WALLACE ABSOLUTE RETURN LIMITED
A.B.N. 58 100 854 788

APPENDIX 4E STATEMENT
PRELIMINARY FINAL REPORT

RESULTS FOR ANNOUNCEMENT TO THE MARKET
YEAR ENDED 30 JUNE 2005

THIS REPORT IS BASED ON ACCOUNTS WHICH ARE IN THE PROCESS OF BEING AUDITED

	Current Year 2005	Prior Year 2004	% change prior year
Proceeds from the sale of investments	699,248,489	545,557,103	28%
Unrealised profit/(loss) on investments	(3,498,502)	15,159,376	-123%
Other revenue from ordinary activities	3,128,906	2,843,607	10%
Cost of investments sold	(690,915,215)	(557,964,568)	24%
Brokerage and other investment costs	(1,080,658)	(317,023)	241%
Depreciation and amortisation expenses	(11,334)	(7,627)	49%
Administration expenses	(789,974)	(711,558)	11%
Borrowing costs	(1,593,253)	(1,981,917)	-20%
Other expenses from ordinary activities	(571,577)	(438,885)	30%
Profit from ordinary activities before related income tax expense	**3,916,882**	**2,138,508**	**83%**
Income tax expense relating to ordinary activities	(729,662)	-	
Profit from ordinary activities after related income tax expense	**3,187,220**	**2,138,508**	**49%**
Total changes in equity other than those resulting from transactions with owners as owners *	**3,187,220**	**2,138,508**	**49%**
Net Assets	**29,120,906**	**24,883,639**	**17%**
Net Tangible Assets per share	**$1.03**	**$1.01**	**2%**
Basic earnings per share (cents per share)	**12.21**	**9.95**	**23%**

Dividends paid or declared for payment as follows:

Fully franked dividend of 5.0c per share paid on 28 September 2004	$1,233,529
Fully franked dividend of 5.0c per share paid on 2 May 2005	$1,314,391

On 8 August 2005 the directors declared a fully franked dividend of 5c per share. The record date for determining entitlement to this dividend is 13 October 2005.

* - "Transactions with owners as owners" includes share issues and dividend payments by Wallace Absolute Return Limited

WALLACE ABSOLUTE RETURN LIMITED
A.B.N. 58 100 854 788

PERFORMANCE SUMMARY
FOR THE YEAR ENDED 30 JUNE 2005

Summary

- Profit after tax increased 49% to $3.187m for the year to 30 June 2005
- Net assets increased 17% to $29.121m
- Earnings per share after tax increased 23% to 12.21 cents for the year to 30 June 2005
- Fully franked dividend of 5.0 cents a share paid to shareholders on the register of members on 14 September 2004
- Fully franked dividend of 5.0 cents a share paid to shareholders on the register of members on 15 April 2005
- Dividend reinvestment plan discount to the Net Asset Value after tax maintained at 5%
- 30 June 2005 Net Asset Value after tax $1.0059 per share
- Fully franked dividend of 5.0 cents a share declared payable to shareholders on the register of members on 13 October 2005

Performance

Wallace Absolute Return Limited (the "Company") is pleased to report a profit after tax for the year to 30 June 2005 of $3,187,220. This was an increase of 49% over the 30 June 2004 result. The increased profit after tax was achieved through active management of the Company's assets. Turnover for the year was $1,390,163,704 and reflected opportunities which arose due to strong commodity prices, the high level of corporate activity, currency volatility and as a result of corporate actions and fundamental valuation discrepancies. The turnover highlights the focus of the Manager, Wallace Funds Management Limited, to identify and exploit valuation anomalies. As a consequence the portfolio composition changes frequently due to company announcements, economic factors and share price movement.

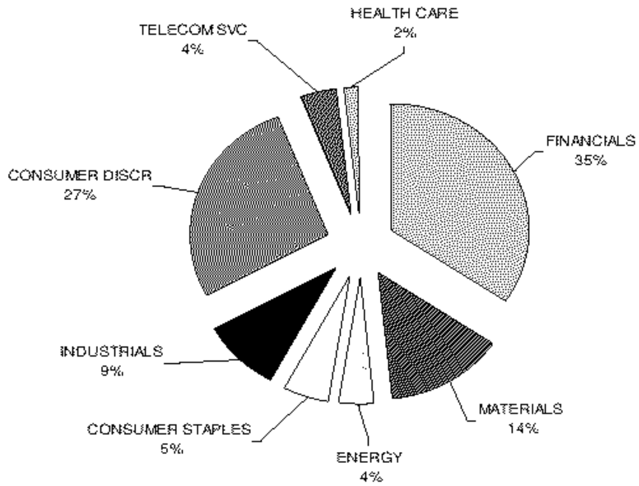
The Company is a market neutral investment fund. The value of the Company's investments which benefit from increases in the Australian sharemarket approximate the value of investments which benefit from falls in the Australian sharemarket. Hence shareholder returns are determined by the skill of the investment manager identifying the relative value of alternate investments rather than the overall direction of the sharemarket.

The Net Asset Value (NAV) per share after tax as at 30 June 2005 was $1.0059. The Company reports its NAV weekly to the Australian Stock Exchange ("ASX") and on the website www.wallacefunds.com.au

The Company paid a fully franked dividend of 5.0 cents per share to shareholders on 2 May 2005. This dividend is in addition to the fully franked dividend of 5.0 cents per share paid to shareholders on 28 September 2004. The Directors of the Company have resolved to pay a fully franked dividend of 5.0 cents per share to shareholders on the register of members on 13 October 2005. Shares issued under the dividend reinvestment plan will be issued at a 5% discount to the September 2005 month end NAV after tax less the declared dividend of 5.0 cents per share.

Portfolio Composition

As at 30 June 2005



Largest 20 Australian Stock Exchange Listed Positions at 30 June 2005*

Name	Total Value $
Australian and New Zealand Banking Group Ltd	3,653,130
BHP Billiton Limited	3,444,700
Bounty Industries Limited	142,991
Foster's Group Limited	2,655,000
Henderson Group PLC- CDI	749,370
Longreach Group Limited	278,458
Metal Storm Limited- Sponsored ADR	434,925
National Australia Bank Limited	577,651
News Corporation- CDI Class B	3,704,103
News Corporation CDI	3,570,300
Pengana Managers Limited	3,610,730
Tabcorp Holdings Limited	4,890,000
Telstra Corporation Limited	2,156,170
Unilife Medical Solutions	732,496
Unitab Limited	1,427,000
Westpac Banking Corporation Limited	3,546,000
Westfield Group	5,081,722
Wesfarmers Limited	3,886,966
Woodside Petroleum Limited	2,020,674
Zinifex Limited	3,473,550
TOTAL	**50,035,936**

* Note that offsetting positions may be held against some or all of these positions.

WALLACE ABSOLUTE RETURN LIMITED
A.B.N. 58 100 854 788

STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2005

	Notes	2005 $	2004 $
Proceeds from the sale of investments		699,248,489	545,557,103
Unrealised profit/(loss) on investments		(3,498,502)	15,159,376
Other revenue from ordinary activities	2	3,128,906	2,843,607
Cost of investments sold		(690,915,215)	(557,964,568)
Brokerage and other investment costs		(1,080,658)	(317,023)
Depreciation and amortisation expenses		(11,334)	(7,627)
Administration expenses	3	(789,974)	(711,558)
Borrowing costs		(1,593,253)	(1,981,917)
Other expenses from ordinary activities		(571,577)	(438,885)
Profit from ordinary activities before related income tax expense		**3,916,882**	**2,138,508**
Income tax expense relating to ordinary activities	4	(729,662)	-
Profit from ordinary activities after related income tax expense	3	**3,187,220**	**2,138,508**
Total changes in equity other than those resulting from transactions with owners as owners *		**3,187,220**	**2,138,508**
Basic earnings per share (cents per share)	5	**12.21**	**9.95**
Diluted earnings per share (cents per share)	5	**12.21**	**9.95**

* - "Transactions with owners as owners" includes share issues and dividend payments by Wallace Absolute Return Limited.

The Statement of Financial Performance is to be read in conjunction with the accompanying notes to the financial statements

WALLACE ABSOLUTE RETURN LIMITED
A.B.N. 58 100 854 788

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2005

	Notes	2005 $	2004 $
ASSETS			
Cash assets	6	2,044,871	4,364,110
Receivables	7	110,341	7,777,037
Investments	8	27,937,980	48,762,315
Other assets	9	322,913	436,589
Plant and equipment	10	30,965	42,299
TOTAL ASSETS		**30,447,070**	**61,382,350**
LIABILITIES			
Payables	11	1,326,164	9,439,115
Interest bearing liabilities	12	-	27,059,596
TOTAL LIABILITIES		**1,326,164**	**36,498,711**
NET ASSETS		**29,120,906**	**24,883,639**
EQUITY			
Contributed equity	13	27,704,859	24,106,892
Retained profits	14	1,416,047	776,747
TOTAL EQUITY		**29,120,906**	**24,883,639**

The Statement of Financial Position is to be read in conjunction with the accompanying notes to the financial statements

WALLACE ABSOLUTE RETURN LIMITED
A.B.N. 58 100 854 788

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2005

	Notes	2005 $	2004 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Proceeds from the sale of investments		706,287,075	540,482,924
Dividends received		1,553,902	2,383,038
Interest received		1,308,788	250,309
Other receipts from customers		1,147,291	(289,492)
Payments for investments purchased		(682,658,910)	(534,618,202)
Payments to suppliers and employees		(2,030,478)	(1,466,262)
Borrowing costs		(1,724,335)	(1,993,316)
Income tax paid		(312,990)	-
Net cash provided by/(used in) operating activities	**16d.**	**23,570,343**	**4,748,999**
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for plant and equipment		-	(39,529)
Net cash used in investing activities		-	(39,529)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from share issue		3,549,942	5,931,114
Share buy-back payment		-	(9,400)
Proceeds from borrowings		-	-
Repayment of borrowings		-	-
Payments for costs associated with capital raising		-	-
Cash Dividends Paid		(2,379,928)	(404,337)
Net cash provided by financing activities		**1,170,014**	**5,517,377**
Net increase/(decrease) in cash held		**24,740,357**	**10,226,847**
Cash at the beginning of the financial year		(22,695,486)	(32,922,333)
Cash at the end of the financial year	**16a.**	**2,044,871**	**(22,695,486)**

The Statement of Cash Flows is to be read in conjunction with the accompanying notes to the financial statements

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

The following is a summary of the material accounting policies adopted by the Company in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

a. Income tax

The Company adopts the liability method of tax-effect accounting whereby the income tax expense is based on the profit or loss from ordinary activities adjusted for any permanent differences.

Timing differences, which arise due to the different accounting periods in which items of revenue and expense are included in the determination of accounting profit or loss and taxable income are brought to account as either a provision for deferred income tax or as a future income tax benefit at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and in anticipation that the Company will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

b. Revenue recognition

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST) payable to the Australian Taxation Office ("ATO").

i. Trading Income

Profits and losses realised from the sale of investments and unrealised gains and losses are included in Statement of Financial Performance in the year they are incurred. Realised and unrealised profits and losses on trading derivative instruments are reflected in the Statement of Financial Performance (refer to Note 1d).

ii. Dividend Income

Dividends and distributions are brought to account on the date that the shares or units are traded "ex-dividend".

iii. Interest Income

Interest income is recognised as it accrues, taking into account the effective yield on the associated financial asset.

NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - Continued.

b. Revenue recognition - continued.
iv. Other Income
Other income is recognised when the right to receive the revenue has been established.

c. Cash assets
For the purpose of the Statement of Cash Flows, cash includes cash on hand and at call deposits with banks or financial institutions net of bank overdrafts, and investments in money market instruments maturing within less than two months.

d. Investments
Investments consist of shares in publicly listed companies, investments in fixed interest securities and exchange-traded derivative financial instruments. All Investments are treated as held for trading as they were acquired or incurred principally for the purpose of selling or repurchasing them in the near term. Consequently the directors have determined to present the Statement of Financial Position on a liquidity basis.

i. Shares
Shares in publicly listed companies are brought to account at market value, calculated at either the closing last traded price on the balance date or, if there has been no trade on the balance date, the most recent last traded price.

ii. Derivative Financial Instruments
All Derivatives are brought to account at market value, calculated at the settlement price on the balance date as determined by the Australian Stock Exchange and the Sydney Futures Exchange. The resulting profits or losses are recognised in the Statement of Financial Performance.

iii. Fixed Interest Investments
Debentures and Notes are brought to account at market value by applying a valuation technique using discounted cashflow analysis at a rate which the Company can reasonably assume to enter into with a knowledgeable and willing party under normal arm's length conditions. The Company also takes into consideration the valuation of other similar debentures currently being offered in the market when deriving an appropriate discount rate.

It is considered that the information needs of shareholders in a Company of this type are better met by stating investments at the above-mentioned relevant values, rather than historical costs.

e. Plant and equipment
Each class of plant and equipment is carried at cost less, where applicable, any accumulated depreciation. Depreciation is calculated on a straight line basis over the useful life of the asset commencing from the time the asset is held ready for use.

The useful lives used for each class of depreciable assets are:

Computer equipment	4 years
Furniture	5 years

f. Foreign currency transactions and balances
Foreign currency transactions during the year are converted to Australian currency at the rates of exchange applicable at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are converted at the rates of exchange ruling at that date.

NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - Continued.

f. Foreign currency transactions and balances - continued.
The gains and losses from conversion of assets and liabilities, whether realised or unrealised, are included in profit or loss from ordinary activities as they arise.

g. Goods and services tax (GST)
Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the ATO. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense.

Receivables and payables in the Statement of Financial Position are shown inclusive of GST. The net amount of tax recoverable from, or payable to the ATO is included within other assets or other liabilities.

Cash flows are included in the Statement of Cash Flows on a gross basis. The tax component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the ATO is classified as operating cash flows.

h. Segment reporting
The financial report is for the entity Wallace Absolute Return Limited as an individual entity. Wallace Absolute Return Limited is a publicly listed company limited by shares, incorporated and domiciled in Australia.

The Company is engaged in investment activities, conducted primarily in Australia.

i. Adoption of Australian equivalents to International Financial Reporting Standards

For reporting periods beginning on or after 1 January 2005, Wallace Absolute Return Limited must comply with the Australian equivalent of International Financial Reporting Standards (IFRS) issued by the Australian Accounting Standards Board.

The Company's management, along with its auditors, have assessed the significance of these changes and have prepared for their implementation. The audit committee will continue to oversee the Company's transition to IFRS.

Key differences to the Company's current accounting policies which are likely to occur from the adoption of IFRS are:

i. Asset and financial instrument valuation

Currently shares held by the Company are actively traded on recognised exchanges, and market prices are all readily and regularly available. Under Australian Generally Accepted Accounting Principles ("AGAAP") these shares are measured at the last traded price. Under IFRS the appropriate measure of fair value for shares held long is the current bid price and the fair value for shares (liability) held short is the asking price.

WALLACE ABSOLUTE RETURN LIMITED
A.B.N. 58 100 854 788

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - Continued.

i. Adoption of Australian equivalents to International Financial Reporting Standards- Continued.

i. Asset and financial instrument valuation- Continued

Currently under AGAAP derivative financial instruments held by the Company are measured at settlement price on the balance date as determined by the Australian Stock Exchange and Sydney Futures Exchange. These instruments do not have an active market. The use of settlement price provided by recognised exchanges is a valuation technique commonly used by market participants to price derivative instruments and it has been demonstrated to provide reliable estimates of prices obtained in actual market transactions. Under IFRS the appropriate measure of fair value is the use of a valuation technique which includes using recent arm's length market transactions between knowledgeable and willing parties, discounted cashflow analysis and option pricing models.

ii. Income tax

Currently, the Company adopts the liability method of tax-effect accounting whereby the income tax expense is based on the accounting profit adjusted for any permanent differences. Timing differences are currently brought to account as either a provision for deferred income tax or future income tax benefit. Under IFRS, the Company is required to adopt a balance sheet approach where temporary differences are identified for each asset and liability rather than the effects of the timing and permanent differences between taxable income and accounting profit.

iii. Impact

The following table shows reconciliation of net assets as at 30 June 2004 and 2005 and net profit on the 2005 result if the Financial Report had been prepared using the current equivalent to IFRS:

Reconciliation of net assets

	30/06/2005 $	30/06/2004 $
Net Assets (AGAAP)	29,120,906	24,883,639
Investments- *Fair value of Securities held long are revalued at bid prices and Securities held short at ask prices on reporting date. Previously they were all valued at last traded prices.*	(97,598)	(407,833)
Deferred tax assets- *Net tax effect of future deductions for capital raising costs and change in value of investments under IFRS.*	90,146	270,706
Net Assets (IFRS)	29,113,454	24,746,512

Reconciliation of net profit

	30/06/2005
Net Profit (AGAAP)	3,187,220
Changes in the fair value of derivatives	-
Changes in the fair value of equities- *Fair Value of Securities held long are revalued at bid prices and Securities held short at ask prices on reporting date. Previously they were all valued at last traded prices.*	(97,598)
Changes in income tax expense	(1,155)
Profit from ordinary activities after income tax expense (IFRS)	3,088,467

	Notes	2005 $	2004 $
NOTE 2 - REVENUE			
Other revenue from ordinary activities consists of the following:			
Dividend income		991,245	2,525,744
Interest income		1,401,574	265,784
Underwriting income		736,087	52,079
		3,128,906	2,843,607

	Notes	2005 $	2004 $
NOTE 3 - PROFIT FROM ORDINARY ACTIVITIES			
Profit from ordinary activities before income tax expense has been determined after:			
a. Administration expenses			
Management fee	19	359,716	208,927
Performance fee	19	426,415	441,131
Administration costs		3,843	61,500
		789,974	711,558
b. Auditors' remuneration			
Auditing or reviewing the financial report		33,000	33,250
Other assurance services		13,100	4,500
Other services provided by related practice of auditor		15,160	16,750
		61,260	54,500

	Notes	2005 $	2004 $
NOTE 4 - TAXATION			
a. Income tax expense			
Prima facie income tax on profit at 30% (2004 - 30%) from ordinary activities		1,175,066	641,552
Increase in income tax expense due to:			
Imputation gross up on dividends received		154,546	287,563
Other permanent differences		(30,434)	(30,434)
Timing differences and tax losses not brought to account as future income tax benefits	4b.	(569,516)	(898,681)
		729,662	-

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

NOTE 4 - TAXATION - Continued.

b. Deferred tax assets not brought to account

The potential future tax benefit will only be obtained if:

i. the Company derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised;

ii. the Company continues to comply with the conditions for deductibility imposed by the law; and

iii. no changes in tax legislation adversely affect the Company in realising the benefit.

	2005	2004
	$	$
c. Dividend franking account		
30% franking credits available to the shareholders of the Company for subsequent financial years	58,513	535,554

The above available amounts are based on the balance of the dividend franking account at year-end adjusted for:

i. franking credits that will arise from the payment of the current tax liability;

ii. franking debits that will arise from the payment of dividends recognised as a liability at the year-end;

iii. franking credits that will arise from the receipt of dividends recognised as receivables at the year-end; and

iv. franking credits that the entity may be prevented from distributing in subsequent years.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.

NOTE 5 - EARNINGS PER SHARE

	2005	2004
a. Reconciliation of earnings to net profit		
Net Profit	3,187,220	2,138,508
Earnings used in calculation of basic and diluted earnings per share	3,187,220	2,138,508
b. Weighted average number of shares	**No.**	**No.**
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic earning per share	26,102,378	21,493,214
Weighted average number of ordinary shares outstanding during the year used in the calculation of diluted earnings per share	26,102,378	21,493,214

	Notes	2005 $	2004 $
NOTE 6 - CASH ASSETS			
Cash at bank		923,453	4,364,110
Prime broker finance facility		1,121,418	-
		2,044,871	4,364,110

Terms and conditions

The weighted average interest rate for cash as at the 30 June 2005 was 5.33% (2004 - 5.06%). The weighted average interest rate for prime broker facility as at 30 June 2005 was 4.73%.

	Notes	2005 $	2004 $
NOTE 7 - RECEIVABLES			
Trade debtors		-	7,038,586
Sundry debtors		110,341	738,451
		110,341	7,777,037

Terms and conditions

Trade debtors relate to unsettled trades. They are non-interest bearing and are secured by the Australian Stock Exchange - National Guarantee Fund. They are settled within 3 days of the sale being executed.

Sundry debtors consist of the following:-
i. Accrued income - non-interest bearing and unsecured.
ii. GST receivable - relates to goods and services tax that can be recovered from the ATO.
iii. Dividend income- non-interest bearing and unsecured.

	Notes	2005 $	2004 $
NOTE 8 - INVESTMENTS			
Securities in listed corporations- at market value	8a.	9,362,815	47,028,045
Securities in unlisted corporations - at market value	8b.	18,832,483	-
Other derivatives - at market value		(257,318)	1,734,270
		27,937,980	48,762,315
a. Market value of investments in listed corporations:			
Shares		6,472,979	42,225,519
Income securities		-	-
Debentures and unsecured notes		-	5,998,343
Options		2,889,836	(1,195,817)
		9,362,815	47,028,045
b. Market value of investments in unlisted corporations:			
Shares		-	-
Income securities		-	-
Debentures and unsecured notes		18,832,483	-
Options		-	-
		18,832,483	-

Terms and conditions

Debentures and unsecured notes had an average maturity date of 15 June 2010 (2004- 30 November 2008) and an average interest rate of 9.64% p.a. (2004 - 11.66%).

Major investments

The 20 largest listed investments of the Company as at 30 June 2005 are disclosed on page 3 of the Appendix 4E Statement.

	Notes	2005 $	2004 $
NOTE 9 - OTHER ASSETS			
Prepayments and other assets		19,400	436,589
Income tax refundable		303,513	-
		322,913	436,589
NOTE 10 - PLANT AND EQUIPMENT			
Computer equipment and furniture - at cost		53,392	53,392
Less accumulated depreciation		(22,427)	(11,093)
		30,965	42,299

Movements in carrying amounts

Movement in the carrying amounts for each class of plant and equipment between the beginning and the end of the current financial year

	Notes	2005 $	2004 $
Balance at the beginning of the year		42,299	10,397
Additions		-	39,529
Depreciation expense		(11,334)	(7,627)
Carrying amount at end of year		30,965	42,299

	Notes	2005 $	2004 $
NOTE 11 - PAYABLES			
Trade creditors		418,532	9,276,369
Accrued expenses		82,354	42,001
Unallocated equities		1,976	50,000
Deferred income tax liability		729,662	-
Amounts payable to director-related parties	**19a.**	93,640	70,745
		1,326,164	9,439,115

Terms and conditions

Trade creditors relate to unsettled trades. They are non-interest bearing and unsecured. They are settled within 3 days of the purchase being executed.

Amounts payable to director-related parties relate to management and performance fees payable to the Manager, Wallace Funds Management Limited, pursuant to the Management Agreement made with the Company.

Accrued expenses and unallocated equities are settled within the terms of payment offered, which is usually within 30 days.

No interest is applicable to the above account balances.

	2005 $	2004 $
NOTE 12 - INTEREST BEARING LIABILITIES		
Secured liabilities		
Prime broker finance facility	-	27,059,596

Terms and conditions

The secured finance facility had a weighted average interest rate as at the 30 June 2005 of 5.93% (2004 - 5.85%).

The finance facility of the Company is secured by a fixed and floating charge over the Company's right, title and interest (legal or equitable) in the assets (Note 8) transferred or delivered to UBS Nominees Pty Limited, the Custodian, in accordance with the Prime Brokerage Agreement dated 20 January 2003, and any right which arises after that date to receive cash or the return of property from the chargee, being UBS Warburg Australia Limited.

NOTE 13 - CONTRIBUTED EQUITY

	2005 $	2004 $
Issued and paid-up capital		
28,251,775 (2004: 24,621,754) fully-paid ordinary shares issued	27,704,859	24,106,892
Fully-paid ordinary shares		
Balance at the beginning of the reporting period	24,106,892	17,129,815
1,013,839 (2004: 15,491) shares issued for cash pursuant to the continuing offer prospectus	1,050,335	16,214
5,865,500 shares issued pursuant to the exercise of unlisted options at $1.00 each with an expiry date of 31 October 2003	-	5,865,500
2,616,182 (2004: 1,113,085) shares issued pursuant to the dividend reinvestment plan	2,547,632	1,104,763
10,000 shares purchased pursuant to on market share buyback	-	(9,400)
Balance at the end of the reporting period	27,704,859	24,106,892

In October 2003, 5,865,000 options were converted to ordinary shares. Options unexercised at 31 October 2003 lapsed, and no options have been issued by the Company during the financial year. At balance date the number of options over ordinary shares in the Company was nil. Ordinary shares participate in the dividends and the proceeds on winding up of the Company in proportion to the number of shares held. In the event of winding up of the Company, ordinary shareholders rank after unsecured creditors.
At shareholder meetings a shareholder is entitled to vote on a show of hands and when a poll is called, is entitled to one vote for each ordinary share held.

	Notes	2005 $	2004 $
NOTE 14 - RETAINED PROFITS			
Retained Profits at the beginning of the financial year		776,747	168,152
Net profit attributable to members of the entity		3,187,220	2,138,508
Distributed to shareholders	15	(2,547,920)	(1,529,913)
Retained profits at the end of the financial year		1,416,047	776,747
NOTE 15 – DIVIDENDS			
A fully franked dividend of 2 cents per share paid on 12 November 2003		-	470,121
A fully franked dividend of 4.5 cents per share paid on 7 April 2004		-	1,059,792
A fully franked dividend of 5 cents per share paid on 28 September 2004		1,233,529	-
A fully franked dividend of 5 cents per share paid on 2 May 2005		1,314,391	-
	14	2,547,920	1,529,913

NOTE 16 - CASH FLOW INFORMATION

a. Reconciliation of cash

Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	Notes	2005 $	2004 $
Cash at bank	6	923,453	4,364,110
Prime broking finance facility - secured	6, 12	1,121,418	(27,059,596)
		2,044,871	(22,695,486)

b. Cash balances not available for use

A cash balance of $20,000 (2004: $20,000) held in a term deposit is not available for use by the Company at the reporting date due to the amount being a performance bond, lodged to satisfy the requirements of the Company's Australian Financial Services Licence.

c. Credit stand-by arrangements and loan facilities

	Notes	2005 $	2004 $
Prime broking finance facility		9,731,104	32,169,321
Amount utilised	12	-	(27,059,596)
Unutilised prime broking finance facility		9,731,104	5,109,725

The major facility is summarised as follows:
The prime broking finance facility with UBS Warburg Australia Limited is secured by a fixed and floating charge over the Company's assets. Details of the charge are provided in Note 12. The Board limits and monitors the amount of leverage the Manager may use. Currently, that limit has been set at up to 3 times the value of the Company's net assets.

	2005	2004
	$	$
NOTE 16 - CASH FLOW INFORMATION- Continued.		
d. Reconciliation of cash flow from operations with profit from ordinary activities after income tax		
Profit from ordinary activities after income tax	3,187,220	2,138,508
Non-cash flows in profit from ordinary activities		
Depreciation	11,334	7,627
Unrealised gain on investments	3,498,502	(15,159,376)
Changes in assets and liabilities:		
(Increase)/Decrease in trade debtors	7,038,586	(5,074,179)
(Increase)/Decrease in sundry debtors	826,489	(267,778)
(Increase)/Decrease in investments	17,325,833	18,588,971
(Increase)/Decrease in other assets	417,189	(350,550)
Increase/(Decrease) in trade creditors	(9,068,875)	4,766,374
Increase/(Decrease) in other payables and accruals	(92,084)	99,402
Increase/(Decrease) in income tax payable	426,149	-
Cash flows from operating activities	23,570,343	4,748,999

NOTE 17 - ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE

a. Terms, conditions and accounting policies

The Company's accounting policies are included in Note 1, while the terms and conditions of each class of financial asset, financial liability and equity instrument, both recognised and unrecognised at the balance date, are included under the appropriate note for that instrument.

b. Credit risk exposures

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date of recognised financial assets is the carrying value, as disclosed in the Statement of Financial Position and Notes to the Financial Statements.

Credit Risk for derivative financial instruments arises from the potential failure by counterparties to the contract to meet their obligations. As all derivative contracts are transacted through recognised exchanges, credit risk associated with these contracts is considered minimal.

c. Equity swaps

The valuation of financial instruments not shown in the Statement of Financial Position reflects the estimated amounts expected to be paid or received to terminate the contracts or replace the contracts at their market values as at the reporting date. The average term to maturity of the swap contracts is three years. They involve monthly payments or receipts of the net market differential.

Swap contracts are subject to credit risk in relation to the relevant counterparty, which is UBS Nominees Pty Limited. At balance date there are no holdings in swaps contracts.

d. Net fair values

The carrying amounts of financial instruments in the Statement of Financial Position approximate their net fair value.

NOTE 18 – DIRECTORS' AND EXECUTIVES' REMUNERATION

(a) Names and positions held of Company directors and specified executives in office at any time during the financial year are:

Directors

Mr Kenneth Barry	Chairman - Non-Executive
Mr Alan Liddle	Director – Non-Executive
Mr Richard Wallace	Managing Director

Specified Executives

There were no executives (other than directors) for WAB during the financial year.

(b) Directors' Remuneration

Principles used to determine the nature and amount of remuneration

The Company's policy for determining the nature and amount of remuneration of board members and senior executives of the Company is as follows:

i. the maximum total remuneration of the Directors of the Company has been set at A$250,000 per annum to be divided among them in such proportions as they think fit
ii. Directors, including the Managing Director, will not be entitled to Directors' fees if they are employees or principals of the Manager (Wallace Funds Management Limited)

The Board ensures that director reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to members
- performance linkage / alignment of executive compensation
- transparency
- capital management

Directors' remuneration excludes insurance premiums paid by the Company or related parties in respect of directors' and officers' liabilities and legal expenses insurance contracts, in accordance with common commercial practice.

The total amount of insurance premium paid by the Company or related parties in respect of the directors was $51,947 (2004 - 46,750).

Directors' fees

The current base remuneration was last reviewed with effect from 1 July 2004.

Benefits

Directors received no additional benefits other than base remuneration.

Retirement benefits

Retirement benefits are delivered under Directors' nominated Superannuation Funds. These Funds provide benefits based on contributions paid into the fund.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

NOTE 18 – DIRECTORS' AND EXECUTIVES' REMUNERATION- Continued
(b) Directors' Remuneration- Continued

Director and specified executive remuneration disclosures
The remuneration of each director of Wallace Absolute Return Limited is set out in the following table:

	Primary				Post	Total
Names	Cash Bonus	Cash salary & fees	Non-monetary benefits	Super-annuation Contribution	employ-ment benefits	Total
	$	$	$	$	$	$
Specified Directors						
Mr. K Barry (Chairman)						
2004	-	23,333	-	14,817	-	38,150
2005	-	6,000	-	70,300	-	76,300
Mr. A Liddle (Non-executive Director)						
2004	-	35,000	-	3,150	-	38,150
2005	-	40,000	-	3,600	-	43,600
Mr. R Wallace (Executive Director)						
2004	-	-	-	-	-	-
2005	-	-	-	-	-	-
Total Remuneration: Specified Directors						
2004	-	58,333	-	17,967	-	76,300
2005	-	46,000	-	73,900	-	119,900

Except as stated in Note 19, no cash benefits, non-cash benefits, post employment superannuation or equity compensation were paid to any of the directors in the financial years ended 30 June 2005 or 30 June 2004.

Specified Executives
There were no specified executives (other than directors) for WAB during the financial year.

Loans to Directors and executives
Nil

(c) Remuneration Options
There were no options granted as remuneration during the financial year.

(d) Shares Issued on Exercise of Remuneration Options
There were no shares issued on the exercise of options granted as remuneration during the financial year.

NOTE 18 – DIRECTORS' AND EXECUTIVES' REMUNERATION- Continued

(e) Options and Rights Holdings

Directors	Balance 1 July 2004	Options exercised	Options lapsed	Balance 30 June 2005
Mr Kenneth Barry	Nil	-	-	Nil
Mr Alan Liddle	Nil	-	-	Nil
Mr Richard Wallace	Nil	-	-	Nil
	Nil	-	-	Nil

(f) Shareholdings

Directors	Balance 1 July 2004	Options exercised	Net Change Other	Balance 30 June 2005
Mr Kenneth Barry	21,318	-	2,246	23,564
Mr Alan Liddle	10,000	-	-	10,000
Mr Richard Wallace	2,119,144	-	(890,165)	1,228,979
	2,150,462	-	(887,919)	1,262,543

NOTE 19 – RELATED PARTY TRANSACTIONS

(a) Directors' transactions with the Company

(i) The Company paid a fee for management services in relation to its investment portfolio to Wallace Funds Management Limited, a company controlled by Mr Richard Wallace, a director of the Company. During the year, the following amounts were paid to Wallace Funds Management Limited in accordance with the Management Agreement disclosed in Note 11:

	Note		
Management fees	3	266,076	138,182
Performance fees	3	426,415	441,131
		692,491	579,313

(ii) The amounts due and payable at balance date to Wallace Funds Management Limited in accordance with the Management Agreement disclosed in Note 11 were:

	Note		
Management fees	3	93,640	70,745
Performance fees		-	-
	11	93,640	70,745

(b) Related party transactions

The Company may invest in the securities or other financial instruments of entities managed by the Manager or entities of which Directors of the Company are also Directors. Any such investments are made on an arm's length basis and no financial benefits accrue to the Directors of the Company as a result of such investments.

	2005
	$

NOTE 20 – CAPITAL COMMITMENTS

(a) Debenture purchase arrangement

The Company has entered into an arrangement with a third party to purchase monthly fixed interest debentures at predetermined rates and maturities ending on 30 March 2007. The amount payable as at reporting date are listed below:-

Payable	
- not later than 1 year	3,600,000
- later than 1 year but not later than 5 years	3,000,000
- later than 5 years	-
Total debenture purchase arrangement	6,600,000

NOTE 21 – CONTINGENT LIABILITIES

(a) Lease rental contract

The rental lease on level 19, 68 Pitt Street Sydney is a 4 year and 54 days lease expiring on 8 December 2007, with rent payable monthly in advance. Contingent rental provisions within the lease agreement require the lease payments to be increased by 4.5% per annum. The following table lists the contingent rental provisions as at reporting date:

Payable	
- not later than 1 year	61,006
- later than 1 year but not later than 5 years	86,346
- later than 5 years	-
Total lease rental	147,352

NOTE 22 - EVENTS SUBSEQUENT TO BALANCE DATE

After balance date, on 8 August 2005, the Directors declared a fully franked dividend of 5 cents per share. The record date of the dividend is 13 October 2005. The dividend has not been recognised in the financial statements.

There have been no other material events subsequent to balance date that would significantly affect the financial statements of the Company.

NOTE 23 - COMPANY DETAILS

The registered office and principal place of business of the Company is:

Wallace Absolute Return Limited
Level 19,
68 Pitt Street
Sydney NSW 2000