



Residential  
Community  
Living

3 February 2012

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RCL Group Limited  
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**Dear Securityholder**

The purpose of this communication is that, since I wrote to you on 3 January 2012 in respect of the General Meeting\* (**GM**) to consider removing myself and Mr Richard Gelski from the Board and to appoint Mr Michael Larkin and Mr Brian Bailison as replacement directors, I have become aware of a letter dated 11 January, addressed to securityholders and apparently signed by Mr Bailison and Michael Larkin (**Payce Industries Letter**).

The Payce Industries Letter contains a number of assertions which are factually selective and fail to present the full picture (called **Statements** below). For the purpose of informed decision-making as you consider your position in relation to the Resolutions to be put, it is important to address and, as necessary, refute some of the Statements in the Payce Industries Letter (called **RCL Responses**).

The Recommending Directors continue to recommend that you vote **AGAINST** all four resolutions at the GM on 15 February, 2012. A proxy form is contained in this letter for your convenience in case you have misplaced the proxy form sent earlier or you wish to change your vote. If you have any further questions please call RCL on 02 8011 0354.

**1. Statement**

*RCL Group's performance for securityholders has progressively deteriorated since the IPO under the current board.*

*The current board is losing your money*

**RCL Response**

The difference between the performance of the group pre and post Babcock & Brown involvement is marked. The majority of the RCL Group (**ASX: RLG**) security price fall occurred during the 2008 calendar year, where it fell from an opening of around 70c to close the year around 5c. This was during a period when Babcock & Brown was the manager of RCL and Babcock & Brown itself was disintegrating. As a result, the board of RCL initiated a strategy of separating from Babcock & Brown.

The separation from Babcock & Brown was completed in the first half of 2010 and whilst RCL has continued to incur statutory losses, the underlying operational performance since the separation from Babcock & Brown has improved despite the tightening of capital markets and a reduction in asset values as impacted by the Global Financial Crisis. With some fluctuation, the security price remains at a similar steady value today in an illiquid market as it was at the end of 2008.

The current board and management successfully negotiated the extension of debt facilities with its senior debt providers at a critical time in 2010, and have reduced total consolidated and non-consolidated debt.

The board and management have been heavily focussed on debt reduction whilst reducing operating overheads from some \$7m per annum in 2009/2010 to \$6m in 2011. This was achieved even though there was greater operational activity, including the direct management of several assets which were formerly managed by external parties.

During Financial Years 2007 to 2009 when RCL was managed by Babcock & Brown, consolidated project settlement revenue ranged between \$24 and \$31m per annum. By comparison, in FY 2010, under internal management, it was \$51.4m.

## **2. Statement**

*RCL Group's debt position has increased by approximately \$100 million from 30 June 2007 to 30 June 2011.*

### **RCL Response**

The increase in the debt occurred during Babcock & Brown's management. Babcock & Brown sourced this debt and, as Manager recommended that the Board of RCL enter into these debt arrangements. Babcock & Brown received fees both for arranging the debt and for acquiring the assets to which that debt related. Since the internalisation process began and RCL separated from Babcock & Brown, total consolidated and non-consolidated **debt has reduced from \$531m at 30 June 2009 to \$292.7m at the end of October 2011**, (unadjusted for economic interest).

## **3. Statement**

*The Board has failed to adequately disclose the nature of previous relationships and arrangements between the Board & Management of RCL Group and Torchlight*

### **RCL Response**

At present, RCL has no formal relationship with Torchlight other than lender & borrower. Representatives of Torchlight Real Estate Fund Limited (**Torchlight**) were associated with the New Zealand assets that RCL acquired in 2007 when Babcock and Brown was the manager of RCL.

RCL Management and Board have held discussions with a number of parties, including Torchlight over the past two years in relation to a possible recapitalisation of the business. Following completion of assignment of corporate and project debt to Torchlight, talks have recommenced between the parties in an attempt to reach an agreement that the Board is prepared to put before securityholders for their consideration and approval.

In the event that a recapitalisation proposal is provided by Torchlight which is acceptable to the Board of RCL, that proposal will be assessed and evaluated by an Independent Expert, the Board will make a recommendation and all securityholders will have the opportunity to vote on the proposal.

## **4. Statement**

*RCL Group corporate and subordinate debts are now current*

### **RCL Response**

Corporate and subordinate debts have been described as current since the release of accounts for 30 June 2009 when the Business was known as Babcock & Brown Residential Land Partners.

## **5. Statement**

*There has been a lack of regular information flow about the company and its projects to securityholders and the information that has been provided omits material details needed by securityholders to properly understand their investment in RCL Group.*

### **RCL Response**

RCL has met its continuous disclosure obligations and believes it has satisfied the levels of communication with investors outlined in the ASX Corporate Governance Principles and Recommendations.

This has included ensuring investors and the market are apprised of financial results on a semi-annual basis, the production of an annual report, conducting an annual general meeting to outline strategy and direction and ensuring that any matter of a material nature is disclosed to the market. All financial results and disclosures have satisfied our appointed auditors and there has been no material omission.

### **6. Statement**

*RCL has not genuinely engaged with us and continues to fail to provide securityholders with information that is material to their investment in the RCL Group*

### **RCL Response**

RCL has had discussions with Babcock & Brown and several discussions with Brian Boyd of Payce Consolidated Limited. When Babcock & Brown has championed equity solutions, RCL has given the matter serious consideration.

The only equity solution that Babcock & Brown has introduced to RCL for which Babcock & Brown has provided its in-principle support, involved a dilution of existing equity by 75%. Ultimately the sponsor of this proposal chose not to proceed with a transaction. Moreover, Babcock & Brown has rarely sought to discuss anything with the RCL management and board, notwithstanding that it receives detailed monthly financial and operational reports from the company. It should be noted that Babcock & Brown undertook a review of the RCL business in November 2011 and, subsequently, had no recommendations to put to the company.

### **7. Statement**

*Whilst Mr McTigue was one of a handful of candidates that we recommended be appointed as an independent director, he is not a nominee director of the requisitioning shareholders.*

### **RCL Response**

Babcock & Brown and Payce put forward two candidates, one an ex-employee of Babcock & Brown and the other Simon McTigue. The ex-employee of Babcock and Brown was not considered by the board to be an appropriate appointment. Mr McTigue was strongly recommended by Payce.

### **8. Other Matters**

In discussions with some securityholders we have been made aware that they have been led to believe that;-

- i. The sale of the senior corporate and project debt by BOSI to Torchlight means that the terms and conditions of the debt facilities have changed.*

This is not the case. The loan terms and conditions that existed under the arrangements with BOS International (Australia) Limited (**BOSI**) exist with Torchlight and were previously accepted in relation to the subordinated debt by Babcock & Brown. There has been no increased liability or obligation consequent on the assignment of the debt.

- ii. The current Board agreed to pay BOSI a fee of \$12 million in August 2010 to rollover its debt facilities until December 2012.*

This is not true. RCL has disclosed to the market whenever it has incurred fees associated with rolling over and restructuring its debt facilities. The fee arrangements that have been disclosed to the market are as follows and comprise the \$12 million liability on the balance sheet;-

- a. \$2 million fee to Babcock & Brown as a result of a facility restructure in December 2008.
- b. \$4 million fee to BOSI as a result of a facility restructure in December 2008.
- c. \$0.5 million fee to BOSI as a result of covenant restructures throughout 2009.

- d. \$5.5 million fee to BOSI in August 2010 as a result of both an extension to the loan term until December 2012 and the provision of \$15 million in additional funding to assist the development of our project Grandvue @ Officer and covenant restructures across a number of projects.

When considered against the level of debt to which the fees relate and the period of time concerned (December 2008 through to December 2012) the fee, as a percentage of the debt, equates to 1.25% pa. None of the fees is payable until the facilities are due for repayment.

- iii. *The cross collateralisation of certain project debts with the corporate debt has not been disclosed and has had an adverse impact on security holder value because RCL could have previously “walked away” from its obligations to financiers under certain project debts*

The cross collateralisation was disclosed in a market release in August 2010 and has continued to be disclosed in the audited financial reports. Prior to the cross collateralisation, there were insolvency covenants contained within the corporate debt facility that could have resulted in an event of default under the corporate debt facility if RCL had simply walked away from its obligations under certain project debts. This action could have enabled the financier to demand repayment of the corporate facility. These covenants were included in the documentation when Babcock & Brown, as manager of RCL, agreed the documentation for the corporate debt facility in 2007.

Further, as a result of the cross collateralisation, RCL was able to secure funding for its highly successful Grandvue @Officer project and extend its debt facilities for approximately 2.5 years.

The General Meeting will be held at the Grace Hotel, 77 York Street, Sydney, NSW on 15 February 2012 at 11.00 am.

The Recommending Directors have carefully considered the proposed Resolutions and recommend that you vote **AGAINST** ALL four Resolutions on the basis of both the information provided above and the rationale outlined in my letter of 3 January 2012.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Robert Wright'.

Robert Wright  
Chairman

\* On 14 December 2011, RCL Group Limited received a Requisition by three securityholders being Payce Industries Pty Ltd, LTHC Pty Limited (a wholly-owned subsidiary of Babcock & Brown International Pty Ltd) and Lanox Pty Limited (Brian Boyd, sole director) (**‘Requisitioning Shareholders’**) for a General Meeting to seek the removal of Richard Gelski and myself, Robert Wright, as Directors of RCL and to appoint Michael Larkin (former CFO and CEO of Babcock & Brown Limited (in liquidation), current director of Babcock & Brown International Pty Ltd and current CFO and current CFO and director of LTHC Pty Limited) and Brian Bailison (CFO and Company Secretary of Payce Industries Pty Ltd) as replacement directors.



RCL Group Limited  
 ABN 49 119 517 985  
 RCL Group Services Limited  
 ABN 40 118 364 499  
 as responsible entity for  
 RCL Group Trust  
 ARSN 119 613 848

**LODGE YOUR VOTE**



**ONLINE** >

[www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)



**By mail:**  
 RCL Group Limited  
 C/- Link Market Services Limited  
 Locked Bag A14  
 Sydney South NSW 1235 Australia



**By fax:** +61 2 9287 0309



**All enquiries to: Telephone:** 1800 645 238 **Overseas:** +61 2 8280 7586

**SECURITYHOLDER VOTING FORM**

I/We being a member(s) of RCL Group Limited and entitled to attend and vote hereby appoint:

**STEP 1**

**APPOINT A PROXY**

**the Chairman of the Meeting (mark box)**

OR if you are NOT appointing the Chairman of the Meeting as your proxy, please write the name of the person or body corporate (excluding the registered securityholder) you are appointing as your proxy

or failing the person/body corporate named, or if no person/body corporate is named, the Chairman of the Meeting, as my/our proxy and to vote for me/us on my/our behalf at the General Meeting of the Company to be held at **11:00am on Wednesday, 15 February 2012, at The Grace Hotel, 77 York Street, Sydney, New South Wales, 2000** and at any adjournment or postponement of the meeting.

Proxies will only be valid and accepted by the Company if they are signed and received no later than 48 hours before the meeting.

Please read the voting instructions overleaf before marking any boxes with an

**STEP 2**

**VOTING DIRECTIONS**

	<b>For</b>	<b>Against</b>	<b>Abstain*</b>		<b>For</b>	<b>Against</b>	<b>Abstain*</b>
<b>Resolution 1</b> Removal of Robert Wright as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<b>Resolution 3</b> Appointment of Michael Larkin as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Resolution 2</b> Removal of Richard Gelski as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<b>Resolution 4</b> Appointment of Brian Hilton Bailison as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**i** \* If you mark the Abstain box for a particular Item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

**STEP 3**

**SIGNATURE OF SECURITYHOLDERS - THIS MUST BE COMPLETED**

Securityholder 1 (Individual)

Sole Director and Sole Company Secretary

Joint Securityholder 2 (Individual)

Director/Company Secretary (Delete one)

Joint Securityholder 3 (Individual)

Director

This form should be signed by the securityholder. If a joint holding, either securityholder may sign. If signed by the securityholder's attorney, the power of attorney must have been previously noted by the registry or a certified copy attached to this form. If executed by a company, the form must be executed in accordance with the company's constitution and the *Corporations Act 2001* (Cth).

**RLG PRX101**



## HOW TO COMPLETE THIS PROXY FORM

### Your Name and Address

This is your name and address as it appears on the company's security register. If this information is incorrect, please make the correction on the form. Securityholders sponsored by a broker should advise their broker of any changes. **Please note: you cannot change ownership of your securities using this form.**

### Appointment of a Proxy

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box in Step 1. If the person you wish to appoint as your proxy is someone other than the Chairman of the Meeting please write the name of that person in Step 1. If you leave this section blank, or your named proxy does not attend the meeting, the Chairman of the Meeting will be your proxy. A proxy need not be a securityholder of the company. A proxy may be an individual or a body corporate.

### Votes on Items of Business - Proxy Appointment

You may direct your proxy how to vote by placing a mark in one of the boxes opposite each item of business. All your securities will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of securities you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

### Appointment of a Second Proxy

You are entitled to appoint up to two persons as proxies to attend the meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the company's security registry or you may copy this form and return them both together.

To appoint a second proxy you must:

- (a) on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of securities applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded.
- (b) return both forms together.

### Signing Instructions

You must sign this form as follows in the spaces provided:

**Individual:** where the holding is in one name, the holder must sign.

**Joint Holding:** where the holding is in more than one name, either securityholder may sign.

**Power of Attorney:** to sign under Power of Attorney, you must lodge the Power of Attorney with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

**Companies:** where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the *Corporations Act 2001*) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

### Corporate Representatives

If a representative of the corporation is to attend the meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission in accordance with the Notice of Meeting. A form of the certificate may be obtained from the company's security registry.

## Lodgement of a Proxy Form

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below by **11:00am on Monday, 13 February 2012**, being not later than 48 hours before the commencement of the meeting. Any Proxy Form received after that time will not be valid for the scheduled meeting.

Proxy Forms may be lodged using the reply paid envelope or:



**ONLINE**

[www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)

Login to the Link website using the holding details as shown on the proxy form. Select 'Voting' and follow the prompts to lodge your vote. To use the online lodgement facility, securityholders will need their "Holder Identifier" (Securityholder Reference Number (SRN) or Holder Identification Number (HIN) as shown on the front of the proxy form).



**by mail:**

RCL Group Limited  
C/- Link Market Services Limited  
Locked Bag A14  
Sydney South NSW 1235  
Australia



**by fax:**

+61 2 9287 0309



**by hand:**

delivering it to Link Market Services Limited, Level 12, 680 George Street, Sydney NSW 2000.

If you would like to attend and vote at the General Meeting, please bring this form with you.  
This will assist in registering your attendance.