

# Replacement Prospectus



**ABALONE INVESTMENT LTD ACN 140 313 926**

3 NOVEMBER 2009

**AN OFFER TO OBTAIN SHARES IN  
ABALONE INVESTMENT LTD ACN 140 313 926**

## CONTENTS

KEY FEATURES	5
1. DETAILS OF THE OFFER	9
2. OVERVIEW OF THE ABALONE INDUSTRY	12
3. THE COMPANY'S BUSINESS	15
4. FINANCIAL INFORMATION	17
5. RISK FACTORS	19
6. ADDITIONAL INFORMATION	22
7. GLOSSARY	24
8. STATEMENT BY DIRECTORS	25
9. INSTRUCTIONS ON HOW TO APPLY FOR SHARES	26
10. APPLICATION FORM	28



## IMPORTANT NOTICE

### **Document and date**

This is a replacement prospectus (Prospectus) dated 3 November 2009 and lodged with the Australian Securities and Investments Commission (ASIC) on that date. It replaces the prospectus dated 2 November 2009 issued by Abalone Investment Limited ACN 140 313 926 (the Company). ASIC takes no responsibility for the contents of this Prospectus or the merits of the Offer to which this Prospectus relates.

### **Issuer**

This Prospectus has been issued by the Company. Applications for Shares may only be accepted on an application form which is attached to or accompanies (and forms part of) this Prospectus (whether as a hard copy or electronic).

No Shares will be allotted or issued on the basis of this Prospectus later than 13 months after the date of this Prospectus. However, it is anticipated the Offer will close on 30 June 2010.

### **Exposure period**

The Company may not accept applications for Shares until the expiry of the Exposure Period. The Exposure Period is generally 7 days from the date of lodgement of a prospectus with ASIC. The Exposure Period may be extended to 14 days. No preference will be conferred on persons who lodge applications before the expiry of the Exposure Period. The Exposure Period commenced on 2 November 2009.

### **Shareholding limited to Growers**

This Prospectus is only being provided to Growers. Unless you are a Grower, you cannot obtain shares in the Company pursuant to this Prospectus. The Growers Group and the ABA Group administrators have been communicating and providing information to Growers since the ABA Group went into administration on 1 July 2009. In deciding what information to include in this Prospectus, the Board had regard to that background and the matters Growers (as the only prospective shareholders in the Company pursuant to this Prospectus) may reasonably be expected to know, including about the ABA Schemes the ABA Group.

### **No advice**

This Prospectus contains important information and investors should read it carefully and in its entirety and if required, obtain independent legal and financial advice. This Prospectus does not take into account an Investor's investment objectives, financial situation and particular needs. Therefore, applicants should read this Prospectus carefully and consider seeking independent advice.

Neither the Company, its directors, their respective associates or any other person guarantee the performance or success of the investment, any particular rate of capital or any rate of income return.

## **Glossary**

Throughout the Prospectus certain defined terms are used. Defined terms appear in the Glossary in Section 7 of this Prospectus. All financial amounts shown in this Prospectus are expressed in Australian dollars unless otherwise stated. Assets shown in any photographs in this Prospectus are assets of the ABA Group unless otherwise stated.

## **Electronic Prospectus**

An electronic version of this Prospectus is available at: [www.abalone.futuro.com.au](http://www.abalone.futuro.com.au). Investors receiving an electronic version of this Prospectus should ensure they have received the entire Prospectus accompanied by the application form. A hard copy version of the Prospectus is available by calling the Company on 07 3018 0400.



## DIRECTORY

<b>Company</b>	<b>Abalone Investment Ltd ACN 140 313 926</b>
<b>Registered office</b>	Level 3, 200 Creek Street Brisbane QLD 4000
<b>Directors</b>	Richard Watson AM David Mazengarb Paul Kelly
<b>Solicitors to the offer</b>	<b>McMahon Clarke Legal</b> 62 Charlotte Street Brisbane Qld 4000



## KEY FEATURES

### Overview

The purpose of the Offer under this Prospectus is to give Growers in the ABA Schemes equity in the Company which in turn will own and operate the business currently conducted by ABAL (the responsible entity of the underlying ABA Schemes) and all the operations of ABAL's subsidiary companies that hold various assets of the abalone operations. That ownership will be effected by the Company becoming the principal (if not sole) shareholder of ABAL, the current responsible entity of the ABA Schemes and holding company of the ABA Group subsidiaries.

Unlike a traditional share offer where subscribers pay a dollar amount for each share, Growers who apply under this Prospectus are not required to pay a subscription amount. Instead, Shares in the Company will be issued to all existing Growers on two bases:

- In recognition of their contribution to the ABA Group business to date, being their initial contribution upon entering the ABA Schemes along with management and cage rental fees paid to ABAL up to 30 June 2009.
- In accordance with the Growers' Group Proposal discussed below, additional Shares will be issued in recognition of payment to the Growers' Group of an amount equivalent to any outstanding management and cage rental fees due to ABAL under the ABA Schemes as at 30 June 2009.

Payment of an adequate amount of outstanding management and cage rental fees can ultimately recapitalise ABAL to the point its operations can continue.

Additionally, Growers may subscribe for further Shares by paying a cash amount to the Company as set out in this Prospectus.

The net book value of the assets of ABAL's business conducted under the ABA Schemes as at 30 June 2009 had been used in determining the initial value of the Shares for the purposes of this Prospectus. This value may change depending on the number of Shares issued and the value is also dependent on the recapitalisation proceeding.

### Key dates

Date of Prospectus	3 November 2009
Offer opens	3 November 2009
Offer closes	30 June 2010
Date of initial allotment of Shares	18 November 2009

These dates are subject to change.

### Who can receive shares under the offer?

The Offer is open to all Growers in the ABA Schemes who, in accordance with the Growers' Group Proposal have paid, or pledged to pay, to the Growers' Group an amount equivalent to their outstanding management and cage rental fees.

All Growers however will receive the initial allocation as detailed in this Prospectus. The Company may accept, in addition, cash subscriptions from Growers for Shares and these will be a capital payment to AIL.

### **Entitlement**

Growers in the 2005 ABA Scheme will automatically receive 2,000 Shares each. Growers in the 2006, 2007 and 2008 ABA Schemes will automatically receive 1,000 Shares each. Additional Shares in the Company will be issued to Growers in recognition of their diligence in having paid, or having agreed to pay, an amount equivalent to their outstanding management and cage rental fees under the ABA Schemes up to the end of the current financial year (ending 30 June 2010) on the following basis:

<b>Time of payment</b>	<b>Shares received</b>
By 18 November 2009*	Allocation of 1 Share for every \$2.50 paid in fees
18 November 2009–31 December 2009	Allocation of 1 Share for every \$3.00 paid in fees
1 January 2010–30 June 2010	Allocation of 1 Share for every \$3.50 paid in fees

\*Growers who have paid their fees from the beginning of the ABA Scheme in which they are an investor will receive one Share for every \$2.50 paid in fees in recognition of that payment.

The Company has received a copy of the Growers' Group Proposal and has agreed to observe the representations made in it in relation to issue of Shares in return for payment of amounts equivalent to outstanding fees.

Growers wishing to contribute more than the fees they have outstanding to ABAL can subscribe for Shares at the same rate as described in the table above.

### **Conditions precedent**

In accordance with the Growers' Group Proposal, amounts paid or pledged to the Growers' Group have been or will be committed to the DOCA and working capital. The conditions of the recapitalisation process are:

- a. A minimum of \$5 million (or less if determined by the Board) outstanding fees being paid or unconditionally pledged from Growers by January 31, 2010. If an amount of \$3.5 million is not received by 18 November 2009 the terms of the DOCA (discussed in section 1.5) cannot be met. If a further amount of \$1.5 million (or less if determined by the Board) outstanding fees is not received by January 31, 2010, the Directors of the Company may not be able to proceed with the recapitalisation as the growers will have been unable to satisfy their obligations to ABAL and the contributed fees will revert to administration.
- b. The Company receiving application forms from the Prospectus signed by all Growers who have paid or pledged an amount equivalent to their outstanding management and cage rental fees.
- c. The DOCA being implemented in a manner satisfactory to the Growers' Group Representative.

### **Dividend policy**

The benefits of pursuing the recapitalisation and restructure strategy highlighted above will not be fully realised for at least the next 24 months in line with the next anticipated harvest of the ABA Group's abalone stock. This extended

timeframe means it is unlikely there is will be an ability for the Company to pay dividends at least until a successful harvest is achieved.

As a result the Company cannot provide any guidance about the amount or timing of dividend payments. As and when any dividend policy is formulated by the Board the Company shareholders will be informed.

### **Shareholder rights**

Growers who obtain Shares under this Prospectus will acquire ordinary shares in the Company. The rights and liabilities attached to ordinary shares are governed by the Company's constitution and the Act. By applying for Shares, growers agree to observe and be bound by the provisions of the Company constitution which is summarised in section 6.1.

### **Risks**

An investment in the Company should be considered speculative and with some risk. The future prospects of the Company can be affected by a number of factors specific to the Company, particularly the industry in which it operates (aquaculture) as well as various other risks. Applicants are encouraged to read section 5 which contains full details on some of the risks which are associated with an investment in the Company.

### **Liquidity and exit**

The Company is not listed on any stock exchange and it is not currently intended for it to list. Accordingly, the Shares are not a liquid investment.

Long term exit strategies for shareholders in the Company would include the following:

- (a) Trade sale of the ABA Group business.
- (b) A merger with an existing enterprise, including competitors.
- (c) Invitation to a strategic investor.
- (d) Listing on a recognised stock exchange.

Given the present economic and climatic conditions, coupled with the time it will take for the Company's investments to reach their full potential, it is not expected an exit will be possible for a least three to five years. Accordingly, Growers should consider this to be a medium term and illiquid investment.

## **How to apply**

Applications for Shares can only be made on the application form attached to this Prospectus. You are not required to pay any money for the Shares however we ask that you complete the amount equivalent to your outstanding management and cage rental fees which you have paid or will pay to the Growers' Group. Those Growers wishing to subscribe for additional Shares can do so by completing the application form and paying a cash subscription amount to the Company directly.

As a Grower, it is important to realise that until an amount equivalent to your fees are paid, the Company is at liberty not to issue the Shares to you (except the 1,000 ordinary shares which will be issued to all Growers in the 2006, 2007, and 2008 ABA Schemes and 2,000 ordinary shares for those Growers in the 2005 ABA Scheme).

*Note: The above only represents a summary of the Offer. Applicants who wish to participate in the Offer should read the Prospectus in its entirety.*

## **1. DETAILS OF THE OFFER**

### **1.1 Background to this Offer**

ABAL, the responsible entity for the ABA Schemes, is currently in administration with insufficient cash resources to fund the operations of those schemes. The Growers' Group have previously put the Proposal to all Growers designed to provide them with an interest in the ongoing operations of a recapitalised business.

It is anticipated that in the short term, the ABA Schemes will continue in existence but the Company will, upon the successful recapitalisation, assess continuation of the ABA Schemes and ultimately determine an appropriate operating structure for the abalone business moving forward. It is anticipated Growers will receive a return on their investment in the Company over a three to five year timeframe.

### **1.2 ABA Schemes**

ABAL established four registered managed investment abalone schemes. The following numbers of interests and funds were subscribed by Growers:

<b>Year</b>	<b>Number of interests issued</b>	<b>Funds raised (\$ million)</b>
2005	50	2.5
2006	157	4
2007	610	15.2
2008	887	22.3
<b>Total</b>	<b>1704</b>	<b>44</b>

The funds contributed by Growers contributed to the establishment of approximately 90 sea cages and support infrastructure for the growing of abalone, predominately based in Elliston, South Australia.

### **1.3 Growers' Group Proposal**

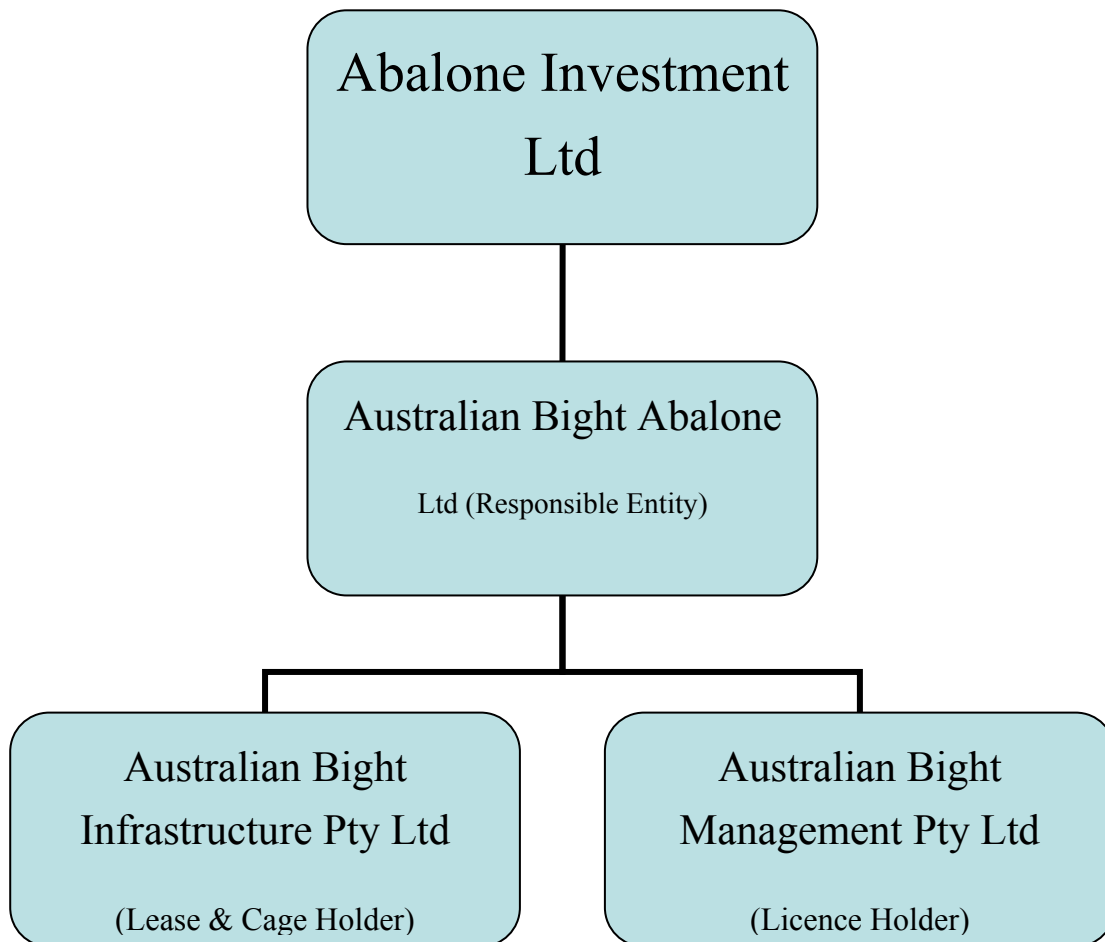
In September 2009, the Growers' Group (comprising Growers, financial planners and dealer groups whose clients are Growers) proposed that ABAL be recapitalised and that Growers be provided the opportunity to participate in the ongoing operations of a recapitalised business. Structurally, it was decided to create the Company and for Growers to be issued Shares in that vehicle. The Company, in turn, will become the principal (if not sole) Shareholder of ABAL.

Pursuant to the Proposal, Growers have been asked to contribute an amount equivalent to their outstanding management and cage rental fees due under the ABA Schemes. The contributions have been, and can continue to be, paid to the Growers' Group who agreed to hold them on behalf of Growers. In accordance with the Proposal, those contributions have or will be paid into a legal firm trust account. A set amount of the contributions will be paid to ABAL pursuant to the propounded DOCA but only if it is finalised and implemented in accordance with its terms (see below). The balance of the contributions will be applied towards necessary working capital for the ongoing operations of ABAL and its subsidiaries.

The existing abalone business conducted under the ABA Schemes can then be continued. Following recapitalisation of the ABA Group, the Company will assess the continuation of the ABA Schemes and determine an appropriate operating structure for the abalone business moving forward.

An integral component of the restructure is implementing the DOCA of the ABA Group which is considered in section 1.5.

**1.4 Proposed structure of the ABA Group**



**1.5 Deed of company arrangement of the ABA Group**

Representatives of the Growers’ Group have been in discussion with the administrators of ABAL since shortly after their appointment in July 2009. The Growers’ Group tendered and was selected as the successful party to attempt to assess the potential viability of the abalone operations through a recapitalisation of ABAL.

A DOCA was propounded by the Growers' Group. Following negotiation between the Growers' Group and the administrators of the ABA Group, a DOCA was approved at the meeting of creditors of the ABA Group held on 21 October 2009. In accordance with the Act, the DOCA must be signed by 11 November 2009 otherwise the administration of the ABA Group ends. A summary of the relevant terms of the DOCA and its effect and consequences is set out below:

- (a) Within seven days after the DOCA is signed (that is, by 18 November 2009 if the DOCA is signed in time), the Grower Group must pay \$2.5 million to the ABA Group administrators. That amount will be paid from the Growers' contributions of amounts equivalent to outstanding fees. By signing the application attached to this Prospectus, you are giving appropriate authority to the Grower Group and the legal firm whose trust account holds the contributions to release the funds in accordance with this DOCA provision.
- (b) By 1 February 2010, the Grower Group must pay \$1 million to the ABA Group administrators. That amount will also be paid from the Growers' contributions of amounts equivalent to outstanding fees. By signing the application attached to this Prospectus, you are giving appropriate authority to the Grower Group and the legal firm whose trust account holds the contributions to release the funds in accordance with this DOCA provision.

The DOCA expressly provides that from the time the payments referred to in paragraphs (a) and (b) are made, the ABA Group administrators accept those payments in full satisfaction and as a complete discharge of any claims for unpaid fees owed to ABAL which they have against Growers who have contributed towards the payments.

- (c) Existing claims made by Growers against ABAL and its officers for misleading and deceptive conduct in relation to the offer documents for the ABA Schemes are limited to the insurance presently held by ABAL. The Growers' Group must obtain releases of the claims made against ABAL by 30 November 2009. This was a requirement of the ABA Group administrators, but the Growers' Group accepted that it was a necessary component of the DOCA and so made it a condition precedent to the proposed recapitalisation proceeding.
- (d) The current shareholders of ABAL will sell or forfeit their Shares in that company.
- (e) The Company will become the sole Shareholder of ABAL by the acquisition of the Shares held by the current shareholders (but with capacity for new shareholders to be introduced in the future, at the discretion of the new board of directors of ABAL).

Implementation of the DOCA is also conditional on the existing licences and agriculture lease sites granted by the appropriate authorities and required in respect of the abalone operations continuing to be held on their current, or no less favourable terms. Neither the Grower Group nor the Company is aware of any changes to those terms.

## 2. OVERVIEW OF THE ABALONE INDUSTRY

Up until the last 5 years the abalone industry in Australia has been dominated by wild catch harvesting. Almost 90% of wild catch supplies came from Tasmania, Victoria and South Australia. There are 2 major species of abalone fished commercially being greenlip and blacklip abalone.

The Australian fisheries “wild caught” production is in decline, in fact in 2005/2006 the total volume of Australian fisheries production fell by 37,000 tonnes, or 13%. However production in the aquaculture sector rose by 7,500 tonnes or 16%. Global consumption of fish has doubled since 1973.

Aquaculture now comprises 35% of the \$2.13 billion of Australian seafood production. In 2005/06 Australian abalone exports accounted for more than \$245 million of total seafood produced. In 2005/06 aquaculture production totaled A\$745.5 million, obviously aquaculture is not a new industry.

Fresh chilled and frozen abalone export prices averaged A\$60.95 per kilogram over the 2004/05 year and increased to A\$61.67 per kilogram over the 2005/06 year. At the same time the FOB price of canned abalone rose to an average of A\$74.47 per kilogram. Accordingly abalone commands the highest per kilogram price of all Australian seafood commodities exported.

Abalone is predominantly exported to Hong Kong, China, Japan and Singapore. Exports to Hong Kong represent 44% of total abalone exports. Demand for abalone is growing rapidly. Approximately 58% of current produce is exported fresh, chilled or frozen, with the remainder being processed and canned. Exports directly into mainland China rose a staggering 3045% from 2003/04 to 2005/06.

Aquaculture provides the ideal environment where demand for fresh product can be met as the abalone produce can be harvested for “on demand” delivery, rather than relying on the “hit or miss” supply typical of wild catch produce. Aquaculture also provides for certainty of supply and consistency of size and quality, a desirable scenario for distributors in importing countries such as China, Japan and Singapore.

ABAL has been involved in the commercial harvesting of Greenlip abalone by using “sea farms” currently based in the Great Australian Bight where conditions and natural feed abundance are favourable. The greenlip abalone is considered a delicacy among consumers in China, Japan, Singapore and South East Asia.

Historically, finfish aquaculture has been carried out in Australia in sea based cages, which are often referred to as “rings”. These cages are simply nets hung from flexible plastic pontoons floating on the surface. These techniques have been used successfully since the 1950s. The cages provide the aquaculture species with their natural environment, and protection from predators, whilst providing ease of access to stock for feeding.

Land based aquaculture is an alternative scenario, but is extremely capital intensive, as it requires the construction of large holding tanks, and requires the pumping and circulation of massive volumes of water to achieve the correct water temperature and oxygenation concentration. Land based aquaculture generally produces abalone which is discoloured when compared to “wild caught” abalone due to artificial feed sources. This discolouration affects both the shell and meat, which in general reduces the saleability and therefore value of the produce.

This operation is based on marine based cages similar to those which have been used for decades to raise tuna, and other aquaculture grown species. An integral part of the Abalone Aquafarm™ system is the utilization of patent pending Abtrays® in which the abalone grows. The abalone produce looks identical to wild caught abalone, and can be preordered

to size and weight, which is a material positive difference in the saleability processes associated with wild caught abalone which is subject to annual quota and licence restrictions.

The abalone attach naturally to the Abtrays® which provide a safe environment that also cultivates algae on which the abalone feed. Algae grows on both the Abtray® and the Abalone Aquafarm™ nets. The Abtrays® are patent pending and have been successfully tested, developed and used over a 14 year period.

Maintenance of the Abalone Aquafarm™ nets and the Abtrays® is required and is continually carried out by divers to ensure that excess algae does not build up and prevent the circulation of water through the nets, and as a good animal husbandry technique.

In addition, experienced and qualified marine biologists and independent veterinarians test the crop for disease and provide expert general management of the equipment.

The operation is based on the principle that the best way to grow seafood, is in its natural environment.

None of the ABA Schemes used non-organic artificial feed, chemicals, steroids, anti-biotics or any hormones of any kind in their operations.

ABAL was the first company to attempt large scale sea farming of green lip abalone in Australia. There are other smaller scale operators.

Abalone prices have remained stable over the last few years. In recent times there has been a softening in demand due to the impact of the global financial crisis on consumers. There are recent signs of improvement in demand for quality abalone product.

The South Australian Aquaculture Act (2001) (the Act) was designed to establish a regulatory framework for the licensing of qualified operators, and regulation of marine leases. The Act has been specifically designed to develop and regulate the industry which has more than doubled in size over the past 10 years. The Act allows for participation by multiple parties in the industry by way of licensing operators (aquaculture licensees) and the issuing of aquaculture leases.

The Department of Primary Industries and Resources of South Australia (PIRSA) licensed the ABA Group through its subsidiary, which holds multiple Marine Shellfish (Subtidal Abalone) Aquaculture Licences.

In addition, the ABA Group owns a number of aquaculture lease sites. The Waldegrave Island sites (FA 00026, 00027, 00029 & 00030) provide for 80Ha of subtidal abalone aquaculture. The ABA Group company also owns multiple alternative aquaculture leases at Waldegrave Island and in four other locations around South Australia.

## **2.1 OPERATIONAL FEATURES**

- a. The Company has the potential to achieve high returns, provided that mortality; growth rate and price objectives are met.
- b. The abalone market is considered to be strong, with strengthening demand, especially in Asia, and decreasing stock supply.
- c. The existing operations utilises a unique sea-based farming operation.

- d. Spat are sourced from three separate suppliers and grown out on bases that are placed in cages, suspended from floating pontoons.
- e. The project will incorporate annual seeding and harvesting cycles after 2011
- f. A disease peculiar to abalone, Abalone Viral Ganglioneuritis is considered to be a potential risk but to be much lower at the existing sites.
- g. Diverse export markets are being developed in Hong Kong, China, Taiwan, Singapore and the US, including forward contracts.
- h. Australia is the largest producer of wild abalone in the world.
- i. There remains a degree of uncertainty surrounding the production regime as only a few limited cycles from seeding to harvest have been completed.
- j. The price received for the abalone produced from this investment will depend on the prevailing market conditions, processing costs and exchange rates.

### **3. THE COMPANY'S BUSINESS**

#### **3.1 Board**

The Board of the Company is as follows:

- (a) Richard Watson AM (Chairman).
- (b) David Mazengarb.
- (c) Paul Kelly.

A short statement of the experience and background of each Director is set out below:

- (a) Richard has had an extensive and successful business career as a senior executive, CEO, Director and Chairman in several Australian and overseas companies involving a number of Industries The industries involved included Agribusiness, Aquaculture, Pharmaceutical, Food and Beverage, and Health Insurance, located in Victoria, UK, USA, NSW and Tasmania. Richard was instrumental in the merger of Tassal Limited with two other salmon companies and the recapitalisation of the group to form the largest and most successful salmon company in Australia and he was awarded an Order of Australia (AM) in 2000 for services to Aquaculture and Business
- (b) David is a Chartered Accountant with experience in corporate finance and compliance particularly in the financial services industry over the last 10 years. He has 30 years work experience in business and financial services in Australia and overseas and has been involved in many successful business reconstructions. He has a reputation for successfully assisting businesses in difficulty or assisting changes in business strategic directions.
- (c) Paul is a Director and Responsible Manager of Futuro Financial Services Pty Ltd. Futuro is one of Australia's fastest growing non institutionally aligned Australian Financial Services Licensees with advisors in most states of Australia and at least of \$2Billion in funds under management. Paul has extensive experience in compliance management of licenses including oversight of investment committees and development of systems and processes in the efficient running of businesses. Paul has degrees in Applied Economics and Education.

Aquaculture is a specialised industry and so the Company from time to time will appoint and retain experts to provide advice on the aquacultural operations conducted by ABAL. The directors have already had discussions with a number of parties who believe they have a potential valuable contribution through their particular aquaculture experience and expertise.

#### **3.2 Shareholding structure**

Initially, it is proposed that Growers will be the main or only Shareholders of the Company. Additionally, it is proposed that the management team and key employees of, or to be utilised by, the Company will also be offered Shares in the Company. However, this will not be until the first harvest of abalone under the recapitalised business is completed. The Board may elect to establish an employee share scheme for the benefit of management and employees but this is also not proposed until a successful harvest following recapitalisation is undertaken. There is no guarantee any such employee share scheme will be offered.

Furthermore, it is anticipated that up to 10 percent of the Shares in the Company may be offered to other parties, including Australian financial services licensees whose clients are Growers in the ABA Schemes. Also, potentially significant shareholdings may be offered to a suitable strategic third party investor or investors.

At the date of this Prospectus it is proposed that the Company will be the sole Shareholder of ABAL. If circumstances dictate (for example, if an opportunity arises to secure a capital injection from a third party) then the board of ABAL may consider issuing Shares (in the same or a different class of those held by the Company) or other securities. It is proposed the board of directors of AIL will comprise the Directors of ABAL.

### **3.3 Future strategies for the ABA business**

The Company has prepared a detailed strategic plan which is directed at two broad aims:

- (a) Optimise the investment performance for Growers who have enjoyed little or no return from the ABA Schemes to date.
- (b) Become a significant participant in the Australian abalone industry through its ownership of ABAL.

Some of the short term plans which comprise that strategy are as follows:

- (a) Neither ABAL nor the Company will establish more managed investment schemes.
- (b) For the short to medium term, ABAL's investments will be focused on rebuilding and protecting the assets which it currently operates or utilises.
- (c) Spat purchase, husbandry and sea farm maintenance will be rationalised and more favourable negotiations sought from suppliers. The ABA Group's relationships with suppliers have been maintained.
- (d) All abalone sales and distributions arrangements with ABAL will be extensively reviewed to avoid any potential conflict of interest issues and to ensure the best price is achieved for the harvested product. The ABA Group's relationships with distributions channels have also been maintained.
- (e) Given the existing infrastructure, the Directors do not currently anticipate any major capital expenditure unless there is a compelling investment case for doing so.
- (f) All operations will be centred out of Elliston close to the sea farming sites so regular information on stock is available to management.
- (g) ABAL's Adelaide offices will remain closed which will deliver considerable administrative cost savings.

## 4. FINANCIAL INFORMATION

As the Company is a start up entity, there is no historical financial information for it to date. Any historical financial information about the ABA Group which appears in this Prospectus has been limited to that which is publicly available.

The purpose of adopting the strategy outlined in section 3 is to recapitalise ABAL and bring it into a position of sustained profitability.

In order to properly plan the strategy and implement it, the Company has developed a budget for ABAL's operations so that it can determine that under normal operating and market conditions it is possible for ABAL to generate positive returns from the business it operates from the existing assets and resources it has at its disposal. The key driver of the financial performance of ABAL (and hence the Company as its intended sole shareholder) will be decreasing the abalone mortality rates ABAL experienced in the past. Based on information provided to the Company the average implied mortality rate across the four ABA Schemes is over 90 percent compared with a disclosed mortality rate in the ABA Schemes offer documents of 17 percent. However there have been a number of operating changes made and there does appear to be an improvement in the mortality rates for the 2008 ABA Scheme and this is reflected in the abundance analysis conducted by SARDI. The Company will seek to verify the actual abundance in the first month of the operations under the recapitalised model.

The Company believes mortality rates can be less than 50 percent. Discussion with representatives of SARDI and various biological experts in Abalone and Algae production has lead the Directors to believe that instigation of the following regimes and other strategies will enhance the survival of the Abalone.

- Spat to be placed in trays in the warmer months rather than during July and August. The previous management had to comply with the peculiarities of the managed investments regime and the timing of spat placement may have been detrimental to the successful placement of spat into the Abtrays.
- Spread the growing Abalone out into twice the number of trays in the second year to allow the smaller Abalone a greater chance of successful growth.
- Supplementary feed the Abalone from part way through the second year until harvest.

Whilst it is not possible for the Directors to accurately forecast the future financial performance of the Company, the Directors do wish to provide a projected cash flow for the sole investment of AIL, being ABAL, for the next 5 years. The Directors believe the forecasts, and the assumptions on which they are based, are reasonable.

<b>Projected Cash Flow</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
<b>Receipts</b>						
*Recapitalisation Monies	5,000,000					
Debt/Equity Funding		5,000,000				
Harvest Proceeds		675,000	11,550,000	8,662,500	12,600,000	15,750,000
<b>Total Receipts</b>	<b>5,000,000</b>	<b>5,675,000</b>	<b>11,550,000</b>	<b>8,662,500</b>	<b>12,600,000</b>	<b>15,750,000</b>
DOCA Settlement Payment	3,500,000					
Spat Purchase & Husbandry	564,706	941,176	1,176,471	1,411,765	1,411,765	1,411,765
SeaFarm Maintenance	1,295,333	1,991,575	2,041,364	2,092,398	2,144,708	2,198,326
Harvesting Costs	233,333	356,250	362,656	371,723	381,016	390,541
Sales & distribution costs			250,000	275,000	275,000	350,000
Finance & administration	746,667	1,148,000	1,176,700	1,206,118	1,236,270	1,267,177
<b>Total Operating and DOCA Payments</b>	<b>6,340,039</b>	<b>4,437,001</b>	<b>5,007,191</b>	<b>5,357,003</b>	<b>5,448,759</b>	<b>5,617,809</b>
<b>Surplus available for distribution or retention</b>	<b>-1,340,039</b>	<b>1,237,999</b>	<b>6,542,809</b>	<b>3,305,497</b>	<b>7,151,241</b>	<b>10,132,191</b>

**Key Financial Assumptions**

1. \* Recapitalisation monies expected to exceed \$6 million
2. Abalone sales have been assumed at A\$35.00 per kilo and this has not been indexed
3. Mortality of seeding is assumed at 50% reducing to 40%
4. 2010 seeding of 3,000,000 spat increasing at 1,000,000 per annum until reaching 6,000,000 per annum
5. The average harvested weight of abalone being 150 grams shell weight
6. Sea farm maintenance costs are calculated on an active ring basis based on 2009 costs
7. All costs have been indexed at a rate of 5% per annum from 2010
8. 2011 harvest proceeds represents residual stock from previous years harvests and 2012 harvest is from stock from 2008 ABA Scheme that have been in the sea cages for in excess of 12 months.

## **5. RISK FACTORS**

### **5.1 Introduction**

There are risks associated with an investment in the Company. Investors should consider the investment risks prior to investing in the Company. The summary below, which is not exhaustive, represents some of the major risk factors, both specific to the Company and the abalone industry, and of a general nature, which may affect the future performance of the Company and the dividends paid on Shares.

As part of the application process Growers and Investors should examine the contents of this Prospectus carefully and consult their professional advisers. Neither the Company nor its Directors give any guarantee as to the payment of any particular rate of income return. Some risks are outside the control of the Company and cannot be mitigated.

The Directors have identified the risks set out below as the principal risks relevant to a decision to invest in Shares in the Company.

### **5.2 Company specific risks**

- (a) AIL—currently, the Company’s sole purpose is to act as the holding company of ABAL. Therefore, the prospects of success of the Company are entirely reliant on the performance of ABAL. ABAL is a participant in the Australian abalone industry and if it does not perform to a level which will generate profits and it turn dividends payable to the Company, then investors will not achieve an investment return.
- (b) Loss of key personnel—ABAL and the Company are dependent on a number of key personnel. If significant key personnel leave ABAL, then its business will be affected.
- (c) Competition—there are a number of competitors to ABAL in the abalone industry whose activities may affect the earnings of ABAL and those of the Company.
- (d) Growth—the ABA Group owns the assets used in the existing abalone operations. However, there is no guarantee the group, including ABAL, or the Company will expand or grow in the future.
- (e) Investment risks—dividends are dependent on the profitability of the Company.
- (f) Liquidity—an investment in the Company must be considered to be illiquid.
- (g) Dilution—if further Shares are issued by the Company after the closure of this Offer, investors who take up this Offer may have their shareholding diluted. Furthermore, the number of Shares issued to individual investors depends on the payment, and the time of payment, of management and cage rental fees owed under the ABA Schemes (see the Key Features section earlier).

### **5.3 Industry specific risks**

Since investors will be Shareholders in the Company, and the Company will in turn be a Shareholder in ABAL, investors must consider themselves as investing in the abalone industry. Such an investment is subject to general risks associated with aquaculture including storm, wind, tidal damage, poaching and theft of stock and disease. These risks can be reduced through sound management practices, including appropriate site selection, but the detrimental effects of extreme weather conditions are largely outside the control of the Company.

The following aquaculture industry specific risks must also be considered:

- (a) Any licences or aquaculture leases issued by the relevant South Australian authorities to ABAL or its subsidiaries are subject to the terms on which those licenses and leases are issued including possible termination for failing to continue to comply with those conditions.
- (b) Legislation and regulation governing the aquaculture industry generally, and the abalone industry specifically, are subject to change.
- (c) Market conditions including currency fluctuations may impact on the future price for abalone produce. In any commodity market there is a risk of over-production of the commodity leading to an over-supply. Market prices and any growth in those prices are subject to the risk inherent in projecting prices based upon internationally traded commodities in the longer term.
- (d) Storm risk is reduced by the selection of sites which are as close as possible (1.5 km) to the lee side of Waldegrave Island. Further, the Abalone Aquafarm™ system has withstood major storm activity in November 2005 and again in July 2007, with swells of over 30 foot and winds gusting above 50 knots. In May 2006 the anchors for all Abalone Aquafarms™ were replaced by Australian Mooring Services Pty Ltd with a “grid anchor” system. The grid anchoring system is designed to withstand cyclonic conditions. The 2008 Project has made use of a grid anchoring system.
- (e) Wind has the potential to cause damage to Abalone Aquafarm™ equipment. The Abalone Aquafarm™ design allows for it to be lowered below the surface prior to any storm event to ensure any effect of wind or swell is mitigated.
- (f) The company believes that poaching / theft is a potential risk to to the company, as poaching and theft can result in the loss of stock. The company maintains its own security procedures, including 24 hour physical and electronic monitoring of the Abalone Aquafarms™. In addition, abalone of significant value can only be sold in quantity, and in such a small community with few licensees the likelihood of detection is considered extremely high.
- (g) Disease is a risk factor in all primary production activities. Similarly with other primary industries, monitoring and testing are the most inexpensive and best form of control of disease. Abalone are generally subject to disease when placed under stress (i.e. lack of feed, overstocking). A maintenance schedule including a surveillance program, best standard bio-security protocols and a Disease Emergency Response Policy designed to detect the existence of disease at an early stage allowing appropriate action to be taken is currently being developed and implemented.

#### **5.4 General risks**

- (a) Financial position and capacity of ABAL—ABAL has been in administration since July 2009. Despite the recapitalisation of ABAL by the Company, the ability of ABAL to continue operating is dependent on its financial position and liquidity.
- (b) Economic risks—The performance of ABAL, and in turn, the Company may be adversely affected by changes in government policy, general economic conditions such as increased inflation, fluctuations in interest rates, changes to tax laws, unemployment rates and fluctuation in consumer demand. This may adversely affect the business of the Company, which in turn may have an adverse impact on dividends payable on Shares.

- (c) Legal proceedings—there is a risk the Company may become involved in litigation or other legal proceedings. The Company will incur costs and expenses as a result and may be subject to court orders to pay monetary damages or penalties.
- (d) Ranking and winding up—if the Company is wound up, payment of any capital to Shareholders has the lowest priority of payment. If the Company’s assets are not sufficient to extinguish the claims of all creditors, then Shareholders will not receive any capital payment.

## **6. ADDITIONAL INFORMATION**

### **6.1 Constitution summary**

The constitution of the Company is the only document anticipated to govern the relationship between Shareholders and the Company. It contains extensive provisions about the legal obligations of the parties and the rights and powers of each.

It contains provisions typical for a constitution of an unlisted public company including provisions dealing with the following:

- (a) Management of the Company is vested in the Board.
- (b) General powers of the Board.
- (c) Meetings of Directors and Shareholders
- (d) Transferring shares.
- (e) Transmission of shares on death or bankruptcy.
- (f) Winding up.

### **6.2 Taxation implications**

There may be taxation implications associated with the issue, owning and disposing of Shares. As these implications will depend on a Shareholder's particular circumstances, all potential Shareholders are encouraged to obtain their own taxation advice in respect of holding and selling Shares.

### **6.3 Legal proceedings**

The Directors are not aware of any litigation of a material nature pending or threatened which may significantly affect the Company's business.

### **6.4 Expenses of the Offer**

The expenses of the Offer are payable by the Company.

### **6.5 Payments and other instructions by facsimile**

Each Shareholder releases and agrees to indemnify the Company from and against all claims in connection with or related to the Company in good faith accepting and acting on instructions received by facsimile transmission which are signed, or purported to be signed, by an authorised signatory or signatories of the Shareholder. If a Shareholder wishes to update their payment instructions, then the updated details must be provided at least 14 days before the payment date of any dividends.

## **6.6 Continuous disclosure**

The Company may be a disclosing entity depending on the number of investors holding Shares. If the Company is a disclosing entity, then the Company will be subject to regular reporting and disclosure obligations.

The Act requires the Company to lodge annual and half yearly accounts and notice of other important events with ASIC. All of this information may be obtained from, or inspected at, any ASIC office. All investors have a right to obtain copies of these documents from ASIC.

## **6.7 Privacy**

We take your privacy seriously. When submitting your application form, you will be providing the Company with your personal information. The Company will treat this information strictly in accordance with the National Privacy Principles, outlined in the Privacy Act.

Please ask us for a copy of our Privacy Policy.

## **6.8 Consents and interests of other parties**

McMahon Clarke Legal advised on the preparation of this Prospectus. McMahon Clarke Legal has received, or will receive, a fee of \$20,000 plus GST and outlays for this service

McMahon Clarke Legal has given, and has not before lodgement of the Prospectus withdrawn, consent to the issue of the Prospectus with either a reference to them or with any statements which may have been made by them included in the form and context in which they are included. McMahon Clarke Legal otherwise does not make, or purport to make, any statement in this Prospectus and is otherwise not aware of any statement in this Prospectus which purports to be based on a statement made by it. To the maximum extent permitted by law, McMahon Clarke Legal expressly disclaims and takes no responsibility for any part of this Prospectus.

## **6.9 Interests of directors**

- (a) Directors or their associated entities may hold Shares in the Company, either through approved share issues, or being entitled to apply for Shares pursuant to this Prospectus, or through subsequent equity offerings by the Company.
- (b) It is proposed that the directors of the Company will also be directors of ABAL.
- (c) Two of the Growers' Group, Paul Kelly and David Mazengarb, are directors of the Company and proposed directors of ABAL.
- (d) To enable incorporation of AIL, two ordinary shares were issued to the initial shareholder. Two of the directors of the Company are also directors of that initial shareholder.
- (e) The Company may receive administrative support from companies and firms associated with its Directors from time to time on commercial terms and conditions.

## 7. GLOSSARY

**ABAL**—Australian Bight Abalone Limited (administrators appointed) ACN 110 026 483.

**ABA Group**—ABAL, Australian Bight Infrastructure Pty Ltd (administrators appointed) ACN 111 020 421 and Australian Bight Management Pty Ltd (administrators appointed) ACN 111 209 780. Where the context requires, it means any one or some of those companies.

**ABA Schemes**—the four registered managed investment abalone schemes established by ABAL before that entity went into administration. Where the context requires it also means any one, some or all of those schemes.

**Act**—the Corporations Act 2001 (Cth) for the time being in force together with the regulations of the Corporations Act.

**ASIC**—Australian Securities and Investments Commission.

**Board**—the board of Directors of the Company.

**Constitution**—the document establishing the Company and governing the relationship between the Company and the Shareholders.

**Directors**—the directors of the Company from time to time. The directors of the Company as at the date of this Prospectus are set out in section 3.1.

**DOCA**—the deed of company arrangement entered in relation to the ABA Group.

**Company or AIL**—Abalone Investment Ltd ACN 140 313 926.

**Grower**—an investor who acquired one or more interests in one of the ABA Schemes.

**Growers' Group**—the group of Australian financial services licensees, financial planners and authorised representatives and growers who came together for the purpose of considering and submitting a recapitalisation proposal to the administrators of the ABA Group as a means of salvaging or securing value and a potential investment opportunity for Growers.

**Growers' Group Proposal or the Proposal**—the proposal submitted to all Growers by the Growers' Group dated 16 September 2009.

**Growers' Group Representative**—the representative from time to time nominated by the Growers' Group.

**Offer**—the offer under this Prospectus to apply for Shares.

**Prospectus**—this Prospectus or any supplementary or replacement Prospectus or other disclosure document as defined in the Act, issued by the Company.

**Share(s)**—the ordinary shares in the Company issued to Shareholders who apply under this Prospectus.

**Shareholder**—a person who holds Shares.

## 8. STATEMENT BY DIRECTORS

To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the accuracy of such information.

The Prospectus has been signed on the date of this Prospectus by Paul Kelly, a director of the Company pursuant to Section 351 of the Act.

Each director of the Company consents to the lodgement of this Prospectus with ASIC.



---

Paul Kelly  
Director  
Abalone Investment Ltd

## 9. INSTRUCTIONS ON HOW TO APPLY FOR SHARES

### 9.1 Correct Name

The type of entity you are using to apply for Shares will determine how you complete the application form attached to this Prospectus. Please refer to the table below when completing the name of the Shareholder.

TYPE OF INVESTOR	CORRECT FORM
<b>Individual</b> Use given names in full, not initials	✓ Peter Robert Smith ✗ P.R. Smith
<b>Company</b> Use full company name, not abbreviations	✓ Smith Building Services Pty Ltd ✗ SBS P/L ✗ Smith Building Services
<b>Minor (under 18 years of age)</b> Use the name of the responsible adult with the minor in brackets, not just the name of the minor.	✓ Jane Elizabeth Smith <Jane Elizabeth Smith Jnr> ✗ Jane Elizabeth Smith Jnr
<b>Trusts</b> Use the name of the trustee with the name of the trust in brackets, not just the name of the trust	✓ Peter Robert Smith <Smith Family Trust> ✗ Smith Family Trust
<b>Superannuation Funds</b> Use the name of the trustee with the name of the fund in brackets, not just the superannuation fund	✓ Jane Elizabeth Smith <Smith Superannuation Fund> ✗ Smith Superannuation Fund
<b>Partnerships</b> Use the name of the partners and not the name of the firm or business	✓ Peter Robert Smith and John Smith <Smith Brothers> ✗ Smith Brothers

### 9.2 If you are applying as an individual

The application form must be signed personally by you or your attorney(s). Joint applications must be signed by ALL applicants or their authorised attorney(s). Please also note the full names of the two joint applicants must appear with the second name appearing as applicant #2 on the form. Where there is only one applicant for this form, then just complete the applicant #1 field on the application form. Where the application form is signed by an attorney, the application form must be accompanied by a copy of the power of attorney and a declaration of non-revocation of the power of attorney by the attorney.

### 9.3 If you are applying as a company

You need to sign the application form in the manner required by the Act, which is for a director and secretary, two director's, or if the company has only one director, then just that director to sign the application form. There is no need for you to apply a company seal.

### 9.4 If you are applying as a trust (family or unit trust, superannuation fund)

You need to apply in the name of the trustee and also note the full name of the trust on the application form.

If the trustee is an individual, then the application form must be signed personally by the trustee or by its attorney.

If the trustee is a company then, you need to sign the application form in the manner required by the Act, which is a director and secretary, two directors, or if the company has only one director, then just that director to sign the application form. There is no need for you to apply a company seal.

### **9.5 Tax File Number**

You do not have to provide us with your Tax File Number (TFN). However, if you do not provide your TFN, then we may be required to deduct tax from any income paid to you at the top marginal tax rate. You may be eligible for an exemption to provide your TFN, in which case you will need to state the reason in the application form in the space provided.

### **9.6 Lodging the application form**

The application form should be either delivered or mailed to following addresses:

Mail to: Abalone Investment Ltd  
GPO Box 942  
BRISBANE QLD 4001

Deliver to: Abalone Investment Ltd  
Level 3, 200 Creek Street  
BRISBANE QLD 4000

Alternatively, you may send your application form to your dealer or adviser who will forward the application to us.



Suburb/City or Town		State	Postcode
Home Telephone	Work Telephone	Contact Name	

**E. Dividend payment details**—please pay dividends into the following account:

Bank Name	BSB Number
Account Name	Account Number

**F. Declaration and signing**

By lodging this application form, you agree—

- you have read the Prospectus to which this application form is attached
- by signing this form, you will be bound by the constitution of the Company
- in accordance with the terms of the DOCA, to release the ABA Group from all and any claims of alleged misleading and deceptive conduct arising out of the offer documents for the ABA Schemes (Claims) and to authorise the Grower Group and any of its members to notify the ABA Group administrators of this release
- to confine any right to recover any money from ABAL in relation to the Claims to whatever rights ABAL may have pursuant to the policy of insurance No 115982 issued in favour of the ABA Group by AIG Australia
- to irrevocably and unconditionally authorise the Grower Group collectively and each of its participants individually to release to the administrators from time to time of the ABA Group the amounts equivalent to your outstanding management and cage rental fees which you have paid, or will pay, to the Growers' Group in accordance with the Proposal (Fees)
- to irrevocably and unconditionally authorise the Grower Group collectively and each of its participants individually to direct and authorise the partnership of McMahon Clarke Legal to release the Fees from its trust account to either the Grower Group, any one of its individual participants or the administrators at the time of the ABA Group, and
- to irrevocably and unconditionally authorise the partnership of McMahon Clarke Legal to release the Fees from its trust account to either the Grower Group, any one of its individual participants or the administrators at the time of the ABA Group.

Further, by lodging this application form, you acknowledge—

- you have had the opportunity to seek independent professional advice regarding the legal, tax and financial implications of subscribing to the Company
- you have not relied on any statements or representations made by anybody (including the Company or the officers, employees or agents of the Company) prior to applying, other than those representations made in this Prospectus and in the Growers' Group Proposal, and
- you have made an offer to become a Shareholder in the Company and that offer cannot be revoked.

By lodging this application form, you also represent and warrant that you are in compliance with all laws of jurisdictions outside the Commonwealth of Australia relevant to this application, and you are not a foreign investor.

**Individual or joint applicants:**

Signature of applicant #1

Signature of applicant #2

Date            /            /

**Company applicants:**

Common seal (if required)

Director

Director / Secretary

**IMPORTANT NOTICE**

- A person who gives another person access to this application form must, at the same time and by the same means, give the other person access to the Prospectus. Shares in the Company will only be issued on receipt of an application form issued together with the Prospectus.
- A complete copy of the paper form of the Prospectus, this form, and any supplementary document will be sent to you free of charge if requested during the subscription period for Shares in the Company.
- The offer under the Prospectus is available to people receiving the Prospectus within Australia.
- You should read the Prospectus in full before completing this application form because the Prospectus contains important information about the Company and investment in the Company.