



13 May 2015

Dear Shareholder

REJECT HAMILTON SECURITIES LIMITED'S UNSOLICITED AND INADEQUATE OFFER

On 5 May 2015 Asset Resolution Limited (**ARL**) received a replacement Bidder's Statement from Hamilton Securities Limited (**HSL**) which incorporated amendments made since the version of the Bidder's Statement lodged on 7 April 2015.

On 24 April 2015, a Chairman's letter was uploaded to the ARL website (www.arlimited.com.au). This letter updates and to the extent of any inconsistency with the previous letter uploaded on 24 April 2015, corrects the information contained therein.

Over the coming days it is expected that you will receive a copy of the replacement Bidder's Statement issued by Hamilton Securities Limited (**HSL**) which outlines their offer to acquire all of the shares in ARL (the **Offer**).

This Offer is opportunistic and was not solicited by the board of ARL.

ARL will be providing a Target's Statement which will set out information known to the Directors of ARL which is material to your decision whether to accept or **REJECT** the Offer. The Target's Statement will be issued within 15 days of receipt of notice from HSL confirming that the Bidder's Statement has been sent to all ARL shareholders.

We strongly encourage you to do nothing until you have received and had the opportunity to read the Target's Statement. You will have sufficient time following receipt of the Target's Statement to accept the Offer if you decide to.

Recommendation

All of the directors of ARL (the **Directors**), have carefully considered the Offer and all relevant information known to the Directors, including that which is set out in the replacement Bidder's Statement. Following consideration, the Directors of ARL unanimously recommend that ARL shareholders **REJECT** the Offer. The Directors reasons are set out below and will explained in more detail in the Target's Statement.

Reasons for Recommendation to REJECT the Offer

The Directors unanimously recommend that ARL shareholders **REJECT** the Offer because:

1. **The Offer significantly undervalues ARL.** As at 31 December 2014 the net tangible assets of ARL was \$19,517,964. The Offer price of \$0.01 per ARL Share values ARL at \$9,805,581.67 (There are currently 980,558,167 ARL shares on issue). Based on the net tangible asset backing as at 31 December 2014, the value of ARL is approximately \$0.0199 per ARL Share. ARL will be providing an updated value of net tangible assets in the Target's Statement.
2. **Pending return of capital by ARL equals the Offer.** ARL is on track to make a further 1 cent per share distribution to shareholders. It presently holds \$9.1 million in cash which represents 0.93 cents per share. Subject to receipt of funds discussed below, the Board will seek shareholder approval and endorsement from the Australian Tax Office to undertake a further return of capital to ARL Shareholder's of \$0.01 per share by no later than 30 June 2015. If shareholder approval or endorsement by the Australian Tax Office is not forthcoming, ARL will instead declare a dividend of \$0.01 per share.

The return of capital/dividend is the same value as the consideration in the Offer of \$0.01 per ARL Share but allows ARL Shareholders to retain their ARL Shares and participate in any future distributions made by ARL. The timing of payment of the return of capital/dividend is similar to the timing of payment by HSL under the Offer (assuming that HSL does not extend the period that the Offer will remain open.

The return of capital or payment of dividend by ARL to ARL Shareholders is subject to ARL's receipt of \$1.26 million of funds from the party who purchased the Kooralbyn Resort (the **Purchaser**) in 2014.

When the Kooralbyn Resort was sold, ARL agreed to lend the Purchaser \$5.183 million (**Vendor Finance**) against a purchase price of \$6.5 million. The Purchaser has been paying down the Vendor Finance ever since, under a strict debt reduction plan which ended on 30 April 2015 with a balance of \$1.938 million. ARL then demanded repayment of the Vendor Finance in full with notices of default being served. Subsequently on 12 May 2015 a development site was sold by the Purchaser with the full net proceeds of \$0.677 million received by ARL. If the Purchaser fails to remedy defaults by 28 May 2015, ARL may exercise its rights as first secured party and may re-sell Kooralbyn Resort.

ARL is confident that the Purchaser will perform based on the terms of the Vendor Finance (interest accruing at 20% per annum) as the risk to the Purchaser is that ARL may take recovery action if the Vendor Finance is not repaid on time.

Repayment of vendor finance provided by ARL to the Purchaser of Mount Louisa was scheduled to occur on 6 June 2015. Repayment was accelerated and the vendor finance was repaid to ARL in full on Monday, 11 May 2015 by payment of \$1.07 million.

The liquidators of Octaviar Administration Pty Ltd were to make a distribution of approximately \$1.65 million on 17 June 2015. The liquidators of Octaviar Administration Pty Ltd accelerated the timing of this distribution so that on 12 May 2015, ARL received the distribution.

3. **Liquidator distributions.** The Offer does not attribute any value to further dividends that may be paid to ARL out of the liquidation of Octaviar Administration Pty Ltd and Octaviar Limited after 12 May 2015.
4. **Highly Conditional Offer.** The Offer is highly conditional and does not provide a sufficient degree of certainty for ARL Shareholders that the Offer will be completed.

How to REJECT the Offer

To **REJECT** the Offer, you should do nothing and not complete or return any documentation to HSL.

Enquiries

The Offer is currently scheduled to close at **7pm (Sydney time) AEST on 16 June 2015**, unless extended. If you are in doubt as to whether to **REJECT** the Offer, please consider obtaining professional advice.

We look forward to your continued support as an ARL shareholder.

Yours faithfully



David Beddall
Chairman
On behalf of the Directors