not expected (based on current projections) for some years
  - (b) there is a very high risk that WAB will not receive any material return from its investment in HAL.

**Claim against previous investment manager**

- 35 Prior to 5 August 2005, WAB held notes issued by Lease Company of Australia (LCA) with a total face value of \$17,064,638. Between 5 August 2005 and 30 April 2008, WAB made further investments in notes issued by LCA.
- 36 In November 2005, WAB invested in 1,000 redeemable preference shares issued by Lease Investments Pty Limited (LIP), for a total consideration of \$10,000,000.
- 37 In total approximately \$41 million was invested in HAL. Of this total investment \$17,930,865 was invested indirectly via LCA or LIP. The fact that at the time the investments were made, LCA and LIP were controlled by Richard Wallace, who was also a director of WAB at the time and a director of WAB's former investment manager Wallace Funds Management (WFM)<sup>8</sup>, meant that these transactions were related party transactions entered in breach of the ASX Listing Rule 10.
- 38 In August 2008, the board of WAB met with representatives of the ASX and put forward to them a proposal to remediate the related party transactions entered into on its behalf. In late August 2008 Richard Wallace signed onto the proposal on behalf of WAB without first obtaining a first-ranking security over specific assets of HAL to the value of WAB's investments.
- 39 Based on our assessed current value of WAB's investment in HAL it is clear that significant losses have been incurred by WAB on this investment.
- 40 In July 2009, WAB filed a claim in the Supreme Court of New South Wales against WFM, Richard Wallace and his related entities (LCA, LIP and Amrav Pty Ltd (Amrav)). The damages claim seeks to recoup losses sustained by WAB on its investment in HAL and legal expenses incurred as a result of:
- (a) alleged breaches of contractual and fiduciary obligations and alleged misleading and deceptive conduct by WFM
  - (b) alleged breaches of contractual and fiduciary obligations and directors' duties, and alleged misleading and deceptive conduct by Richard Wallace; and

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<sup>8</sup> The Management Agreement between WFM and WAB was terminated in March 2009.

- (c) involvement of I.C.A, LIP and Amrav (which are companies related to Richard Wallace) in the alleged breaches and conduct of WFM and Richard Wallace.
- 41 WFM has filed a Cross-Claim against WAB for unpaid fees and expenses following WAB's termination of the Management Agreement with WFM.
- 42 We note that earlier litigation commenced against WAB by WFM in 2008 seeking a declaration that WAB was not entitled to terminate the Management Agreement and an injunction restraining WAB from doing so was unsuccessful. In this case the Court held that WFM had breached its obligations under the Management agreement on a number of occasions, including its fiduciary obligations under clause 2.4.
- 43 The Directors of WAB have advised that damages under the claim against WFM, Richard Wallace and his related entities are likely to be substantial (largely due to the size of WAB's losses on its investment in HAL). However, it should be noted that:
- (a) WAB management have indicated that the proceedings may not come on for hearing until the first half of calendar 2011
  - (b) WFM is in voluntary administration
  - (c) Richard Wallace and his related entities' ability to meet any successful damages award in favour of WAB is unknown
  - (d) WAB expect to incur legal and related costs estimated at some \$400,000 in respect of the litigation.
- 44 Consequently, while WAB would appear to have a strong case against WFM, Richard Wallace and the other defendants, the litigation risk and the related ability to recover any damages award are inherently uncertain. On balance, in our opinion, a purchaser of WAB is therefore unlikely to attribute any significant value to this contingent asset at the current time. Conversely, WAB shareholders should not give up this contingent asset for no consideration.

#### **Taxation losses**

- 45 WAB is carrying forward realised tax losses in excess of \$40 million as at 30 June 2010. In addition, as a consequence of the significant decline in value (and effective write-off) of its investment in HAL WAB may realise additional losses of up to \$41 million in the future. WAB has either written off or not placed a value on these tax losses in its financial statements because there is no guarantee that it will be able to utilise these losses in the future.
- 46 Broadly, the availability of the tax losses is conditional on WAB being able to demonstrate continuity in the majority of its ownership or that it has carried on the same business until the time the tax losses are utilised. Accordingly, any purchaser of all of WAB will need to meet the same business test in order to utilise WAB's tax losses.

- 47 The potential recoupment of these losses in future periods will implicitly be dependent on future gains on WAB's investment portfolio, which in turn will be a function of factors including:
- (a) the size of WAB's investment portfolio (which has been depleted as a result of significant investment losses over recent years)
  - (b) the investment performance of the underlying portfolio
  - (c) positive (upward) movements in security markets generally
  - (d) costs associated with running WAB.
- 48 Due to the difficulty in estimating future investment performance, for the purposes of assessing what value a "willing but not anxious" purchaser of 100% of the equity in WAB might be prepared to attribute to the tax losses we have adopted a "virtual certainty of recoupment" scenario assuming:
- (a) WAB was able to raise an additional \$2.5 million in capital (consistent with the amount which WAB intended to raise under a fully underwritten rights issue, as announced on 5 May 2010)<sup>9</sup>
  - (b) the notional realisation of the investment portfolio
  - (c) the re-investment of the proceeds together with available cash on hand in term deposits / bonds yielding 6% per annum.
- 49 Based on the above we have adopted a value for the tax losses in the range of \$1.0 million to \$1.5 million. While low in comparison with the size of WAB's tax losses, this reflects the inability of WAB to significantly utilise the tax losses due to the small size of its investment portfolio. In this regard we note that an investment portfolio of some \$5.5 million returning 6% per annum would only generate \$0.3 million in taxable income and a tax benefit of around \$0.1 million per annum. Further, if WAB was to remain a listed entity the costs associated with doing so will significantly erode the company's investment (and therefore taxable) income.
- 50 While a purchaser of WAB is likely to increase the funds available for investment to seek to utilise WAB's tax losses sooner, the purchaser bears the risk that such a strategy could lead to the utilisation of the tax losses being denied by the Australian Taxation Office and accordingly is unlikely to pay any significant premium to our assessed valuation range. Nonetheless, as noted above, our assessed valuation range for the tax losses assumes WAB raises some additional capital.

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<sup>9</sup> This rights issue has been cancelled due to the AIC Offer.

### Ongoing management costs

- 51 Following the termination of WFM’s management agreement on 26 March 2009 WAB has been responsible for managing its investment portfolio. Accordingly, the costs incurred to transition management of the portfolio to a purchaser are unlikely to be significant.
- 52 Further, given the small size of WAB’s current portfolio, in our opinion, the costs incurred by a private investor to manage the portfolio would not be significant. Accordingly, when valuing 100% of the shares in WAB (as required by Australian Securities & Investment Commission Regulatory Guide 111), we have not made any allowance in our valuation for on-going portfolio management costs<sup>10</sup>.

### Opinion on the AIC Offer and E-quest Proposed Offer

#### Assessment of fairness

- 53 Pursuant to Australian Securities & Investments Commission (ASIC) Regulatory Guide 111 – *Content of expert reports* (RG 111), an offer is “fair” if:

*“The value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer.”*

- 54 This comparison for the AIC Offer and E-quest Proposed Offer is shown below:

Assessment of AIC Offer			
	Low cents per share	High cents per share	Mid-point cents per share
Value of Offer consideration	7.0	7.0	7.0
Value of 100% of ordinary shares in WAB <sup>(1)</sup>	3.5	6.6	5.1
Extent to which the Offer consideration exceeds the value of the ordinary shares in WAB	3.5	0.4	1.9

**Note:**

- 1 Excluding any value attributable to WAB’s legal action against WFM, Richard Wallace and his related entities.

Assessment of E-quest Proposed Offer			
	Low cents per share	High cents per share	Mid-point cents per share
Value of Offer consideration	7.1	7.1	7.1
Value of 100% of ordinary shares in WAB <sup>(1)</sup>	3.5	6.6	5.1
Extent to which the Offer consideration exceeds the value of the ordinary shares in WAB	3.6	0.5	2.0

**Note:**

- 1 Excluding any value attributable to WAB’s legal action against WFM, Richard Wallace and his related entities.

<sup>10</sup> We note, however, that WAB will continue to incur significant ongoing costs (relative to the size of its investment portfolio) if it remains a listed entity, which will adversely impact future returns (refer paragraph 64).

- 55 Our assessed valuation range for WAB excludes any value attributable to WAB's legal action against WFM, Richard Wallace and his related entities. This is because it is not possible to reliably determine whether the litigation will be successful, the amount of any likely damages award or the defendant's ability to pay such an award.
- 56 While the directors of WAB have indicated that the level of damages sought is substantial (largely due to the size of WAB's losses on its HAL investment) it should be noted that there is a very high risk that WAB will not receive any material return from its investment in HAL. Under such a scenario our assessed value of WAB shares excluding the litigation claim is only 3.5 cents per share. The AIC Offer and E-quest Proposed Offer consideration therefore represents a significant premium to this assessed value.
- 57 Accordingly, in our opinion, the AIC Offer and the E-quest Proposed Offer are both fair.

**Assessment of reasonableness**

- 58 Pursuant to RG 111, an offer is reasonable if it is fair. Consequently, in our opinion the AIC Offer and the E-quest Proposed Offer is also reasonable when assessed under RG 111. **However, in our opinion, the E-quest Proposed Offer is superior to the AIC Offer.**
- 59 In assessing whether the AIC Offer and E-quest Proposed Offer is reasonable we have also considered, in particular:
- (a) the extent to which a premium is being paid to WAB shareholders compared to the listed market price of WAB shares prior to the announcement on 1 June 2010 that WAB had received a confidential non-binding indicative proposal from AIC to acquire 100% of WAB
  - (b) the size of WAB and its ability to generate appropriate returns to shareholders having regard to the costs associated with maintaining WAB as a separate listed company
  - (c) the listed market price of WAB shares since the announcement of the original AIC Offer
  - (d) the likely market price of WAB shares if the AIC Offer or E-quest Proposed Offer is not accepted
  - (e) the likelihood of an alternative offer or proposal
  - (f) other advantages and disadvantages associated with the AIC Offer and E-quest Proposed Offer.
- 60 These matters are discussed in detail below.

***Offer premium to listed market prices before approach by AIC***

- 61 We have calculated the premium implied by the value of the E-quest Proposed Offer consideration of 7.1 cents per share by reference to the market prices of WAB shares prior to the announcement on 1 June 2010 that WAB had received a confidential non-binding indicative proposal from AIC to acquire 100% of WAB, as shown below:



Implied offer premium relative to recent share prices		
	WAB share price (Cents)	Implied control premium %
Price on 31 May 2010 <sup>(1)</sup>	3.50	103
1 month VWAP <sup>(2)</sup> to 31 May 2010	3.47	105
3 months VWAP to 31 May 2010	4.76	49

**Note:**

- 1 Being the closing price on the last day of trading prior to the announcement of the AIC Offer.
- 2 Volume weighted average price.

- 62 As indicated above the E-quest Proposed Offer price of 7.1 cents per share represents a significant premium to the listed market price of WAB shares in the 3 months prior to the announcement on 1 June 2010 that WAB had received a confidential non-binding indicative proposal from AIC to acquire 100% of WAB.
- 63 While the implied premium is lower when based on the 3 month VWAP of WAB shares to 31 May 2010, this principally reflects the decline in WAB's NTA and share price over this period<sup>11</sup>.

**Size considerations**

- 64 WAB management have estimated that costs associated with operating WAB as a separate listed company (including ASX listing fees, share registry expenses, directors fees and other expenses such as shareholder communication costs) are approximately \$500,000 per annum<sup>12</sup>. WAB will therefore incur significant ongoing costs (relative to the size of its investment portfolio) if it remains a listed entity, which will adversely impact investor returns.
- 65 In this regard we note that management's cost estimate represents more than 10% of our assessed mid-point value of WAB shares, making it difficult for the WAB to generate acceptable risk adjusted returns for shareholders net of costs.

<sup>11</sup> WAB's reported NTA per share fell from 4.8 cents on 28 February 2010 to 3.7 cents on 31 May 2010. On 30 June 2010 it was 3.3 cents per share.

<sup>12</sup> Excluding costs associated with the litigation and other non-recurring costs (such as costs associated with responding to the takeover offers etc).

- 66 Accordingly, if the AIC Offer or E-quest Proposed Offer is not accepted, in our opinion, it is likely that WAB will need to consider either:
- (a) raising a significant amount of additional capital
  - (b) delisting from the ASX
  - (c) merging with another listed investment company; or
  - (d) winding up and returning funds to shareholders.
- 67 While delisting the shares would reduce costs significantly, WAB shareholders would no longer have a secondary market listing upon which to trade their WAB shares.
- 68 Winding up WAB would also take time and would result in significant additional one-off transaction costs being incurred.

***Recent share prices subsequent to the announcement of the AIC Offer***

- 69 Shareholders should note that WAB shares have traded on the ASX above the 7.1 cents per share offered by E-quest since the revised E-quest Proposed Offer was announced. Accordingly, WAB shareholders may be able to realise a higher price for their WAB shares by selling their shares on market (subject to considering the market price at the time and considering brokerage costs).

***Likely price of WAB shares if the Offer lapses***

- 70 In our opinion, if the AIC Offer and E-quest Proposed Offer lapse and no higher offer or alternative proposal emerges, it is likely (at least in the short-term) that WAB shares will trade at a discount to:
- (a) our valuation (consistent with the difference between the value of WAB on a portfolio basis and the value on a 100% controlling interest basis); and
  - (b) the E-quest Proposed Offer price of 7.1 cents cash per share.
- 71 In this regard we note that WAB shares have generally traded at a discount to their reported net tangible asset (NTA) backing as reported by the company (which since 30 June 2009 has reflected WAB's investment<sup>13</sup> in HAL at a nil value), as shown below:

	Premium (discount) to NTA		Premium (discount) to
	NTA	WAB share price	NTA %
30 June 2009	0.058	0.070	20.7
31 July 2009	0.057	0.071	24.6
31 August 2009	0.056	0.060	7.1
30 September 2009	0.055	0.055	-
31 October 2009	0.053	0.048	(9.4)
30 November 2009	0.051	0.048	(5.9)
31 December 2009	0.051	0.041	(19.6)
31 January 2010	0.048	0.041	(14.6)

<sup>13</sup> Both loans to and equity in HAL.

Premium (discount) to NTA			Premium (discount) to NTA
	NTA	WAB share price	%
28 February 2010	0.048	0.037	(22.9)
31 March 2010	0.044	0.045	2.3
30 April 2010	0.042	0.040	(4.8)
31 May 2010	0.037	0.035	(5.4)
Average			<b>(2.3)</b>

Source: WAB and Bloomberg

- 72 WAB shareholders should note that WAB's reported NTA (excluding any value attributed to the investment in HAL) was only 3.3 cents per share as at 30 June 2010.

***Likelihood of an alternative offer***

- 73 We have been advised by the Directors of WAB that no further offers have been received subsequent to the announcement of the E-quest Proposed Offer on 22 July 2010. However, it is possible that AIC could increase to its offer for WAB.

**Conclusion**

- 74 Based on the above we have concluded that the AIC Offer and the E-quest Proposed Offer are each fair and reasonable. **However, in our opinion, the E-quest Proposed Offer is superior to the AIC Offer.**

**General**

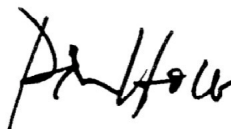
- 75 In preparing this report we have considered the interests of WAB shareholders as a whole. Accordingly, this report only contains general financial advice and does not consider the personal objectives, financial situations or requirements of individual shareholders.
- 76 The taxation consequences of accepting the AIC Offer or the E-quest Proposed Offer depend on the individual circumstances of each investor. Shareholders should read the taxation advice set out in the Bidder's Statement and should consult their own professional adviser if in doubt as to the taxation consequences of the AIC Offer or E-quest Proposed Offer.

- 77 The ultimate decision whether to accept the AIC Offer or E-quest Proposed Offer should be based on each shareholders' assessment of their own circumstances, including their risk profile, liquidity preference, tax position and expectations as to value and future market conditions. If shareholders are in doubt about the action they should take in relation to the AIC Offer, E-quest Proposed Offer or matters dealt with in this report, shareholders should seek independent professional advice.

Yours faithfully



Craig Edwards  
Authorised Representative



Martin Holt  
Authorised Representative

## Financial Services Guide

### Lonergan Edwards & Associates Limited

- 1 Lonergan Edwards & Associates Limited (ABN 53 095 445 560) (LEA) is a specialist valuation firm which provides valuation advice, valuation reports and independent expert's reports (IER) in relation to takeovers and mergers, commercial litigation, tax and stamp duty matters, assessments of economic loss, commercial and regulatory disputes.
- 2 LEA holds Australian Financial Services Licence No. 246532.

### Financial Services Guide

- 3 The Corporations Act 2001 authorises LEA to provide this Financial Services Guide (FSG) in connection with its preparation of an IER to accompany the Target Statement to be sent to WAB shareholders in connection with the AIC Offer.
- 4 This FSG is designed to assist retail clients in their use of any general financial product advice contained in the IER. This FSG contains information about LEA generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the IER, and if complaints against us ever arise how they will be dealt with.

### Financial services we are licensed to provide

- 5 Our Australian Financial Services Licence allows us to provide a broad range of services to retail and wholesale clients, including providing financial product advice in relation to various financial products such as securities, derivatives, interests in managed investment schemes, superannuation products, debentures, stocks and bonds.

### General financial product advice

- 6 The IER contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.
- 7 You should consider your own objectives, financial situation and needs when assessing the suitability of the IER to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

### Fees, commissions and other benefits we may receive

- 8 LEA charges fees to produce reports, including this IER. These fees are negotiated and agreed with the entity who engages LEA to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the entity who engages us. In the preparation of this IER our fees are based on a time cost basis using agreed hourly rates.
- 9 Neither LEA nor its directors and officers receives any commissions or other benefits, except for the fees for services referred to above.

## Appendix A

- 10 All of our employees receive a salary. Our employees are eligible for bonuses based on overall performance and the firm's profitability, and do not receive any commissions or other benefits arising directly from services provided to our clients. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of performance. Our directors do not receive any commissions or other benefits arising directly from services provided to our clients.
- 11 We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

### Complaints

- 12 If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner.
- 13 If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Financial Ombudsman Services Limited (FOS), an external complaints resolution service. You will not be charged for using the FOS service.

### Contact details

- 14 LEA can be contacted by sending a letter to the following address:

Level 27  
363 George Street  
Sydney NSW 2000  
(or GPO Box 1640, Sydney NSW 2001)

## Qualifications, declarations and consents

### Qualifications

- 1 LEA is a licensed investment adviser under the Corporations Act. LEA's authorised representatives have extensive experience in the field of corporate finance, particularly in relation to the valuation of shares and businesses and have prepared more than 100 independent expert's reports to shareholders.
- 2 This report was prepared by Mr Craig Edwards and Mr Martin Holt, who are each authorised representatives of LEA. Mr Edwards and Mr Holt have over 16 years and 25 years experience respectively in the provision of valuation advice.

### Declarations

- 3 This report has been prepared at the request of the Directors of WAB to accompany the Target Statement to be sent to WAB shareholders. It is not intended that this report should serve any purpose other than as an expression of our opinion as to whether or not the AIC Offer and E-quest Proposed Offer is fair and reasonable to the shareholders of WAB.

### Interests

- 4 At the date of this report, neither LEA, Mr Edwards nor Mr Holt have any interest in the outcome of the Offer. LEA is entitled to receive a fee of \$30,000 plus GST for the preparation of this report. With the exception of the above fee, LEA will not receive any other benefits, either directly or indirectly, for or in connection with the preparation of this report.

### Indemnification

- 5 As a condition of LEA's agreement to prepare this report, WAB agrees to indemnify LEA in relation to any claim arising from or in connection with its reliance on information or documentation provided by or on behalf of WAB which is false or misleading or omits material particulars or arising from any failure to supply relevant documents or information.

### Consents

- 6 LEA consents to the inclusion of this report in the form and context in which it is included in WAB's Target Statement.

### Limitations and reliance on information

- 7 Our opinion is based on the economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.
- 8 Our report is also based upon financial and other information provided by or on behalf of WAB. We have considered and relied upon this information and believe that the information provided is reliable, complete and not misleading and we have no reason to believe that material facts have been withheld. The information provided was evaluated through analysis, enquiry and review for the purpose of forming an opinion as to whether the Offer is fair and reasonable. However, in assignments such as this, time is limited and we do not warrant that our enquiries have identified or verified all of the matters which an audit, extensive

## Appendix B

examination or “due diligence” investigation might disclose. None of these additional tasks have been undertaken.

- 9 We understand the accounting and other financial information that was provided to us has been prepared in accordance with the Australian equivalent to International Financial Reporting Standards (AIFRS).
- 10 An important part of the information base used in forming an opinion of the kind expressed in this report is the opinions and judgement of management of the relevant companies. This type of information has also been evaluated through analysis, enquiry and review to the extent practical. However, it must be recognised that such information is not always capable of external verification or validation.
- 11 We in no way guarantee the achievability of budgets or forecasts of future profits. Budgets and forecasts are inherently uncertain. They are predictions by management of future events which cannot be assured and are necessarily based on assumptions of future events, many of which are beyond the control of management. Actual results may vary significantly from forecasts.
- 12 We have assumed that the forecasts have been prepared fairly and honestly, based on reasonable grounds and the information available to management at the time and within the practical constraints and limitations of such forecasts. We have assumed that management have reasonable grounds for the forecasts and the forecasts do not reflect any material bias. We have no reason to believe that these assumptions are inappropriate.



## AIC Offer conditions

- 1 The AIC Offer is conditional upon none of the following events taking place from 4 June 2010 until the close of the AIC Offer:
  - (a) Wallace converts all or any of the Shares into a larger or smaller number of shares under section 254H of the Corporations Act
  - (b) Wallace or a subsidiary of Wallace resolves to reduce its share capital in any way
  - (c) Wallace or a subsidiary of Wallace:
    - (i) enters into a buyback agreement; or
    - (ii) resolves to approve the terms of a buyback agreement under subsections 257C(1) or 257D(1) of the Corporations Act
  - (d) Wallace or a subsidiary of Wallace issues shares or grants an option over its shares or agrees to make such an issue or grant such an option
  - (e) Wallace or a subsidiary of Wallace issues, or agrees to issue, convertible notes
  - (f) Wallace or a subsidiary of Wallace disposes or agrees to dispose of the whole, or a substantial part, of its business or property
  - (g) Wallace or a subsidiary of Wallace charges, or agrees to charge, the whole, or a substantial part, of its business or property
  - (h) Wallace or a subsidiary of Wallace resolves that it be wound up
  - (i) the appointment of a liquidator or provisional liquidator of Wallace or of a subsidiary of Wallace
  - (j) the making of an order by a court for the winding up for Wallace or of a subsidiary of Wallace
  - (k) an administrator of Wallace or of a subsidiary of Wallace is appointed under section 436A, 436B or 436C of the Corporations Act
  - (l) Wallace or a subsidiary of Wallace executes a deed of company arrangement
  - (m) the appointment of a receiver, receiver and manager, other controller (as defined in the Corporations Act) or similar official in relation to the whole, or a substantial part, of the property of Wallace or of a subsidiary of Wallace.

## Glossary

Term	Meaning
AIC	Armidale Investment Company Pty Limited
AIC Offer	The AIC takeover offer for all the ordinary shares in WAB at a cash offer price of 7.0 cents per share
AIFRS	Australian equivalent to International Financial Reporting Standards
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
Corporations Act	<i>Corporations Act 2001 (Cth)</i>
DCF	Discounted cash flow
EBIT	Earnings before interest and tax
EBITA	Earnings before interest, tax and amortisation
EBITDA	Earnings before interest, tax depreciation and amortisation
E-quest	E-quest Capital Pty Limited
E-quest Proposed Offer	The on-market takeover offer by E-quest of 7.1 cents cash per WAB share
FOS	Financial Ombudsman Services Limited
FSG	Financial Services Guide
FY	Financial year
HAL	HAL Data Services Pty Limited
IER	Independent expert's report
LEA	LonerGAN Edwards & Associates Limited
NPV	Net present value
PE	Price earnings
RG 111	Regulatory Guideline 111 – <i>Content of expert reports</i>
VWAP	Volume weighted average price
WAB	Wallace Absolute Return Limited

## 8 ADDITIONAL INFORMATION

### 8.1 Due Diligence by AIC

The information contained in AIC's Bidder Statement was prepared by AIC using publicly available information. AIC did not ask for, and Wallace did not provide, access to Wallace's records, books or accounts for the purposes of conducting due diligence on Wallace.

### 8.2 Directors' interests in Wallace securities

As set out in Section 2.4 of this Statement, the number of Shares in which Directors and their associates have an interest are as follows:

Director	Shares
Kenneth Barry*	54,724
Alan Liddle	23,467
Michael Birch*	143,350

\*Held through associated entities and persons

### 8.3 Directors' dealings in Shares

On 29 June 2010, 4,000 Shares were transferred to Mr Liddle from his wife. Other than this acquisition of Shares, no Director has acquired or disposed of a relevant interest in any Wallace securities in the four month period immediately preceding the date of this Statement.

### 8.4 Directors' interests in securities of AIC

As at the date of this Statement, none of the Directors has a relevant interest in any AIC securities.

### 8.5 Dealings in AIC or AIC securities

Neither Wallace nor any Wallace Director has acquired or disposed of a relevant interest in any AIC securities in the four month period immediately preceding the date of this Statement.

### 8.6 Officers' indemnities

Wallace's constitution provides among other things that, to the maximum extent permitted by law, Wallace indemnifies every person who is or has been a Wallace Director or other officer of Wallace, out of the property of Wallace against:

- Any liabilities for costs and expenses incurred by the person in defending any proceedings (whether civil or criminal) relating to that person's position with Wallace in which judgement is given in that person's favour or in which that person is acquitted or which are withdrawn before judgement, in

connection with any administrative proceedings relating to that person's position with Wallace except proceedings which give rise to proceedings (whether civil or criminal) against that person in which judgement is not given in that person's favour or in which that person is not acquitted or which arise out of conduct involving a lack of good faith or in connection with any application in relation to any proceedings (whether civil or criminal) relating to that person's position with Wallace in which relief is granted to that person under the Corporations Act by the court; and

- any liabilities to another person (other than Wallace or its related bodies corporate) as such an officer unless the liabilities arise out of conduct involving a lack of good faith,

however, the indemnity does not apply in respect of liability incurred by a person in his capacity as an employee of Wallace.

In addition, subject to Rule 11.1 of the Constitution and the Corporations Act, if any Wallace Director or other officer of Wallace becomes personally liable for the payment of any sum primarily due from Wallace, the Directors may execute or cause to be executed a mortgage, charge or security over or affecting the whole or any part of the assets or undertaking of Wallace by way of an indemnity to secure the Director or other officer becoming liable from any loss in respect of that liability.

Wallace has entered into separate deeds of indemnity with its directors.

## 8.7 **Benefits and agreements**

### (a) **Benefits in connection with retirement from office**

The AIC Offer will not result in any Wallace Director or any other person being given any benefit (other than a benefit which can be given without member approval under the Corporations Act) in connection with the retirement of that Wallace Director or other person from a board or managerial office of Wallace or a related body corporate of Wallace.

### (b) **Agreements, understandings or arrangements connected with or conditional on the AIC Offer**

There are no agreements, understandings or arrangement made between any Wallace Director and any other person in connection with, or conditional upon, the outcome of the AIC Offer.

### (c) **Benefits from AIC**

No Wallace Director has agreed to receive, or is entitled to receive, any benefit from AIC which is conditional on, or is related to, the AIC Offer, other than in their capacity as a holder of Shares.

### (d) **Interests of Directors in contracts with AIC**

No Wallace Director has any interest in any contract entered into by AIC.

## 8.8 Consents

Each Wallace Director has given their written consent to the lodgement and issue of this Statement, and to this Statement including statements made by, or based on statements made by, the director in the form and context in which those statements appear. None of these consents have been withdrawn before the lodgement of this Statement.

Lonergan Edwards & Associates Limited has given its written consent to:

- being named in this Statement as the Independent Expert;
- the inclusion of the Independent Expert's Report in this Statement; and
- the inclusion of statements included in, and regarding, the Independent Expert's Report in this Statement,

in the form and context in which they are included and to all references to that information in the form and context in which it appears. Lonergan Edwards & Associates Limited has not withdrawn its consent prior to lodgement of this Statement with ASIC.

Henry Davis York has given its written consent to being named in the Corporate Directory section of this Statement as the Legal Adviser to Wallace in the form and context in which it is named. Henry Davis York has not withdrawn its consent prior to lodgement of this Statement with ASIC. Henry Davis York does not make any statement that is included in this Statement or on which a statement made in this Statement is based and does not accept any liability to any person in respect of any false or misleading statement in, or omission from, any part of this Statement.

Allier Capital Pty Limited has given its written consent to being named in the Corporate Directory section of this Statement as the Financial Adviser to Wallace in the form and context in which it is named. Allier Capital Pty Limited has not withdrawn its consent prior to lodgement of this Statement with ASIC. Allier Capital Pty Limited does not make any statement that is included in this Statement or on which a statement made in this Statement is based and does not accept any liability to any person in respect of any false or misleading statement in, or omission from, any part of this Statement.

Link Market Services Limited has given its written consent to being named in the Corporate Directory section of this Statement as the Share Registry for Wallace in the form and context in which it is named. Link Market Services Limited has not withdrawn its consent prior to lodgement of this Statement with ASIC. Link Market Services Limited does not make any statement that is included in this Statement or on which a statement made in this Statement is based and does not accept any liability to any person in respect of any false or misleading statement in, or omission from, any part of this Statement.

## 8.9 No other material information

This Statement is required to include all the information that Shareholders and their professional advisers would reasonably require to make an informed assessment whether to accept the AIC Offer, but:

- only to the extent to which it is reasonable for investors and their professional advisers to expect to find this information in this Statement; and
- only if the information is known to any director of Wallace.

The Directors are of the opinion that the information that Shareholders and their professional advisers would reasonably require to make an informed assessment whether to accept the AIC Offer is:

- the information contained in AIC's Bidder Statement (to the extent that the information is not inconsistent with or superseded by information in this Statement);
- the information contained in this Statement; and
- all other information contained in Wallace's releases to the ASX since the annual report for the year ended 30 June 2009 and before the date of this Statement.

The Directors have assumed, for the purposes of preparing this Statement, that the information in AIC's Bidder Statement is accurate (unless they have expressly indicated otherwise in this Statement). However, the Directors do not take any responsibility for the contents of AIC's Bidder Statement and are not to be taken as endorsing, in any way, any or all statements contained in it.

In deciding what information should be included in this Statement, the Directors have had regard to:

- the nature of the Shares;
- the matters that Shareholders may reasonably be expected to know;
- the fact that certain matters may reasonably be expected to be known to Shareholders' professional advisers; and
- the time available to Wallace to prepare this Statement.

#### 8.10 **Copies of documents**

As contemplated by ASIC Class Order 01/1543, this Statement contains statements which are made, or based on statements made, in documents lodged with ASIC or given to the ASX, or announced on the Company Announcements Platform of the ASX (see Attachment 1). Pursuant to the Class Order, the consent of the relevant person is not required for the inclusion of such statements in this Statement.

The relevant documents are:

- announcements made on the ASX by AIC and E-quest;
- Wallace's annual report for the year ended 30 June 2009; and
- AIC's Bidder Statement.

Any Wallace shareholder who would like to receive a copy of any of those documents may obtain a copy (free of charge) during the AIC Offer Period by contacting Wallace on +61 2 9255 9770 during business hours or by email to [enquiries@wallaceabsolutereturn.com.au](mailto:enquiries@wallaceabsolutereturn.com.au).

## 9 DEFINED TERMS AND INTERPRETATION

### 9.1 Definitions

In this Statement, unless the context otherwise requires:

**AFSL** means Australian financial services licence.

**AIC** means Armidale Investment Company Pty Ltd (ACN 143 917 088).

**AIC Offer** means each offer to be made for Shares on the terms set out in AIC's Bidder Statement as varied and **AIC Offers** has a corresponding meaning.

**AIC Offer Period** means, unless the AIC Offer is withdrawn, the period commencing on the date of the AIC Offer and ending on the Closing Date.

**AIC's Bidder Statement** means the bidder's statement issued by AIC and served on Wallace of which the AIC Offer forms a part and dated 25 June 2010, as amended.

**Announcement Date** means the date of the announcement by Wallace detailing the AIC Offer to acquire all of the Shares, being 4 June 2010.

**APAM** means Asia Pacific Asset Management Pty Limited (ABN 88 101 461 090).

**ASIC** means the Australian Securities and Investments Commission.

**ASX** means the ASX Limited (ABN 98 008 624 691) or the market operated by that company.

**Bell Direct** means Third Party Platform Pty Limited trading as "Bell Direct" (ABN 74 121 227 905), an Australian financial services licensee (AFSL 314341) and a participant of the ASX.

**Board** means the board of directors of Wallace.

**Closing Date** means the later of 13 August 2010 or any date to which the period of the AIC Offer is extended in accordance with the terms of AIC's Bidder Statement and the Corporations Act.

**Condition** means the conditions of the AIC Offer as set out in Section 12.8 of AIC's Bidder Statement.

**Corporations Act** means the *Corporations Act 2001* (Cth).

**Directors** means the directors of Wallace as described in Section 5.3 of this Statement.

**E-quest** means E-quest Capital Pty Ltd (ACN 143 305 766).

**E-quest's Bidder Statement** means the bidder's statement to be issued by E-quest and served on Wallace of which the E-quest Offer will form a part.

**E-quest Offer** means each offer to be made for Shares on the terms set out in E-quest's Bidder Statement as varied and **E-quest Offers** has a corresponding meaning.



**GST** has the meaning give to that term in *A New Tax System (Goods and Services Tax) Act 1999* (Cth).

**HAL** means Hal Data Services Pty Ltd (ABN 63 058 578 082).

**Independent Expert** means Lonergan Edwards & Associates Limited (ABN 53 095 445 560).

**Independent Expert's Report** means the report prepared by the Independent Expert and dated 23 July 2010 in relation to the AIC Offer and set out in Section 7 of this Statement.

**Issuer Sponsored Holding** means a holding of Shares on Wallace's issuer sponsored subregister.

**Listing Rules** means the official listing rules of ASX.

**Prescribed Occurrence** means the occurrences set out in the definition of such term in Section 13.1 of AIC's Bidder Statement. See also Appendix A of this Statement.

**Presmore** means Presmore Pty Limited (ACN 003 430 779).

**Rights Issue** means the renounceable rights issue announced by Wallace on 5 May 2010.

**Services** means internet access, stationary, meeting rooms, office utilities, storage and maintenance of Wallace corporate files in a secure environment, Wallace telephone system (including a unique number, all reasonable telephone call costs, message bank and remote retrieval facilities), reasonable access to administrative staff and support as required and all other services reasonably required incidental thereto.

**Services and Infrastructure Agreement** means the agreement between Wallace and APAM dated 23 March 2010 in relation to the provision of services and office premises.

**Share** means a fully-paid ordinary share in Wallace.

**Shareholder** means a holder of Shares.

**Statement** means this target's statement issued by Wallace and dated 26 July 2010 issued in response to AIC's Bidder Statement .

**Tax Act** means the *Income Tax Assessment Act*.

**Tax Losses** means the tax losses referred to in Section 5.4(d) of this Statement.

**Wallace** means Wallace Absolute Return Limited (ABN 58 100 854 788).

**Wallace Funds Management (in liquidation)** means Wallace Funds Management Pty Ltd (ABN 58 100 038 659) (in liquidation).

## 9.2 **General interpretative provisions**

In this Statement unless the contrary intention appears:

- (a) words and phrases have the same meaning and interpretation as in the Corporations Act;
- (b) an agreement on the part of, or in favour of, two or more persons binds or is for the benefit of them or any one or more of them jointly and severally;
- (c) where a word or phrase is given a defined meaning in this Statement, any other part of speech or grammatical form in respect of such word or phrase has a corresponding meaning; and
- (d) references to \$, dollars and cents are references to the currency of Australia.

## 10 AUTHORISATION AND APPROVAL OF STATEMENT

There is no other information that:

- is material to the making of the decision by a holder of Shares whether to accept the AIC Offer; and
- is known to Wallace,

other than as disclosed in this Statement. The Corporations Act only requires such information to be as up-to-date as it is reasonable to expect in the circumstances. Further, Wallace does not have to disclose information if it would be unreasonable to require Wallace to do so because the information had previously been disclosed to the holders of Shares.

This Statement was approved by a resolution passed by the Directors and any Wallace Director is authorised to sign this Statement on behalf of Wallace.

No Wallace Director voted against the directors' resolution approving this Statement.

Dated: 26 July 2010

**SIGNED FOR AND ON BEHALF of WALLACE  
ABSOLUTE RETURN LIMITED by:**



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Michael Birch  
Managing Director

# Attachment 1

## Continuous disclosure notices

Date	Announcement
23 July 2010	Independent Expert Report
23 July 2010	Board Recommends Shareholders Accept E-quest Offer
22 July 2010	E-quest Intention to Increase Offer
22 July 2010	Variation to Bid
21 July 2010	Change in substantial holding
15 July 2010	Net Tangible Asset Backing
13 July 2010	Intention to Make a Takeover Bid
12 July 2010	Completion of Despatch of Bidder's Statement
2 July 2010	Administrators appointed to former fund manager
28 June 2010	Change in substantial holding
28 June 2010	Change in substantial holding
25 June 2010	Directors' Statement re Takeover
25 June 2010	Bidder's Statement - Off-market bid
25 June 2010	Section 633(2)(b) Notice
24 June 2010	AIC waiver of Condition – Disposal of Investment in Hal Data
23 June 2010	Change in substantial holding
22 June 2010	Change in substantial holding
22 June 2010	Change in substantial holding
22 June 2010	Change in substantial holding
22 June 2010	Becoming a substantial holder
21 June 2010	Wallace Absolute Return Limited Panel Application Withdrawn
21 June 2010	Agreement to Settle Panel Application and Proceed with Take Over
18 June 2010	Trading Halt
17 June 2010	Net Tangible Asset Backing
16 June 2010	Notification of Under Subscriptions

<b>Date</b>	<b>Announcement</b>
11 June 2010	Panel makes Further Interim Orders
11 June 2010	TOV: Wallace Absolute – Panel Makes Further Interim Orders
8 June 2010	Armidale Investments Makes Application
8 June 2010	Wallace Absolute Return Limited Panel Makes Interim Order
8 June 2010	Company's Suspension Request
8 June 2010	Suspension from Official Quotation – WABN
7 June 2010	AIC makes Application to the Takeovers Panel
4 June 2010	Conditional Takeover Proposal
2 June 2010	Conditional Proposal from AIC
1 June 2010	Non-Binding and Conditional Takeover
27 May 2010	Despatch of Prospectus for Renounceable Rights Issue
24 May 2010	Replacement Prospectus – Clearer Copy
24 June 2010	Renounceable Issue – Replacement Prospectus
20 May 2010	Final Director's Interest Notice
20 May 2010	Initial Director's Interest Notice
17 May 2010	Results of General Meeting
17 May 2010	Appointment of Alternate Director
14 May 2010	Net Tangible Asset Value as at 30 April 2010
14 May 2010	Update on Offer from HAL Data Services
13 May 2010	Appendix 3B
13 May 2010	Renounceable Issue Prospectus
10 May 2010	Update on HAL Offer
5 May 2010	Renounceable Issue
5 May 2010	Trading Halt
4 May 2010	Unconditional Offer for Interests held in HAL Data Services
27 April 2010	Initial Director's Interest Notice
27 April 2010	Net Tangible Asset Backing
13 April 2010	Letter to Shareholders
13 April 2010	Notice of General Meeting

<b>Date</b>	<b>Announcement</b>
8 April 2010	Lodgement of 2007 Annual Report
7 April 2010	Board receives new requisition of meeting from Presmore
7 April 2010	Notice of General Meeting
1 April 2010	Board Recommends holders vote against Presmore Resolutions
25 March 2010	Net Tangible Asset Value as at 28 February 2010
18 March 2010	Requisition for General Meeting
10 March 2010	Change in substantial holding
5 March 2010	Ceasing to be a substantial holder
4 March 2010	Becoming a substantial holder
1 March 2010	Investment in HAL Data Services Pty Ltd – Update
1 March 2010	Net Tangible Asset Value as at 31 Jan 2010
26 February 2010	Half Yearly Report / Accounts
23 February 2010	Monthly Net Tangible Asset Backing
18 January 2010	Net Tangible Asset Backing
11 January 2010	Details of Company Address
5 January 2010	Monthly Net Tangible Asset Backing
27 November 2009	Results of AGM
27 November 2009	Chairman's address to Shareholders
27 November 2009	Update: Investment in Hal Data Services Pty Limited
25 November 2009	Net Tangible Asset Backing as at 31 October 2009
25 November 2009	Net Tangible Asset Backing as at September 2009
25 November 2009	Net Tangible Asset Backing as at 31 August 2009
25 November 2009	Net Tangible Asset Backing as at 31 July 2009
25 November 2009	Net Tangible Asset Backing as at 30 June 2009
27 October 2009	Notice of Annual General Meeting

## Appendix A – Conditions

The takeover offer to be made by AIC will be subject to the conditions set out in AIC's Bidder Statement which will be substantially in the form set out below:

### No prescribed occurrences

None of the following events happen between the Announcement Date and the end of the AIC Offer Period (each inclusive):

- (a) Wallace converts all or any of its Shares into a larger or smaller number of shares under section 254H of the Corporations Act;
- (b) Wallace or a subsidiary of Wallace resolves to reduce its share capital in any way;
- (c) Wallace or a subsidiary of Wallace:
  - (i) enters into a buyback agreement; or
  - (ii) resolves to approve the terms of a buyback agreement, under subsections 257C(1) or 257D(1) of the Corporations Act;
- (d) Wallace or a subsidiary of Wallace issues shares or grants an option over its shares, or agrees to make such an issue or grant such an option;
- (e) Wallace or a subsidiary of Wallace issues, or agrees to issue, convertible notes;
- (f) Wallace or a subsidiary of Wallace disposes or agrees to dispose, of the whole, or a substantial part, of its business or property;
- (g) Wallace or a subsidiary of Wallace charges, or agrees to charge, the whole, or a substantial part, of its business or property;
- (h) Wallace or a subsidiary of Wallace resolves that it be wound up;
- (i) the appointment of a liquidator or provisional liquidator of Wallace or of a subsidiary of Wallace;
- (j) the making of an order by a court for the winding up of Wallace or of a subsidiary of Wallace;
- (k) an administrator of Wallace or of a subsidiary of Wallace is appointed under section 436A, 436B or 436C of the Corporations Act;
- (l) Wallace or a subsidiary of Wallace executes a deed of company arrangement; or

- (m) the appointment of a receiver, receiver and manager, other controller (as defined in the Corporations Act) or similar official in relation to the whole, or a substantial part, of the property of Wallace or of a subsidiary of Wallace.



# CORPORATE DIRECTORY

## Registered Office

Wallace Absolute Return Limited  
ABN 58 100 854 788  
AFSL No 221282  
Level 3, 20 Loftus Street  
SYDNEY NSW 2000  
Telephone: +61 2 9255 9770  
Facsimile: +61 2 9255 9701

## Independent Expert

Lonergan Edwards & Associates Limited  
ABN 53 095 445 560  
AFSL No 246532  
Level 27, 363 George Street  
SYDNEY NSW 2000  
Telephone: +61 2 8235 7500  
Facsimile: +61 2 8235 7550  
[www.lonerganedwards.com.au](http://www.lonerganedwards.com.au)

## Legal Adviser

Henry Davis York  
44 Martin Place  
SYDNEY NSW 2000  
DX 173 SYDNEY  
Telephone: +61 2 9947 6000  
Facsimile: +61 2 947 6999  
[www.hdy.com.au](http://www.hdy.com.au)

## Financial Adviser

Allier Capital Pty Limited  
ABN 19 135 428 616  
AFSL No 336276  
Level 3, 17 Castlereagh Street  
SYDNEY NSW 2000  
Telephone: +61 2 8014 6040  
[www.allier.com.au](http://www.allier.com.au)

## Share Registry

Link Market Services Limited  
ABN 54 083 214 537  
Level 12, 680 George Street  
SYDNEY NSW 2000  
Telephone: +61 2 8280 7111  
Facsimile: +61 2 9287 0303

## Shareholder Enquiries (regarding this Statement)

Michael Birch  
Managing Director  
Wallace Absolute Return Limited  
ABN 58 100 854 788  
AFSL No 221282  
Level 3, 20 Loftus Street  
SYDNEY NSW 2000  
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