

Berklee Limited (ACN 004 661 205)

Explanatory Statement for Shareholders

This Explanatory Statement has been prepared for the information of Shareholders of Berklee Limited ACN 004 661 205 (the "Company") in connection with the business to be considered at an Extraordinary General Meeting of Shareholders of the Company to be held on 17 June 2013 at 11:30 am AEST.

This Explanatory Statement is provided to assist the Shareholders in the consideration of the proposed Resolutions, contained in the Notice, and forms part of the Notice.

The Directors recommend that Shareholders read this Explanatory Statement in full before making any decision on the Resolutions to be considered at the Extraordinary General Meeting.

1. Resolutions - Approval of Sale of Assets by Company

1.1 Background

The Company is seeking Shareholder approval for each of the separate Resolutions set out in the Notice which will effectively allow the Company to sell its main business undertaking, to a related party of the Company (or their nominees) for the purposes of Listing Rules 10.1, 11.2 and Chapter 2E of the Corporations Act.

On 27 March 2013, the Company entered into an asset sale agreement (**Sale Agreement**) with Tilbal Pty Ltd (**Tilbal**) whereby, subject to shareholder approval, Tilbal agreed to acquire the Berklee business in accordance with the terms set out in clause 1.2 below. Tilbal is associated with Mr. Rick van Berkel a director of the Company until his resignation on 27 March 2013, and a substantial shareholder.

Completion of the Sale Agreement will afford the Company the ability to stop the ongoing significant cash drain on the limited funds of the Company while transferring liabilities in respect of all employees (with the exception of four excluded management employees), current and future entitlements and potential liability under supplier and distributor agreements.

The Company is also seeking approval from Shareholders to sell its headquarters, being the land and buildings located at Learmonth Road, Wendouree (**Premises**). This is not part of the Sale Agreement and is contained in a separate resolution (Resolution 2).

To the extent that each of the Resolutions are approved, the Company will be divesting its primary undertaking and will result in the Company ceasing to continue to trade. The Company intends to return surplus funds to Shareholders.

The Company has obtained an Independent Expert's Report from Wilson Hanna to address the fairness and reasonableness of the proposed sale of business to the non-related shareholders. The Wilson Hanna report is attached as Annexure B. The Wilson Hanna report has concluded that the sale of the business to Tilbal **is fair and reasonable**.

The purpose of the Extraordinary General Meeting and this Explanatory Memorandum is to inform Shareholders and to secure all necessary approvals in accordance with the requirements of the Constitution, the Corporations Act and the ASX Listing Rules.

1.2 Sale of Assets Agreement

The Sale Agreement is between the Company, Tilbal Pty Ltd, Undacar Parts Vic Pty Ltd, and Rick John van Berkel. The Agreement is subject to and conditional upon the Company receiving the approval from the Shareholders, the subject of this EGM, as well as the Company granting and the Purchaser entering into a lease of the Premises.

Under the Sale Agreement the Company sells all of its assets (as defined in the Sale Agreement to include the Manufacturing Assets, the Office Furniture and Equipment, the Intellectual Property, the Goodwill, Tooling, and Advertising Material for the Purchase Price).

The Company's obligations under the Sale Agreement include;

- i. delivering each of the Sale Assets to the Purchaser on the date of completion free from all encumbrances;
- ii. deliver to the Purchase all asset records;
- iii. provide to the Purchaser releases and discharges in respect of all security interests of the Sale Assets; and
- iv. grant the lease of the Premises.

Tilbal's obligations under the Sale Agreement

The Sale Agreement sets out the following obligations on the Purchaser:

(a) Manufacturing and Administration Assets

- Purchase all plant and equipment required to manufacture automotive exhaust product including but not limited to both the Berklee and Mercury branded product with the exception of all leased vehicles, mobile phones, bulk welding gas tank and IT hardware and software;
- Purchase all plant and equipment to manufacture laundry trolley program;
- Purchase all plant and equipment required to manufacture any other items as currently manufactured at the Wendouree plant;
- Purchase all office furniture and equipment;

(b) Inventory

- Purchase all raw materials, work in progress, finished goods including trolleys, exhaust and imported product currently held by Berklee at 70% of cost price, held by Tilbal on a consignment basis and will be paid for, in the case of raw materials and work in progress, 60 days after the month in which it is used in production and in the case of finished goods, 45 days after the month end in which it is invoiced;
- In the event that Tilbal ceases to trade prior to all Berklee inventory being sold then each party will be responsible for the stock that it owns to liquidate as they see fit;

- Undertake that Berklee inventory will be used in manufacturing or sold before making or purchasing any new inventory.

(c) Intellectual Property

- Purchase the name and goodwill associated with the Berklee brand
- Purchase all the trademarks and rights associated with the Berklee name
- Purchase all jigs and fixtures currently held at Wendouree and in China required to continue current operations
- Purchase all marketing and promotional materials
- Purchase all rights associated with the Undacar brand

(d) Supply and Distribution of all Products Manufactured by Berklee

- Assume all commitments and liabilities associated with the supply and distribution of Berklee and Mercury products;
- Assume all commitments and liabilities associated with the supply and distribution of the laundry trolley business;
- Assume the operational responsibility for Undacar Parts (Vic.) Pty. Ltd.;
- Takeover the supply of all other commitments currently undertaken by Berklee through its Wendouree plant.

(e) Staff Liabilities.

- Offer all employees, with the exception of four excluded management employees, employment with Tilbal under the exact same terms and conditions as they are currently employed by Berklee
- Assume liability for staff entitlements including Long Service Leave, Holiday Pay, Sick Pay, redundancies and other entitlements, for Berklee and Undacar employees with the exception of the excluded management employees.
- Be responsible for paying out the entitlements of any employee offered a position by Tilbal who declines that offer.

(f) Building Leases

- Enter into a lease for the Wendouree building on a 1x1x1x1x1 basis. Rent will be \$1.00 dollar per annum with all outgoings being paid by the tenant. In the event that the property is sold to a third party, the rent will increase to \$200,000 pa in the first year and to be renegotiated thereafter;
- Make good the Wendouree property including the removal of all of the tenant's installations and repair, patch-up, paint and make good the premises at the end of or earlier termination of the lease;
- Assume responsibility for the Melbourne lease and any make good required if and when the lease is terminated.

(g) Consideration & Liability

- Pay \$1 for all of the assets acquired under paragraphs (a),(c) and (d) above;
- Assume a substantial proportion of the debts and liabilities of the Company, including but not limited to those under paragraphs (d), (e) and (f) above, but excluding the accounts receivable and accounts payable.
- Pay for Inventory in accordance with paragraph (b) above

1.3 Lease of Premises

As part of the Company's obligations under the Sale Agreement, a new lease will be granted to the Purchaser.

The lease is for a term of one (1) year with four (4) further option of one (1) year each and will initially be for an annual rental of \$1.00. The additional provisions of the lease provide that in the event the Company sells the Premises to a third party, the rent will automatically increase to the sum of \$200,000.00 per annum, payable by equal monthly instalments. The lease otherwise contains the usual terms and covenants found in leases of similar premises, including requiring the tenant (Purchaser) to pay all outgoings.

1.4 Value of the Financial Benefit

The value of the financial benefit of the Sale Agreement to the Company is able to be seen in the pro forma balance sheet of the Company (as at 31 December 2012) included with this document as Annexure A. The balance sheet sets out the financial impact of the transaction on the Company by comparing the Company's financial position before and after the proposed transaction.

Shareholders are advised that the comparison in the balance sheet in Annexure A has factored in the assumption that most if not all of the stock will be able to be sold at the discounted rate of 30% (as provided for in the Sale Agreement).

In addition, Shareholders need to be aware that Tilbal is assuming certain liabilities which were not required to be recorded in the balance sheet at 31 December 2012, such as those pursuant to a retrenchment provision and the lease make good provision.

1.5 Listing Rules and Corporations Act

Given that the Purchaser under the Sale Agreement is a related party to the Company, the Company, under Resolution 1, seeks Shareholder approval to comply with the regulatory requirements of Chapter 2E of the Corporations Act as well as Listing Rules 10.1 and 11.2.

Listing Rules 10.1 and 11.2

Listing Rule 10.1 provides a general restriction on a listed company from disposing of a substantial asset to a related party, without Shareholder approval. Shareholder approval is required to comply with listing rule 10.1 since the proposed purchaser under the Agreement

is a related party to the Company and the transaction under the Agreement may be considered to be the disposal of a substantial asset for the purposes of the rule.

Listing Rule 11.2 provides that an entity must not dispose of its main undertaking without obtaining the approval of its Shareholders. The rule further provides that a listed entity must not enter into an agreement to dispose of its main undertaking unless the agreement is conditional on that entity getting that approval. The Company confirms that the Sale Agreement that has been entered into is conditional upon Shareholder approval.

Shareholder approval is required to comply with Listing Rule 11.2 since, pursuant to Resolutions 1 and 2, the Company will be disposing of a main undertaking.

Section 208 Corporations Act

Chapter 2E of the Corporations Act regulates the provision of financial benefits to related parties by a public company. The Sale Agreement entered into, which includes provisions granting a lease over the Company's primary premises, constitutes the provision of a financial benefit to a related party. Section 229 of the Corporations Act includes as examples of a "financial benefit" the sale of assets or the granting of a lease to a related party.

A "related party" is widely defined under the Corporations Act and includes a director of a Company and a person who may become a director of the Company. An entity controlled by a related party (as defined in the Act) is also a related party of the public company. For these reasons Tilbal Pty Ltd and Rick John van Berkel, by virtue of the fact that Mr van Berkel was a director of the Company in the 6 month period preceding the date of the Sale Agreement, are considered related parties of the Company.

Chapter 2E of the Corporations Act prohibits the Company from giving a financial benefit to a related party of the Company unless either:

- a. the giving of the financial benefit falls within an exemption to the provision; or
- b. prior shareholder approval is obtained to the giving of the financial benefit and the benefit is given within 15 month after shareholder approval is obtained.

2. Information Requirements for Chapter 2E of the Corporations Act

2.1 Reasons

Financial Performance and Market

The financial results of the Company for the six months to 31 December 2012 reported a loss of \$1.862m from turnover of \$2.271m. The cash flow from operating activities was a negative \$668k which equates to \$111k per month. Since 31 December 2012 the cash reserves have continued to be eroded at a similar run rate.

The market size of the Australian automotive aftermarket exhaust industry continues to contract from an estimated size of \$100-\$110 million in mid-2000's to estimated size of \$50 million in 2013. The introduction of 'disposable' cars, an exhaust system material change by the car manufacturers from mild steel to stainless steel subsequently reducing replacement rates, the change from leaded to unleaded fuels and a newer car park have significantly contributed to this market contraction. The aging exhaust fitter customer base and the recent spate of exhaust shop closures also poses a risk to suppliers.

The intensity of competition remains high due to the low barriers to entry and the high Australian dollar. Berkle continues to face manufacturing cost pressures and decreasing

sales at the distribution level despite several different strategic combinations being implemented. Competitors that employ a full import distribution model are also facing cost pressure from declining volumes and subsequently reduced purchasing power.

Despite the growth opportunities in the 4x4 market segment, the standard replacement segment will continue to decline and further industry consolidation will occur. The industry has recently observed some rationalisation in the aftermarket exhaust business. This will no doubt place more pressure on Berklee and its distributors and continue to erode manufacturing volumes and sales revenue. All Berklee distributors will continue to battle against competitor import models unless Berklee can significantly reduce its costs.

Trolley sales remain behind forecast primarily due to Spotless closing several laundries and redeploying existing trolleys. Since the takeover by Private Equity in late 2012, Spotless has continued to drive costs down and there is little doubt that Berklee will be under intense pressure to reduce unit costs when the existing preferred supplier agreement (between Berklee and Spotless) expires in mid-2014.

Company Actions

Detailed below is the sequence of steps taken by the Company in attempting to deal with the changing market and that subsequently led to the Company's decision to enter into the Sale Agreement:

- (a) Company instigated discussions with other industry participants to gain their understanding of the industry and the case for rationalisation.
- (b) Consideration of various acquisition opportunities.
- (c) Consideration of the wind up value of the Group based on a report by Lawler Draper & Dillon
- (d) Conduct of a strategic review in December 2010, with the announcement of the Boards preferred options in June 2011;
- (e) Commenced discussions with ProEx in May 2011 which ultimately led to introduction to Revolution Racegear Group of Companies (RRG);
- (f) Signing of two agreements to transform the distribution business with Mercury Mufflers and Spotless Limited in August/Sept 2011;
- (g) Resignation of the then Managing Director and significant shareholder Mr. Ed van Berkel and the appointment of Brett Jones as his replacement to assist in accelerating the transformation of the business in November 2011;
- (h) Transfer of distribution rights to Mercury for WA (Feb 2012), Qld (Mar 2012) and NSW (Apr 2012);
- (i) Strategic planning session by Board March 2012 reaffirming direction;
- (j) Continued sales decline as market continues to shrink and Mercury and Spotless take up less than original forecasts ;
- (k) July 2012 approach from RRG considered by specially constituted Independent Directors Committee;

- (l) Approach from RRG rejected due to insufficient detail, concerns over risks and time frame, essentially liquidation of the business and no formal offer received that was capable of evaluation and acceptance eventuating;
- (m) Agreement to offshore certain product lines to improve margins;
- (n) A Conditional Non- Binding Proposal received on 10 August 2012 from Mr. R van Berkel and “Bid Group” to acquire the shares in the Company not already owned, for consideration of \$0.50 per share;
- (o) Withdrawal of “Bid Groups” proposal on 1 February 2013 due to their inability to raise finance and the deteriorating financial position of Berklee;
- (p) Receipt of a proposal from the Managing Director on 15 February 2013 to acquire the exhaust distribution and Berklee IP;
- (q) Receipt of proposal on 15 February 2013 from Tilbal Pty. Ltd, a company associated with Mr. R van Berkel to acquire the business of Berklee;
- (r) Trading into the first quarter of 2013 continues to decline.

Continued Decline in Trading Results

The Board has been acutely aware of the need to turn the business around and reverse the escalating trend of monthly operating losses. The first step in this program has been the exit from direct distribution and the pickup of additional manufacturing volume through the Mercury agreement. Unfortunately the Mercury deal has not to date delivered the synergies anticipated and the trolley business has to date failed to deliver in line with the original expectations. This has prompted further examination of the cost base and the examination of who the most natural owner of the business should be.

Management have continued to seek to turn the business around and are making progress in terms of streamlining working capital towards more appropriate levels and composition, however the business has been unable to achieve on a monthly basis the necessary sales volumes to deliver a cash neutral outcome. Consequently the business value continues to decline month on month notwithstanding that the business currently remains solvent.

2.2 Advantages in the Opinion of the Board of Voting in Favour of Resolution 1

The Directors are of the view that the following non-exhaustive list of advantages may be relevant to a Shareholder's decision on how to vote on the Resolutions:

- (a) as soon as the sale is completed the drain on the Company's limited and diminishing cash reserves will be significantly reduced. To continue trading will only see the cash potentially disappear within twelve months at the current run rate;
- (b) it is a binding and non-conditional offer, thereby providing certainty to Shareholders;
- (c) all manufacturing employees will maintain their continuing employment;
- (d) the Company will be released from the majority of its employee leave entitlements and potential redundancy liabilities;
- (e) the Company will also be released from any potential contingent liabilities in relation to supply and distribution agreements;

- (f) the property will be leased and occupied with all outgoings paid for by the tenant which, while reducing the Company's cash drain will also ensure that as the property will be occupied it will be protected and appropriately maintained;
- (g) the risks associated with the auction and disposal of plant and equipment will be removed;
- (h) If the Sale Agreement proceeds, the Directors will not need to consider other less favourable options to preserve the Company's cash reserves before they are completely diminished. One option would be to immediately put the Company into Administration which may lead to a quick "fire sale" liquidation of assets or alternatively to close the business and pay out all existing and resulting liabilities.
- (i) as soon as the sale has been completed the Company will then be in a position to put the Ballarat property on the market and return available proceeds to Shareholders.

2.3 Disadvantages in the Opinion of the Board of Voting in Favour of Resolution 1

The Directors are of the view that the following non-exhaustive list of disadvantages maybe relevant to Shareholder's decision on how to vote on the Resolutions:

- (a) the Company would be responsible for disposing of any inventory, not previously used in manufacture or sold by Tilbal, should Tilbal cease trading;
- (b) the Company may be delisted once the underlying business of the Company has been sold;
- (c) the initial peppercorn lease may be an unattractive return to Shareholders;
- (d) the rent payable under the lease immediately after the sale of the property may not provide an attractive yield to a potential purchaser for the first year although it would be subject to review at the end of the year in which the property is sold;

2.4 The Nature of the Financial Benefit (Sale Agreement)

The nature of the financial benefit to be given is the transfer of the Sale Assets (including rights to the business name) and a lease of the Premises as more fully outlined in clauses 1.2 and 1.3 above.

The related parties to whom the benefit is to be given are Tilbal Pty Ltd (a related entity to Rick John van Berkel) and Rick John van Berkel, a director of the company until his resignation on 27 March 2013.

2.5 Interest of Directors (Sale Agreement)

Apart from Mr Rick John van Berkel, none of the other Company directors has any interest in the outcome of Resolution 1.

As per the voting exclusion statement in the Notice, Mr Rick van Berkel and his associated entities are excluded from voting on the Resolution 1 at this EGM.

2.6 Independent Expert's Report

The Independent Directors resolved to appoint Wilson Hanna as independent experts and commissioned it to prepare a report to provide an opinion as to whether or not the proposal the subject of Resolution 1 is fair and reasonable to the existing Shareholders (excluding Shareholders associated with Tilbal).

The report is also prepared to satisfy the requirements of Chapter 2E of the Corporations Act and Listing Rule 10.1. What is fair and reasonable must be judged by the independent expert in all the circumstances of the proposal. This requires taking into account the likely advantages to shareholders if the proposal is approved and comparing them with the disadvantages to them if the proposal is not approved.

Wilson Hanna has concluded that the transaction proposed by Resolution 1 is fair and reasonable to the existing non-related Shareholders, although all Shareholders are strongly advised to read the report carefully for the purpose of forming their own views as to the appropriateness of the Resolutions.

2.7 Other material information

As announced by the Company on 8 April 2013, the Company received a proposal from Revolution Racegear Pty Ltd (RRG) dated 4 April 2013 offering to acquire the Berklee business (excluding the Wendouree property). The Independent Directors requested further information from RRG in order to clarify various aspects of its proposal and the responses have been included in the summary below.

RRG's proposal to acquire the Berklee business is on the following terms:

- (a) Equipment, dyes, jigs, tooling and other plant for \$150,000 plus GST;
- (b) Goodwill, brand names, trademarks and all other intellectual property for \$50,000 plus GST;
- (c) Employees:
 - (i) The managing director, Brett Jones, to be offered employment
 - (ii) For other employees not retained by RRG, payment of accrued annual leave and long service leave entitlements but excluding redundancies
- (d) Lease – RRG will take over the lease of Undacar premises in Keilor.
- (e) Stock
 - (i) Manufacturing plant stock of saleable inventory held on consignment and paid for after used or sold at rate of 90 cents in dollar;
 - (ii) Undacar VIC stock held on consignment and paid for after sale at rate of 75 cents in dollar.

As Berklee Limited has entered into a binding agreement with Tilbal Pty Ltd, the Independent Directors did not believe it appropriate to enter into formal discussions with Revolution Racegear Pty Ltd until after Shareholders have indicated whether they approve of the sale of the Berklee business to Tilbal Pty Ltd. However the Independent Directors requested the further information from Revolution Racegear Pty Ltd in order to clarify various aspects of its proposal in order to fully inform shareholders.

It should be noted that the late proposal is not an offer capable of acceptance and would require a formal contract to be negotiated and agreed by the parties. That contract, if

entered into by RRG, would then require approval by Shareholders at a subsequent meeting should the Shareholders not approve the transaction with Tilbal Pty Ltd.

Other than as set out in this Explanatory Statement, the Directors are not aware of any other information which may reasonably be expected to be material to the making of a decision by Shareholders whether or not to vote in favour of the Resolutions.

2.8 Consideration of Alternative Proposals and Director's recommendation

As referred to above, the transaction contemplated by the Sale Agreement was preferred by the Independent Directors over the alternative prospects as it offered the Company the most beneficial outcome.

The prospect of placing the Company into voluntary administration was, as referred to in 2.3(e), a path that the directors felt would need to occur in the event that a solution to the Company's ongoing trading difficulties could not be found. The directors would not have been able to justify allowing the Company to continue accruing losses of approximately \$100,000 per month. However, placing the Company into administration would have been, in the opinion of the directors, materially detrimental to the Company. Such a course of action would have meant that:

- a) the Company remained liable for all outstanding liabilities and would have been required to pay these in full;
- b) the Premises would be left vacant exposing it to potential vandalism whilst the Company continued to remain liable for all building outgoings;
- c) the vacant Premises would be arguably a lot more difficult to sell and deliver a lesser return on sale.

Accordingly, this course of action was deemed to be less beneficial to the Company when compared to the Tilbal offer.

As the RRG offer was made subsequent to the Company entering into the Sale Agreement, the Company could not have accepted the offer even if it was thought to be superior to the Tilbal offer.

Notwithstanding the above, the Independent Directors have considered the late proposal from RRG and solely for the Shareholder's information advise that, based on the details of that proposal, the current circumstances of the Company and recognizing that it is not an offer capable of acceptance, they are of the view that there is simply not enough information to be able to determine whether or not the RRG offer is superior to that of Tilbal's. Furthermore, there are always substantial and inherent uncertainties, complexities risks and delays involved when purporting to document a proposal such as that made by RRG, into an offer that is binding and capable of acceptance, such that the directors could not justify making a recommendation against the current Tilbal offer.

Based on the information available, including the reasons contained in this Explanatory Memorandum and the Independent Expert's Report, the advantages and disadvantages, the prospects and alternatives available to the Company and having consulted with the Company's nominated corporate and legal advisors, the Independent Directors consider that Resolution 1 is in the best interests of the Company and recommend that Shareholders VOTE IN FAVOUR of the Resolution.

3. Proposed Sale of Premises

3.1 Proposal

As referred to above, the Company is also seeking Shareholder approval to sell the Premises. As the sale of the Premises would constitute the divesting of a substantial asset, the Company requires approval of the Shareholders under Listing Rule 11.2. The proposed sale of the Premises does not form part of, nor is it dependant on the Sale Agreement, and is not a related party transaction.

For the reasons outlined in clause 2.1 above, the Company wishes to sell the Premises and return the surplus funds to Shareholders.

As the Company may wish to sell the Premises regardless of whether the transaction contemplated by Resolution 1 is approved, Shareholders should note that Resolution 2 is not dependent upon or subject to the passing of Resolution 1.

3.2 Tax Treatment

All Shareholders are encouraged to seek their own professional advice in relation to their own tax position.

By way of general commentary only, the Company has been advised that to the extent that the Premises are sold for an amount in excess of its tax base a prima facie taxable capital gain will occur. This prima facie gain will be taxable at 30%. The gain may be reduced, potentially to nil, to the extent that either current period or prior period tax losses are available.

The availability of prior period tax losses will depend upon the composition of the share register at the time the tax losses were incurred compared with the time the losses are to be utilized, the status of the company (ie public or private) and the application of the tax legislation in respect of tax losses given the fact pattern prevailing at the time.

The Company reiterates, however, that Shareholders should not rely on this commentary in making their decision and should obtain their own tax advice. The Company, its advisers and officers, do not accept any responsibility or liability for any taxation consequences to Shareholders in respect of the transactions proposed.

3.3 Interest of Directors (Sale of Premises)

As already stated, the sale of the Premises does not form part of, nor is it dependant on the Sale Agreement, and is not a related party transaction

Accordingly, the persons excluded from voting on Resolution 1 are not precluded, and may vote on Resolution 2.

3.4 Directors Recommendations

Based on the information available, including the reasons contained in this Explanatory Memorandum, the prospects and alternatives available to the Company and having consulted with the Company's nominated corporate and legal advisors, the Directors consider that Resolution 2 is in the best interests of the Company and recommend that Shareholders VOTE IN FAVOUR of the Resolution.

3.5 Indicative timetable for distribution

Event	Date
Notice sent to ASIC	3 May 2013
Notice sent to Shareholders	17 May 2013
Date of Extraordinary General Meeting of Shareholders	17 June 2013
Anticipated date of completion of Sale of Assets	30 June 2013

Shareholders should note that these dates are indicative only and may change.

4. Glossary

In this Explanatory Statement, unless the context otherwise requires:

Advertising Material	means all marketing, advertising and promotional documents in the possession of the Company which relate to its business.
CGT	means Australian capital gains tax
Company	means Berklee Limited
Corporations Act	means the Corporations Act 2001 (Cth), and all regulations made pursuant to such legislation, as amended from time to time.
Director	means director of the Company
Explanatory Statement	means the explanatory statement of accompanying the Notice
Intellectual Property	means all trademarks, business names, copyright, patents and other similar rights owned by the Company in connection with the business of the Company or the Sale Assets and includes the trademark "Berklee"
Manufacturing Assets	means all plant and equipment owned by the Company in the manufacture of automotive exhaust products and being the items specifically set out in the schedule to the Sale of Assets Agreement
Notice	means the notice of extraordinary general meeting of the Company attached to and forming part of this document
Office Furniture and Equipment	means items of furniture and equipment owned by the Company and in its possession as at the completion date under the Sale of Assets Agreement
Premises	means the land contained in Certificate of Title Volume 9858 Folio 413 and known as 265-285 Learmonth Road, Wendouree, Victoria.

Purchase Price	means the sum of \$1.00
Purchaser	means Tilbal Pty Ltd
Resolutions	mean the ordinary resolutions as further described in the Notice
Sale of Assets Agreements	means the agreement for the sale of the Sale Assets dated 27 March 2013 between the Company, Tilbal Pty Ltd, Undacar Parts Pty Ltd and Rick John van Berkel
Sale Assets	Means the Manufacturing Assets, the Office Furniture and Equipment, the Intellectual Property, the Goodwill, the Tooling and the Advertising Material of the Company.
Shareholder	means a holder of Shares
Share	means an ordinary share in the Company
Tooling	means all tooling, jigs and fixtures owned by the Company which are in its possession as at the completion date of the Sale of Assets Agreement.

Annexure A - Pro Forma Balance Sheet

Berklee Limited
Proforma balance sheet
\$'000

	31 Dec 12	Note 1	Note 2	Note 3	Note 4	Adjusted Total
Cash	1,453					1,453
Receivables	1,209					1,209
Inventory	1,260				-378	882
Current assets	3,922					3,544
Property, plant and equipment	4,695	-370				4,325
Total assets	8,617					7,869
Trade and other payables	529					529
Provisions	421		-132	-25		264
Current liabilities	950					793
Total liabilities	950					793
Net assets	7,667	-370	132	25	-378	7,076

Note 1 – Sale of plant and equipment for \$1. De-recognition of plant and equipment at net written down value as at 31 December 2012.

Note 2 – De-recognition of transferring employees leave entitlements. Annual leave \$17k and long service leave \$115k.

Note 3 – De-recognition of previously recognized make good provision for Undacar Victoria warehouse.

Note 4 - Adjust inventory net of provisions to reflect agreement to sell at 70% of cost. This assumes no inventory which has been fully provided for will be realized. To the extent it is, the net assets will increase by that amount.

Annexure B - Wilson Hanna Independent Expert's Report



17 May 2013

The Independent Directors
Berklee Limited
265-285 Learmonth Road
WENDOUREE VIC 3355

Dear Sirs

Independent Expert's Report - Update

Please find enclosed a copy of our revised Independent Expert's Report, following consultation today with representatives from the Australian Securities & Investments Commission. In particular, we would like to draw your attention to the following specific changes:

- Clarification of the valuation approach adopted – refer section 5.2.2, on page 19, of our detailed report;
- Additional commentary regarding asset values as set out in section 5.2.3, on page 20, of our detailed report;
- Additional commentary regarding the inclusion of certain contingent liabilities as set out in section 5.2.3, on page 21, of our detailed report. Further, page 3 of our summary report was also amended to make reference to the inclusion of certain contingent liabilities;
- Additional commentary in respect of the proposed rental and inventory arrangements and why in our opinion they do not affect the fairness of the Proposed Transaction, as set out in section 5.2.3, on page 22, of our detailed report; and
- The date of our report has now been changed from 2 May 2013 to 17 May 2013.

It is worth noting that the above changes did not result in any change to our overall conclusion as to the fairness and reasonableness of the Proposed Transaction.

Yours sincerely

WILSON HANNA PTY LTD

JOHN PATTON
Director

MARTIN TOLL
Director

17 May 2013

The Independent Directors
Berklee Limited
265-285 Learmonth Road
WENDOUREE VIC 3355

Dear Sirs

Independent Expert's Report and Financial Services Guide

Introduction

Berklee Limited ("Berklee" or "the Company") is an Australian manufacturer and distributor of specialist industrial products, including automotive mufflers and exhaust products, trolleys and other speciality equipment, that originally commenced trading operations in 1966. The Company is based in Ballarat, Victoria and has been listed on the Australian Securities Exchange ("ASX") since March 1989.

Proposed Transaction

On 27 March 2013, the Company entered into a Sale Agreement (the 'Agreement') with Tilbal Pty Ltd ('Tilbal') and Mr Rick van Berkel to sell certain assets and liabilities to Tilbal for \$1.00 (the 'Proposed Transaction'), conditional on receiving shareholder approval.

In the Agreement, Tilbal has offered, amongst other things, to:

- acquire the Berklee business, consisting of certain assets of the Company but specifically excluding land and buildings in Wendouree, cash and debtors;
- acquire the inventory, on a consignment basis, with Berklee receiving 70% of the historical cost for all inventory either used in production or sold by Tilbal;
- employ all Company employees, including Undacar Parts (Vic) Pty Ltd ('Undacar Vic') employees, but excluding four employees, on the same terms and conditions, with their associated employee entitlement liabilities being transferred across to Tilbal; and
- enter into a lease agreement for the Wendouree factory and office complex and to take over the existing lease of the Undacar Vic premises in East Keilor.

The Independent Directors of the Company¹ unanimously recommend that the shareholders of the Company that are not a related party of Tilbal ("Non-Related Party Shareholders") vote for the Proposed Transaction, in the absence of a superior proposal being received. Each Independent Director of the Company who is eligible intends to vote in favour of the Proposed Transaction.

¹ For the purpose of the Proposed Transaction, Alan Beckett and Grantly Anderson are considered as independent directors of Berklee. Refer to the Chairman's letter accompanying the Explanatory Memorandum for further details.

Purpose of the report

A company is required to seek shareholder approval before giving a financial benefit to a related party, pursuant to Section 208 of the Corporations Act, 2001. We understand that Mr Rick van Berkel is a related party by virtue of the fact that he is a current director of Tilbal and was also a director of Berklee up until his resignation on 27 March 2013. In addition, we understand that Mr Rick van Berkel and his associated entities currently hold an interest of 26.59% in the total issued share capital of the Company.

The Independent Directors of the Company have engaged Wilson Hanna Pty Ltd ("Wilson Hanna") to prepare an Independent Expert's Report, in relation to Resolution 1 of the Notice of Extraordinary General Meeting, to assess whether the Proposed Transaction is fair and reasonable to the Non-Related Party Shareholders of the Company based on the ASX listing rules, ASIC Regulatory Guidelines and as a matter of good practice.

In Chapter 10 of the ASX listing rules, it states that an entity must ensure that it does not dispose of a substantial asset to persons in a position of influence without the approval of its shareholders. Notwithstanding that the assets to be sold under the Proposed Transaction are unlikely to satisfy the substantial asset test under ASX listing rule 10.1, the independent directors have engaged Wilson Hanna based on the significance of the transaction to the Company.

ASIC's Regulatory Guidelines aim to improve the disclosures around related party transactions. Regulatory Guide 76 "Related Party Transactions" ("RG 76") states that an independent expert report may be necessary where:

- The financial benefit is difficult to value;
- The transaction is significant from the point of view of the entity. Furthermore RG 76.112 states that "*a transaction may be considered to be significant if it involves a change of business activities... for reasons other than the dollar amount involved*"; or
- The independent directors do not have the expertise or resources to provide independent advice to members about the value of the financial benefit.

The independent expert's report sets out whether, in Wilson Hanna's opinion, the Proposed Transaction is fair and reasonable to the Non-Related Party Shareholders of the Company. A copy of this report will accompany the Notice of Extraordinary General Meeting & Explanatory Memorandum ('Explanatory Memorandum') to be sent to Berklee shareholders. This letter contains a summary of Wilson Hanna's opinion and main conclusions.

Summary of Opinion

In Wilson Hanna's opinion, the Proposed Transaction, as set out in Resolution 1 of the Notice of Extraordinary General Meeting, is fair and reasonable to the Non-Related Party Shareholders, in the absence of a superior proposal.

Fairness Assessment

In forming our opinion in relation to the fairness of the Proposed Transaction to the Non-Related Party Shareholders, we have had regard to ASIC Regulatory Guide 111 "Content of Expert Reports" ("RG 111") which states that a proposed related party transaction is 'fair' if the value of the financial benefit to be provided by the entity to the related party is equal to or less than the value of the consideration being provided to the entity and that this comparison should be made assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length. In valuing the financial benefit given and the consideration received by the entity, all material terms of the proposed transaction should be taken into account.

The monetary consideration offered by Tilbal to the Company under the Proposed Transaction for the assets, as set out in the Agreement, is \$1.00. In addition, the Agreement sets out a number of liabilities and obligations to be transferred by Berklee to Tilbal as part of the Proposed Transaction.

The following table summarises the core elements of the Proposed Transaction, based on the audited financial statements as at 31 December 2012:

	Low \$'000	High \$'000
Total Sale Assets	370	370
Less: Total Liabilities & Contingencies	889	1,179
Net benefit to Berklee shareholders	519	809

Source: Berklee

Prior to reaching any conclusion, the following factors were also taken into account:

- Tilbal has agreed to enter into a lease with the Company for the Wendouree factory at a peppercorn rental of \$1.00 per annum for a period of time whilst the Company attempts to sell the property. As part of the lease arrangement, Tilbal has agreed to pay the property outgoings and maintenance costs, as well as any make good costs upon vacating the property. Depending on the length of time taken by the Company to sell the property, it is difficult to estimate the extent of any additional benefit provided by the Company to Tilbal.
- Tilbal has offered to pay the Company 70% of the historical cost of inventory upon its sale or use in the manufacturing process, which approximates the current written down value of inventory. Depending on the composition and quantum of inventory actually used or sold by Tilbal, it is difficult to estimate the extent of any additional benefit that may be provided by the Company to Tilbal.
- The Company has not recognised any value on its balance sheet for intellectual property. Further, the Company's current market capitalisation of \$3.5 million represents a substantial discount to the value of net assets of \$7.7 million in the financial statements as at 31 December 2012.
- The liabilities to be transferred to Tilbal under the Proposed Transaction include certain actual liabilities as set out on the balance sheet as at 31 December 2012 and certain contingent liabilities of the Company not listed on the balance sheet.

After having regard to all of the above, the value of the financial benefit to be provided by the Company to Tilbal is less than the consideration offered by Tilbal to the Company, and therefore the Proposed Transaction is in Wilson Hanna's opinion considered to be 'fair'.

Reasonableness Assessment

For the purpose of assessing whether or not the Proposed Transaction is reasonable to the Non-Related Party Shareholders of the Company, we have considered a number of likely advantages and disadvantages and other factors associated with the Proposed Transaction. We note that in accordance with RG 111, the Proposed Transaction is reasonable if it is fair.

Advantages

▪ Reduce Operating Losses

The Company is currently generating operating losses of approximately \$100,000 each month. Should the Proposed Transaction be successful, it is management's view that this should be

reduced to approximately \$25,000 to \$30,000 per month whilst the Company undertakes an orderly realisation of its remaining assets.

▪ **Improved Asset Realisation Returns**

Under the Proposed Transaction, the business operations of the Company are to be transferred to Tilbal as a going concern and as such should lead to higher asset realisation returns in respect of the outstanding debtors and inventory holdings. It should also result in the Company being able to undertake a more orderly realisation of remaining assets.

▪ **Prospect of Capital Returns to Shareholder**

Over the past 12 months, the total value of Berklee shares traded on the ASX was approximately \$0.4 million. With only 53 transactions taking place during the year, there was little liquidity in the Company's shares. In the event that the Proposed Transaction is successful and following an orderly realisation of the remaining assets by the Company, there is the prospect of a capital return for the Company's Shareholders.

Disadvantages

▪ **Not a clean 'exit'**

The Proposed Transaction does not provide the Company's Shareholders with a clean 'exit', as the Company is still required to conduct an orderly realisation of the remaining assets, which may take some time.

▪ **Inventory Risk**

The Company retains the risk on inventory until it is used or sold by Tilbal. Furthermore, the Directors have advised that any inventory that is still outstanding after 12 months will be reviewed with a view to disposing of it.

▪ **Opportunity Cost**

The Proposed Transaction results in the business operations being sold to Tilbal and therefore the opportunity cost to the Company's Shareholders is that they forego the right to participate in any future value that may have been generated by the Company should it have been successful in turning the business around or finding a superior offer.

Other Factors

▪ **Alternative Offers**

We understand that the Berklee Board has considered a number of proposals for the Company since 2012, and also called for expressions of interest in an ASX Announcement on 1 February 2013. Further, we understand that the Proposed Transaction is the only formal offer received to date that the Directors believe is capable of being put to the Company's shareholders.

▪ **One-off Transaction costs**

We have been advised by Berklee management that the costs associated with the Proposed Transaction borne by the Company are approximately \$0.1 million. We understand that these costs will be borne by the Company irrespective of whether the Proposed Transaction proceeds or not.

▪ **Berklee Shareholders' position if the Proposed Transaction is not approved**

If the Proposed Transaction is not approved by the Non-Related Party Shareholders, and a superior offer is not forthcoming, it is the current Directors' intention to explore alternative options including the potential 'winding up' of the Company. This view is based on the Company's current operating performance and outlook for the industry.

Overall Conclusion

After considering the abovementioned quantitative and qualitative factors, Wilson Hanna has concluded that the Proposed Transaction is fair and reasonable to the Non-Related Party Shareholders.

Other Matters

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of the Company's individual shareholders. Accordingly, before acting in relation to their investment, shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Shareholders should also read the Explanatory Memorandum issued by the Company in relation to the Proposed Transaction.

The decision of whether or not to approve the Proposed Transaction is a matter for individual shareholders, based on their own views as to value, their expectations about future market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. Shareholders who are in doubt as to the action they should take in relation to the Proposed Transaction should consult their own professional adviser.

Similarly, it is a matter for individual shareholders as to whether to buy, hold or sell securities in the Company. This is an investment decision independent of a decision on whether to vote for or against the Proposed Transaction upon which Wilson Hanna does not offer an opinion. Shareholders should consult their own professional adviser in this regard.

Wilson Hanna has prepared a Financial Services Guide as required by the Corporations Act, 2001. The Financial Services Guide is set out in the following section.

This letter is a summary of Wilson Hanna's opinion. The full report from which this summary has been extracted is attached and should be read in conjunction with this summary.

The opinion is made as at the date of this letter and reflects circumstances and conditions as at that date.

Yours faithfully

WILSON HANNA PTY LTD



JOHN PATTON
Director



MARTIN TOLL
Director

BERKLEE LIMITED

Financial Services Guide and Independent Expert's Report in relation to the Proposed Transaction with Tilbal Pty Ltd

**Wilson Hanna Pty Ltd
ABN 22 158 038 101 | AFS Licence No. 426848**

17 May 2013

Financial Services Guide – 17 May 2013

1. Wilson Hanna

Wilson Hanna Pty Ltd (“Wilson Hanna”) carries on a business and has its registered office at Level 6, 370 St Kilda Road, Melbourne VIC 3004. Wilson Hanna holds Australian Financial Services Licence No. 426848 authorising it to provide financial product advice on securities to wholesale and retail clients.

Wilson Hanna has been engaged by Berklee Limited (“Berklee” or “the Company”) to provide general financial product advice in the form of an independent expert’s report (“Report”) in relation to the proposed transaction with Tilbal Pty Ltd (“Tilbal”) whereby Tilbal has made an offer to acquire certain business assets and liabilities from the Company (“the Proposal”).

2. Financial Services Guide

This Financial Services Guide (“FSG”) has been prepared in accordance with the Corporations Act, 2001 and provides important information to help retail clients to make a decision as to their use of general financial product advice in a report, the services we offer, information about us, our dispute resolution process and how we are remunerated.

Wilson Hanna provides this FSG in connection with its provision of the Report which is to be included in the Explanatory Memorandum that will be accompany the notice of meeting to Company shareholders (“Explanatory Memorandum”).

3. General Financial Product Advice

In this Report, we provide general financial product advice. The advice in this Report does not take into account your personal objectives, financial situation or needs.

You have not engaged Wilson Hanna directly but have received a copy of the Report because you have been provided with a copy of the Explanatory Memorandum. Wilson Hanna is not acting for any person other than the Company’s board of directors.

Wilson Hanna does not accept instructions from retail clients. Wilson Hanna provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. Wilson Hanna does not provide any personal retail financial product advice directly to retail investors nor does it provide market-related advice to retail investors.

4. Remuneration

When providing the Report, Wilson Hanna’s client is the Company. Wilson Hanna receives its remuneration from the Company. In respect of this Report, Wilson Hanna will receive an estimated fee of \$47,500 plus GST, which is based on commercial rates, plus reimbursement of out-of-pocket expenses.

No related body corporate of Wilson Hanna, or any of the directors or employees of Wilson Hanna or any of those related bodies or any associate receives any remuneration or other benefit attributable to the preparation and provision of the Explanatory Memorandum.

5. Independence

Wilson Hanna is required to be independent of Berklee in order to provide this Report. The guidelines for independence in the preparation of independent expert reports are set out in Regulatory Guide 112 *Independence of expert* issued by the Australian Securities & Investments Commission ("ASIC"). The following information in relation to the independence of Wilson Hanna is stated below:

"Wilson Hanna and its related entities do not have at the date of this report, and have not had within the previous two (2) years, any shareholding in or other business or professional relationship with Berklee or Tilbal that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Proposed Transaction."

Wilson Hanna has no involvement with, or interest in the outcome of the Proposed Transaction, other than the preparation of this Report."

Wilson Hanna will receive an estimated fee of \$47,500 based on commercial rates for the preparation of this report. This fee is not contingent on the outcome of the Proposed Transaction. Wilson Hanna's out of pocket expenses in relation to the preparation of this Report will be reimbursed. Wilson Hanna will receive no other benefit for the preparation of this Report."

Wilson Hanna considers itself to be independent in terms of Regulatory Guide 112 issued by ASIC."

6. Complaints Process

Wilson Hanna has an internal complaints handling mechanism and is a member of the Financial Ombudsman Service (membership no. 31585). If you have any concerns regarding this Report, please contact the Compliance Officer in writing at Wilson Hanna, Level 6, 370 St Kilda Road, Melbourne VIC 3004. If you have difficulty in putting your complaint in writing, please telephone the Compliance Officer on 03 9686 7000 and they will assist you in documenting your complaint.

If Wilson Hanna cannot resolve the complaint to your satisfaction within 45 days, you can refer the matter to the Financial Ombudsman Service at GPO Box 3, Melbourne VIC 3000 or phone 1300 780 808. This service is provided free of charge.

Wilson Hanna is only responsible for this Report and FSG. Complaints or questions about the Explanatory Memorandum should not be directed to Wilson Hanna as it is not responsible for that document. Wilson Hanna will not respond in any way that might involve any provision of financial product advice to any retail investor.

7. Compensation Arrangements

Wilson Hanna holds professional indemnity insurance that satisfies the compensation requirements of section 912B of the Corporations Act, 2001.

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1 Details of the Proposed Transaction

Berklee Limited ("Berklee" or "the Company") is an Australian manufacturer and distributor of specialist industrial products including automotive mufflers and exhaust products, trolleys and other speciality equipment, and has been listed on the Australian Securities Exchange ("ASX") since March 1989.

The Company advised the shareholders of Berklee ("the Shareholders") via an ASX Announcement on 22 February 2013, that the Company *"was in receipt of ... proposals from parties interested in acquiring certain assets of the Company"*.

On 27 March 2013, the Company made a further ASX Announcement advising it had *"entered into a Sale Agreement (the "Agreement") with Tilbal Pty Ltd ("Tilbal") and Mr Rick van Berkel" that was "conditional only on receiving shareholder approval". To this end, "an Extraordinary General Meeting of shareholders to vote on the sale will be scheduled for late May 2013 with a planned completion date of 1 June 2013"*.

Under the Agreement, Tilbal *"agreed to acquire the Berklee business, consisting of the assets of the Company but excluding inventory, the land and buildings in Wendouree and certain other assets (including cash, accounts receivable and motor vehicles) and will offer all factory and Undacar Parts (Vic) Pty Ltd employee's continuing employment and assume liability for their entitlements at the date of completion. Inventory will be acquired on a consignment basis. Tilbal has also agreed to lease the Wendouree factory and office complex and to take over the lease of Undacar Parts (Vic) Pty Ltd premises in East Keilor"*.

We understand that Mr Rick van Berkel is a director of Tilbal and was also a director of Berklee up until his resignation on 27 March 2013. In addition, we understand that Mr Rick van Berkel and his associated entities currently hold an interest of 26.59% in the total issued shares of the Company.

On 28 March 2013, the Company made an ASX Announcement providing further details in relation to the Agreement with Tilbal. In particular, Tilbal *"has agreed to acquire the Berklee business, consisting of the assets of the Company but excluding inventory, the land and buildings in Wendouree and certain other assets (including cash, accounts receivable and motor vehicles) and will offer all factory and Undacar Parts (Vic) Pty Ltd employees continuing employment and assume liability for their entitlements at the date of completion. The consideration for the business is \$1. Inventory will be acquired on a consignment basis and paid as used in manufacture or sold for a consideration for 70% of cost. Tilbal has also agreed to lease the Wendouree factory and office complex and to take over the lease of Undacar Parts (Vic) Pty Ltd premises in East Keilor"*.

In the Agreement, the Vendor (Berklee) has agreed to sell and the Purchaser (Tilbal) has agreed to buy all of the Sale Assets on the terms and conditions contained in the Agreement, with the Sale Assets being defined as:

- a) Manufacturing Assets;
 - b) Office Furniture and Equipment;
 - c) Intellectual Property;
 - d) Goodwill for the Business;
 - e) Tooling; and
 - f) Advertising Material,
- but does not include the Excluded Assets.

Excluded Assets have been defined to mean *“the accounts receivable (of whatever nature) of the Vendor and/or Undacar, stock, mobile telephones, motor vehicles, IT systems (including all computer hardware and software) and bulk gas tank”*.

Tilbal also agreed, amongst other things, to:

- *“assume all Liability of the Vendor under the Laundry Trolley Agreement and the Distribution Agreement”;*
- *“be liable for all ‘make good’ obligations of the Vendor with respect to the Keilor Former Lease...”;*
- *“execute the Guarantee and Indemnity on the Completion Date guaranteeing the performance by the Purchaser under the Agreement including, but not limited to all moneys payable by the Purchaser under or in connection with the Agreement”;*
- *“enter into the Premises Lease on Completion Date”;*
- *“make an offer of employment to each of the Employees on terms and conditions which are no less favourable...”;*
- *“allow each Transferring Employee an entitlement to sick leave which includes sick leave entitlements that had accrued to that Transferring Employee as an employee of the Vendor or Undacar (as applicable) but were untaken at Completion Date”;*
- *“treat the period of service which each Transferring Employee had with the Vendor or Undacar (as applicable) as service with the Purchaser”;*
- *“pay on the Completion Date in full, the Employee Entitlements of any Employee not agreeing to transfer his or her employment to the Purchaser”.*

The Premises Lease relates to the Company’s property at 265-285 Learmonth Road, Wendouree, Victoria 3355. The Agreement specifies the terms of the lease to include the following:

- an initial term of one (1) years commencing on the Completion Date;
- four further options of one (1) year each;
- an annual rental of \$1.00 but if the Premises are sold by the Vendor to a third party the annual rental will automatically revert to \$200,000 plus outgoings plus GST for the first year of the lease;
- the Purchaser to be liable for all outgoings including insurance.

Employees has been defined as *“the employees of the Vendor and those employees employed by Undacar Parts (Vic) Pty Ltd but does not include any of the Excluded Employees”*.

Excluded Employees has been defined to mean:

- a) Brett Jones;
- b) John Anderson;
- c) Ron Larkin; and
- d) Donna Bergemann.

The Offer received is subject to the following conditions precedent being satisfied, including:

- approval from the Berklee shareholders at an Extraordinary General Meeting;
- Tilbal executing a Premises Lease and the principal of Tilbal, Mr Rick van Berkel, executing a Guarantee and Indemnity; and
- satisfaction of any other regulatory requirements (if any) required under the Listing Rules before the transactions contained in the Agreement may proceed to Completion.

In the event that the Proposed Transaction is successful, we understand that the Company will be primarily left with the following:

- Land & Buildings at Wendouree;

- Cash on hand;
- Debtors;
- Inventory;
- Less Creditors;
- Less employee entitlements and statutory employee obligations in relation to the Excluded Employees.

2 Purpose & Scope of the Report

2.1 Purpose

The Proposed Transaction is subject to the approval of the Non-Related Party Shareholders of the Company in accordance with Section 208(1) of the Corporations Act. Section 208 of Chapter 2E of the Corporations Act requires a company to seek shareholder approval before giving a financial benefit to a related party unless the benefit falls within an exception provided for in section 210 of the Corporations Act.

“Related party” is defined in section 228 of the Corporations Act. Tilbal is deemed to be a related party of Berklee by virtue of the fact that Mr Rick van Berkel is a director of, and controls, Tilbal, and was also a director of Berklee up until his resignation on 27 March 2013. Mr Rick van Berkel and his associated entities are also a substantial shareholder with an interest of 26.59% in the Company’s shares.

A “financial benefit” is broadly defined in Section 229 of the Corporations Act, and includes the sale of an asset by a public company to a related party. Accordingly, the Proposed Transaction with Tilbal constitutes the giving of a financial benefit by Berklee to Tilbal.

Regulatory Guide 76 “Related Party Transactions” (“RG 76”) states that it may be necessary for entities to include a valuation from an independent expert, to accompany the notice of meeting for member approval under Chapter 2E of the Corporations Act where:

- The financial benefit is difficult to value;
- The transaction is significant from the point of view of the entity (see RG 76.112); or
- The independent directors do not have the expertise or resources to provide independent advice to members about the value of the financial benefit.

The Proposed Transaction does not appear to fall within ASX Listing Rule 10.1, which prohibits an entity from disposing of an asset worth more than 5% of its net assets to a related party without the approval of non-associated shareholders, as the Proposed Transaction amounts to a disposal of less than 5% of Berklee’s net assets.

Although there is no requirement under the ASX Listing Rules for an independent expert’s report, the independent directors have engaged Wilson Hanna Pty Ltd (‘Wilson Hanna’) to prepare an independent expert’s report to accompany the Explanatory Memorandum, to assist Non-Related Party Shareholders in their evaluation of whether or not to approve the Proposed Transaction pursuant to Resolution 1 of the Notice of Extraordinary General Meeting. The independent expert’s report sets out whether, in Wilson Hanna’s opinion, the Proposed Transaction is fair and reasonable to the Non-Related Party Shareholders of the Company along with the reasons for that opinion.

The sole purpose of this report is as an expression of Wilson Hanna’s opinion as to whether the Proposed Transaction is fair and reasonable having regard to the interests of the Non-Related Party Shareholders of Berklee. A copy of the report will accompany the Explanatory Memorandum to be sent to shareholders by the Company.

This report is general financial product advice only and has been prepared without taking into account the specific objectives, financial situation or needs of individual Shareholders. Accordingly, before acting in relation to their investment, Shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Shareholders should also read the Explanatory Memorandum issued by the Company in relation to the Proposed Transaction.

Voting for or against the Proposed Transaction is a matter for individual Shareholders based on their views as to value, their expectations about future market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. Shareholders who are in doubt as to the action they should take in relation to the Proposed Transaction should consult their own professional adviser.

Similarly, it is a matter for individual Shareholders as to whether to buy, hold or sell securities in the Company ("the Shares"). This is an investment decision independent of any decision of whether to vote for or against the Proposed Transaction upon which Wilson Hanna does not offer an opinion. Shareholders should consult their own professional adviser in this regard.

2.2 Basis of Assessment

Neither the ASX nor the Australian Securities & Investments Commission ("ASIC") provide specific guidance as to the analysis required in assessing whether a proposed transaction is fair and reasonable to non associated shareholders for the purposes of Section 208(1).

ASIC has issued Regulatory Guide 111 ("RG 111") that provides guidelines in respect of independent expert's reports under the Corporations Act. RG 111 differentiates between the analysis required for control transactions and other transactions. In the context of control transactions (whether by takeover bid, by scheme of arrangement, by the issue of securities or by selective capital reduction or buyback), it comments on the meaning of "fair and reasonable". For most other transactions, the expert is to weigh up the advantages and disadvantages of the proposal for shareholders. This involves a judgement on the part of the expert as to the overall commercial effect of the transaction, the circumstances that have led to the proposal and the alternatives available. The expert must weigh up the advantages and disadvantages of the proposal transaction and form an overall view as to whether the shareholders are likely to be better off if the proposed transaction is implemented than if it is not.

In paragraph 56 of RG 111, ASIC states that where an expert assesses whether a related party transaction is 'fair and reasonable' (whether for the purposes of Chapter 2E or ASX Listing Rule 10.1), this test should not be applied as a composite test and that there should be a separate assessment of whether the transaction is 'fair' and 'reasonable', as in a control transaction.

Further, in paragraph 57 of RG 111, ASIC states that a proposed related party transaction is 'fair' if the value of the financial benefit to be provided by the entity to the related party is equal to or less than the value of the consideration being provided to the entity and that this comparison should be made assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length. In valuing the financial benefit given and the consideration received by the entity, all material terms of the proposed transaction should be taken into account.

Reasonableness is said to involve an analysis of other factors that shareholders might consider prior to voting on a proposed transaction. In paragraph 62 of RG 111, when deciding whether a proposed transaction is 'reasonable', factors that an expert might consider include:

- The financial situation and solvency of the entity, including the factors set out in RG 111.26, if the consideration for the financial benefit is cash;
- Opportunity costs;
- The alternative options available to the entity and likelihood of those options occurring;
- The entities bargaining position;

- Whether there is selective treatment of any security holder, particularly the related party;
- Any special value of the transaction to the purchaser, such as particular technology or the potential to write off outstanding loans from the target; and
- The liquidity of the market in the entity's securities.

In addition to the above, ASIC generally expects an expert who is asked to analyse a related party transaction to express an opinion on whether the transaction is 'fair and reasonable' from the perspective of non-associated members. Furthermore, ASIC provides specific guidance in respect of related party transactions in RG 76 "Related Party Transactions".

Fairness is a more demanding test. A 'fair' proposal will always be 'reasonable' but a 'reasonable' proposal may not necessarily be 'fair'. A proposed related party transaction could be considered 'reasonable' if there were valid reasons to accept or vote in favour notwithstanding that it was not 'fair'.

Wilson Hanna has determined whether the Proposed Transaction is fair to the Company's Non-Related Party Shareholders by comparing the value of the consideration being offered against the value of the assets, liabilities and obligations being sought in the Proposed Transaction.

In considering whether the Proposed Transaction is reasonable to the Non-Related Party Shareholders, Wilson Hanna has considered a number of factors, including:

- Whether the Proposed Transaction is fair;
- The implications to the Company and the Non-Related Party Shareholders if the Proposed Transaction is not approved;
- Other likely advantages and disadvantages associated with the Proposed Transaction as required by RG 111; and
- Other costs and risks associated with the Proposed Transaction that could potentially affect the Company's Non-Related Party Shareholders.

3 Profile of the Industry

3.1 Automotive Parts & Accessories Manufacturing Sector Overview

Companies in this industry manufacture non-electrical automotive components, including various car accessories, mufflers and child restraints. They do not manufacture engines or car seats. These companies may supply the motor vehicle assemblers or replacement parts (the aftermarket).

The primary activities of this industry are:

- car accessory manufacturing
- child car restraint manufacturing
- gearbox manufacturing
- muffler and radiator manufacturing
- roof rack manufacturing
- seat belt manufacturing
- shock absorber manufacturing
- suspension component manufacturing
- transmission and clutch manufacturing
- wheel manufacturing

3.2 Current Industry Performance

The Automotive Parts and Accessories Manufacturing industry has encountered many challenges over the past five years, resulting in industry revenues falling by an estimated 3.9% per annum for the five years through 2012-13 to reach \$5.49 billion². Key reasons for this decline include:

- Strong competition from cheap imports benefiting from lower production costs and supporting supply chains in developing economies.
- The strong Australian dollar over the period has made imported parts and accessories more affordable to Australian buyers.
- Tariffs were reduced from 10% to 5.0% for the aftermarket segment in 2010 which has adversely effected the cost competitiveness of locally manufactured product as compared to imports.
- Lower demand from local motor vehicle manufacturers has in turn affected the demand from automotive part manufacturers.
- Abolition of local market content requirements.

As a result, domestic car and truck manufacturers have increasingly bought imported automotive parts and accessories at the expense of domestic component manufacturers.

Domestic motor vehicle manufacturers also shifted to cheaper imports as the downstream industry struggled to remain viable. Due to the growing popularity of small imported cars, demand for domestically produced vehicles weakened. The trend also hurt component manufacturers as the two industries are closely related. The industry's only bright spot has been the consistent rise in motor vehicle numbers, thereby providing growth opportunities in the aftermarket.

² Information in this report on the Automotive Parts and Accessories Manufacturing sector is from a range of sources. The major sources are "IBISWorld Industry Report C2819 Automotive Parts and Accessories Manufacturing in Australia" October 2012, www.abs.gov.au Australian Bureau of Statistics, www.fcmai.com.au Federal Chamber of Automotive Industries, www.fapm.com.au Federation of Automotive Products Manufacturers

Industry profitability has also suffered over the past five years, with industry operating profit margins falling from an estimated 9.8% in 2007-08 to 7.4% in 2012-13. The industry's operating profit margins reached a low of 4.8% in 2008-09 as demand languished. Demand dropped as the global downturn caused motor vehicle production to slow and as consumers delayed after-market purchases. Margins have since recovered as the industry downsized capacity and consolidated the number of players.

The industry life cycle is depicted in the diagram below and shows that the Automotive Parts and Accessories Manufacturing industry is a mature business in a state of decline.



Soaring input costs have put pressure on profitability over the past five years, with the price of inputs, including plastic resin and steel, increasing. The financial difficulties of automotive parent companies General Motors and Ford exacerbated this situation. Competition from cheaper countries and a relatively strong Australian dollar also dampened profitability.

In early 2011, Toyota and Ford both cut car production. Toyota was hampered by a lack of parts from its Japanese factories following the March 2011 earthquake, whereas Ford's troubles were the result of poor demand for its large vehicles produced locally. The slower production from Ford reduced the demand for components made locally, which was partially offset by Toyota's situation, resulting in a switch to domestic components. This shift was not material however due to a lack of supply of relevant parts.

Unlike motor vehicle manufacturers, component manufacturers are often small, privately owned

businesses without the means or capital base to trade through prolonged downturns. Faced with falling demand, revenue and profitability, manufacturers started going out of business. Over the past five years, component manufacturer numbers have fallen by approximately 2.2% per annum.

Competition between component manufacturers is based on quality of products, delivery timeliness and price. Bargaining power has shifted towards the motor vehicle manufacturers since the abolishment of the local content rule. Component producers now face sustained pressure from imports, especially in the aftermarket segment. Price parity with imports is expected especially for those components that are of similar quality.

Australian component manufacturers are finding it increasingly difficult to compete with lower-cost foreign competitors. Investment in new technology such as supply-chain management and collaborative forecasting (where members of the supply chain share forecasting data to reduce bottlenecks) may help to meet this challenge. It may also assist in delivery timeliness.

IBISWorld expects that in the next five years, only those suppliers making higher-value parts will survive, while commodity parts will be sourced from low production cost countries such as China and India.

3.3 Industry Outlook

The demand for automotive parts is determined by motor vehicle manufacturing activity (both domestically and overseas) and demand in the aftermarket, which is largely determined by the number of vehicles on the road.

The performance of the domestic motor vehicle manufacturing industry has been negatively affected by high oil prices, which curtailed demand for its product offerings, namely large passenger motor vehicles. As such, production has been falling since 2006-07 and with it the demand for original equipment parts. Motor vehicle demand depends on the price of cars, availability of credit and household income.

The aftermarket is a less volatile segment, though it is highly competitive due to import penetration. Reductions in tariffs have also facilitated competition from imports. Demand for replacement parts depends on the number of registered vehicles, the age of vehicles (which influences wear and tear) and the number of random events such as accidents.

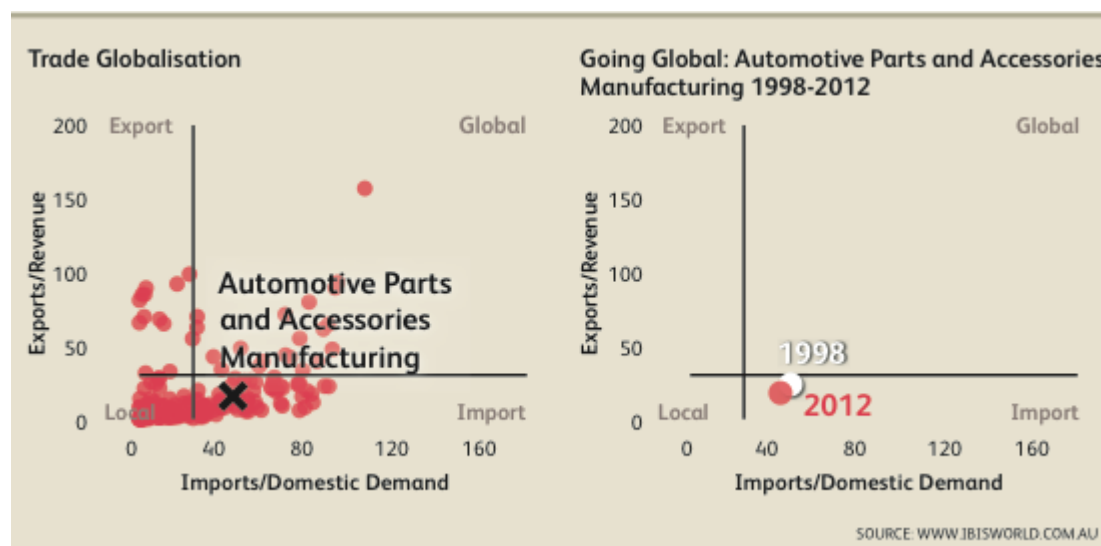
Component manufacturers face several challenges. Domestic automotive manufacturers are expected to continue to face problems. It follows that weak demand from downstream manufacturers will limit the growth potential of the Automotive Parts and Accessories Manufacturing industry. Furthermore, overseas manufacturers continue to pose strong import competition, with penetration expected to increase. With downstream markets floundering and imports satisfying a greater portion of domestic demand, industry revenue is forecast to fall 3.0% per annum over the five years through to 2017-18 to reach \$4.72 billion.

The number of established players is also forecast to fall by an annualised 0.9% over the next five years due to a combination of voluntary consolidation and the exit of unprofitable businesses. Potential productivity gains are likely to be sought through the redundancy of excess staff, with component manufacturers expected to lay off workers in a bid to become more profitable. As a result, employment numbers are forecast to fall by an annualised 1.7% over the five years through 2017-18. Restructuring effects will take a while to spread across the industry and domestic component manufacturers will still struggle to match the profitability of foreign manufacturers.

Imports are at a high level in the industry satisfying an estimated 43.2% of domestic demand when averaged over the past five years. Import penetration has increased during this period as domestic motor vehicle manufacturers increasingly source components from overseas suppliers. The domestic market's preference for imports is due to the lower production costs and

supporting supply chains in developing economies. Import penetration is also expected to increase over the five-year outlook as manufacturing capacity continues to move overseas.

International trade is a major determinant of an industry's level of globalisation. Import competition can bring greater risk for local companies as foreign producers satisfy domestic demand that local firms would otherwise supply. The increasing import trend is depicted in the following diagram.



Over the past five years, the price of imported components fell due to a reduction in tariff rates, free trade agreements and a strong Australian dollar. Imports from China rose rapidly as the country built a strong manufacturing base. Meanwhile, imports from Japan fell following the devastating earthquake in March 2011.

3.4 Regulation & Policy

There are no specific regulations or licences affecting specialist component producers servicing the industry. However a component producer needs to register with the government and accreditation is necessary. The products manufactured need to comply with specifications set out in the Australian Design Rules regulation. Exporting participants are also required to comply with similar design rules and standards at destination countries.

The Federation of Automotive Products Manufacturers (FAPM) is the association of component manufacturers that assists in policy development at the Federal level. In the next five years, environmental-friendliness is expected to become more important. The government is committed to reducing carbon emissions, which could have an effect on the type of products manufactured within the industry. Manufacturers may also need to 'green' their production processes to meet new carbon dioxide targets.

3.5 Industry Assistance

Tariffs on passenger motor vehicles and original equipment components were reduced to 10% in 2005. The present tariff rate is 10% for original equipment components and 5.0% for the aftermarket segment. Tariffs on imported original equipment components will be cut to 5.0% in 2015. Components imported from countries with which Australia has free trade agreements typically do not carry any tariffs.

A comprehensive review of the industry was conducted in 2008 and a report tabled with the government in August 2008. The review led by the Honourable Steve Bracks made a number of recommendations that were predicated on changing the behaviour of automotive firms and the

industry to make them more competitive and better able to meet global challenges, including the move to a lower carbon environment.

Under the new Bracks plan, the Automotive Transformation Scheme (ATS) replaces the Automotive Competitiveness and Investment Scheme (ACIS). It runs from 2011 to 2020 and includes \$3.4 billion in aid. The first stage of the ATS will provide \$1.5 billion between 2011 and 2015, 45% of which will be available to entities in the supply chain and the remaining 55% will go to motor vehicle manufacturers. Component manufacturers will mainly use the funds to claim 50% of their research and development costs. They will also have to show commitment to improving the skills of the labour force and to environmental goals.

The Automotive Industry Structural Adjustment Program (AISAP) will provide \$116.3 million to the supply chain to address their labour and structural issues. The aim is to lay off inefficient workers and create jobs for skilled ones. Structural issues are to be addressed through consolidation and mergers.

The next five years will continue to test the viability of the industry. Downstream automotive manufacturers are expected to continue to struggle from the impact of increasing import competition. The downstream markets along with the industry will contend with imports satisfying a greater portion of domestic demand. With demand from industry's main market contracting, industry revenue is forecast to fall at an annualised rate of 3.0% over the five years through 2012-18.

4 Profile of Berklee

4.1 History

The Company is based in Ballarat, Victoria, and commenced trading operations in 1966. In March 1989, the Company became a publicly listed company and its shares are traded on the Australian Securities Exchange (code BER).

Since this time, the Company has manufactured automotive mufflers and exhaust systems, primarily under the “Berklee” brand name. Today, the Company is a specialist industrial products manufacturer and distributor. Key products include automotive mufflers and exhaust systems, trolleys and other specialty equipment. The Company currently has approximately 27 employees, and for the 6 months ended 31 December 2012 had net assets of \$7.7 million and sales from continuing operations of \$1.4 million. Sales from continuing operations were \$5.6 million for the year ended 30 June 2012.

In the 1970’s, the Company expanded into the nation-wide distribution of its manufactured products and other ancillary parts by establishing five distribution companies. These distribution companies, which in 1987 became wholly-owned subsidiaries of Berklee, together with the Tasmanian distribution company established in 1992, formed the Undacar Parts Division.

In 2007, Berklee achieved Automotive TS 16949 accreditation. This accreditation is an Australian-wide pre-requisite automotive standard to supply Original Equipment Manufacturers (“OEM”). The accreditation is audited annually and attests to the core processes and standards adopted by the Company.

On 12 November 2010, at the time of announcing the appointment of its new Chairman (Mr Alan Beckett), the Company announced;

“that it would conduct a review of all business strategy options appropriate to the Company and the results of that process are expected to be communicated to shareholders prior to 30 June 2011.”

On 30 June 2011, the Board announced a new direction to enhance shareholder value. The announcement detailed that;

“the Board had examined a number of scenarios with the assistance of an external consultant including;

- *winding up the company and returning capital to shareholders;*
- *merging with, or selling to, a competitor with a view to rationalising the industry; or*
- *significantly rationalising the business and operation under a very different business model.*

Each option has been explored in detail ... to ascertain the likely return to shareholders. After exhaustive discussion and consultation with our external financial and legal advisors the Board has resolved that the most appropriate strategy for the Company is to:

- *become a specialised metal engineering solutions business*
- *diversify into non automotive lines*
- *continue as a supplier in the replacement and OEM market using company and other manufacturing facilities*
- *complete the restructure of the company’s distribution business*
- *review the capital management strategy*

4.2 Strategy Update

Following the outcome of the strategic review that was announced on 30 June 2011, the Company has undertaken a range of initiatives including:

(i) Rationalisation of Undacar Distribution Operations

In an effort to stem the operating losses incurred from the Company's distribution activities, Berklee decided to adopt a distribution exit strategy that involved entering into new alliance and supply agreements rather than opting for a simple closure. It was the Board's view that this approach had more potential to maximise the monetisation of distribution assets, such as stock and debtors when compared to simply shutting the doors and disposing of assets at liquidation values.

Since this time, the Company has announced the formation of a Strategic Alliance with another long established Australian exhaust business, Mercury Mufflers. Under the agreement with Mercury, Berklee has been granted the rights to manufacture the Mercury brand product, with Mercury becoming the distributor of the Berklee brand product in New South Wales, Queensland and Western Australia.

In relation to South Australia and Tasmania, the Company entered into separate exclusive distribution agreements with Sustrev Pty Ltd, trading as Muffler Bits, and Launceston Auto Spares Pty Ltd, trading as Berklee Exhaust & Bikes, respectively. As a consequence, the Company's Undacar operations in these states have now ceased trading.

The only remaining Undacar trading operation owned by the Company is located in the state of Victoria.

In recognition of the mature aftermarket exhaust industry, the rationale for these alliances and arrangements was to provide the following benefits to the Company, its Shareholders and customers including:

- Preserve the value of the respective product brands;
- Achieve better economies of scale with each company focused on one core activity;
- Enable greater ability to compete in the market place because the businesses are joining forces to take on the competition;
- Provide increased customer satisfaction from a broader service offering with access to market leading brands;
- Ensure retention of Australian made high quality product enabling product range rationalisation, whilst supporting design and development capability; and
- Deliver stronger sales and marketing capabilities with extensive industry knowledge and experience to drive sales and increase market share.

(ii) Spotless Contract

In August 2011, Berklee signed a three-year Preferred Supplier Agreement with Spotless Group Limited ('Spotless') for the supply of stainless steel trolleys in their hospital and hospitality businesses. This was considered an important step in the process of transforming Berklee into a 'specialised metal engineering solutions business'. Sales revenue pursuant to this agreement was expected to be in excess of \$7 million over the three-year period of the agreement.

The trolley was designed in-house and is now made from a combination of imported and local elements, with all assembly work being carried out in the Ballarat facility. The associated capital expenditure to facilitate the manufacture of this product was relatively minor as it leveraged the Company's existing workforce and machinery on hand.

In 2012, private equity firm, Pacific Equity Partners ('PEP'), was successful in its efforts to acquire Spotless. Following the acquisition by PEP, the sale of trolleys has slowed and has been well below expectations.

(iii) China Replacement Strategy

Consistent with the Company's strategic plan, a decision was made to have selected products manufactured in China. In 2012, certain equipment was shipped to the appointed manufacturer in China in order to have the top 20 products manufactured offshore at a reduced price (referred to as the "China Replacement Strategy"). As this is only a relatively recent initiative, products only started to arrive in Australia in January 2013.

Summary

Whilst the above strategies have led to changes in the operations of the Company, these initiatives have not been successful in addressing the underlying operating losses being experienced by the Company, as outlined in the Directors Report in the financial statements for the 6 months ended 31 December 2012, which stated:

"The Directors are extremely disappointed with the results for the half to 31 December 2012. The automotive after market sector in which the Company operates is in significant decline and attempting to compete with an Australian manufactured cost base is difficult. Competitors continue to benefit from the high Australian dollar and as a consequence sales to Berklee's distributors have suffered significantly.

As a result, the restructuring of the distribution network has not yielded the benefits expected. Whilst the losses attributable to distribution have reduced significantly, they have not been offset by increased performance in the manufacturing business.

The Company has attempted to expand its product range through the introduction of a range of industrial products, however a key customer's capital spending has been put on hold following a takeover of their operations by private equity.

Consequently, the Company has seen a dramatic decline in revenue and whilst the Company has begun to shift production to China sourced product, the benefits of lower costs has not yet fed through to improved sales."

Further, in Note 1(b) of the financial statements for the 6 months ended 31 December 2012, the Directors stated that *"in the event that the Directors are unable to successfully negotiate the sale of the business, the Directors would consider the option of the orderly sale of assets of the Consolidated entity"*.

4.3 Products

It is management's view that the Company's exhausts are widely accepted in the industry as the best quality locally manufactured exhausts. They are designed in Australia and have the reputation of fitting correctly, the first time. In addition to the Berklee exhaust systems, Berklee has developed the following brands:

- PEX Performance Exhaust – providing a range of performance exhaust systems and accessories to cater for those customers looking for extra performance as well as the 4x4 market; and
- Ballistic – providing a premium exhaust system for high performance vehicles.

The full range of Berklee exhaust brands are promoted in the market as:



4.4 Financial Performance

The financial performance of the Company for the four years ended 30 June 2012, and the 6 months ended 31 December 2012, is summarised below.

Berklee Earnings History	6 Mths Dec 12 \$'000	FY12 \$'000	FY11 \$'000	FY10 \$'000	FY09 \$'000
Income Statements					
Revenue from continuing operations	1,400	5,638	6,115	9,969	11,055
Revenue from discontinued operations	901	3,628	3,233	n/a	n/a
Profit/(Loss) before income tax - continuing operations	(1,532)	(917)	(564)	675	1,461
Profit/(Loss) before income tax - discontinued operations	(330)	(1,232)	(1,841)	n/a	n/a
Income tax expense/(benefit) continuing operations	0	0	376	134	(372)
Income tax expense/(benefit) discontinued operations	0	0	(553)	n/a	n/a
Operating profit/(Loss) after income tax	(1,862)	(2,149)	(2,228)	541	1,833
CASH FLOW STATEMENTS					
Cash flow from operating activities	(668)	123	(920)	(12)	84

Source: Berklee Financial Reports (Audited)

As is clear from the summary above, the Company's revenue has been consistently declining each year, as has its profitability. The losses from the (now discontinued) distribution business have significantly impacted the results, mainly in the last three years. As part of Berklee's strategic restructuring plan, the Company has now entered into new distribution arrangements with external parties in all states except Victoria.

In FY12, the business managed to achieve a slightly better than break even result on a cash flow basis, largely a result of its efforts to reduce the Company's net working capital position. In the financial statements for the 6 months ended 31 December 2012, the Company has been unable to achieve the necessary sales volumes on a monthly basis to achieve a cash neutral outcome. Consequently, the business value has continued to decline month on month, notwithstanding that the business remains solvent due to its asset base.

4.5 Financial Position

The reported consolidated financial position of the Company as at 30 June for the four years ended 2012 and the 6 months ended 31 December 2012, is summarised below.

Berklee Balance Sheet History	December 2012 \$'000	June 2012 \$'000	June 2011 \$'000	June 2010 \$'000	June 2009 \$'000
Balance Sheet					
Current Assets	3,922	5,772	7,862	9,062	8,637
Non Current Assets	4,695	5,668	6,443	4,091	6,223
Total Assets	8,617	11,440	14,305	13,963	14,860
Current Liabilities	950	1,872	2,374	1,548	1,778
Non Current Liabilities	0	39	53	44	52
Total Liabilities	950	1,911	2,427	1,592	1,830
Net Assets	7,667	9,529	11,878	12,371	13,030

Source: Berklee Financial Reports (Audited)

In line with the declining profitability, the Company's net asset position has been steadily eroded, despite the following significant events:

- Revaluation of land & buildings upwards by \$1.9 million in FY11;
- Realisation gain of \$1.2 million on the disposal of property, plant & equipment in FY10; and
- Realisation gain of \$2.4 million on the disposal of property, plant & equipment in FY09.

During recent times, management has been focused on reducing inventory and managing the working capital of the business.

4.6 Net Borrowings

The net borrowings of Berklee over the past four years ended 30 June 2012 and the 6 months ended 31 December 2012, were as follows.

Berklee Borrowing History	December 2012 \$'000	June 2012 \$'000	June 2011 \$'000	June 2010 \$'000	June 2009 \$'000
Borrowings	0	44	29	0	0

Source: Berklee Financial Reports (Audited)

Since FY09, where borrowings of approximately \$1.3 million were repaid from the proceeds of the sale of property plant & equipment, the Company's gearing has been negligible and was nil as at 31 December 2012. Over this 4.5 year period, the trading losses generated by the Company have largely been absorbed by the sale of further property plant & equipment (at higher prices than book value) along with reductions in the level of working capital.

4.7 Capital Structure and Ownership

The Company has approximately 10 million ordinary shares on issue today. There are no other classes of share or options that have been issued by the Company. As at 2 April 2013, the top 20 shareholders were as follows:

Shareholder	No. of shares	% of shares issued
Ausned Pty Ltd α	1,779,031	17.79
W. M. van Berkel	602,362	6.02
P. J. Hayman	572,620	5.73
Dr D.G.M. Welsh	415,030	4.15
Riniki Pty Ltd (Super Fund Account) α	414,023	4.14
E. & C. van Berkel Family Trust #	355,806	3.56
Dorran Pty Ltd	350,000	3.50
E. J. van Berkel #	326,371	3.26
Ago Pty Ltd	306,627	3.07
Riniki Pty Ltd (RJ & NC van Berkel Account) α	286,282	2.86
Angueline Investments Pty Limited	263,557	2.64
C. Stubbs & C. Stubbs (CE-ES Super Fund Account)	250,000	2.50
Maldew Holdings Pty Ltd (Super Fund Account)	248,693	2.49
Maelstrom Pty Ltd (Falkiner Super Fund Account)	248,353	2.48
M. Yannis	242,232	2.42
BP Sido Pty Ltd (Super Fund Account)	193,812	1.94
R. G. Yannis	189,705	1.90
C. A. van Berkel #	162,782	1.63

Marko Nominees Pty Ltd (No 1 Account)	147,343	1.47
R. van Berkel α	143,177	1.43
	7,497,806	74.97
Other shareholders	2,502,637	25.03
Total	10,000,443	100.00

- Common shareholding of Mr E.J. van Berkel: 844,959

α - Common shareholding of Mr R.J. van Berkel: 2,659,501

Source: Computershare

The Van Berkel family holds a significant shareholding through various entities controlled by family members, and we understand that the various family members vote their shares independently of each other. However, under Section 228 of the Corporations Act, in relation to related parties and financial benefits, the following parties are considered to be related parties of Mr Rick van Berkel:

- Spouse;
- Parents; and
- Children

4.8 Share Price Performance

A summary of the price and trading history of Berkleee over the last 12 months is set out below:

Date	Highest price	Lowest price	Closing price	Volume Traded	Number of transactions
04-Apr-12	0.3900	0.3900	0.3900	356	1
12-Apr-12	0.3900	0.3900	0.3900	1,004	1
17-Apr-12	0.3900	0.3900	0.3900	3,559	1
24-Apr-12	0.3900	0.3900	0.3900	7,421	1
27-Apr-12	0.3900	0.3900	0.3900	5,000	1
17-May-12	0.3900	0.3900	0.3900	4,200	1
15-Jun-12	0.4000	0.4000	0.4000	7,117	1
18-Jun-12	0.4000	0.3900	0.3900	4,461	2
20-Jun-12	0.3900	0.3900	0.3900	5,644	1
03-Jul-12	0.3900	0.3900	0.3900	7,117	1
06-Jul-12	0.3900	0.3900	0.3900	13,239	1
12-Jul-12	0.3200	0.3200	0.3200	2,847	1
17-Jul-12	0.3200	0.3200	0.3200	71,021	3
23-Aug-12	0.4800	0.3200	0.4800	4,796	2
24-Aug-12	0.4800	0.4500	0.4800	65,986	2
12-Sep-12	0.4600	0.4400	0.4600	205,469	3
02-Oct-12	0.4600	0.4400	0.4600	61,132	2
05-Oct-12	0.5000	0.5000	0.5000	3	1
18-Oct-12	0.4800	0.4800	0.4800	118,000	1
14-Nov-12	0.4000	0.4000	0.4000	6,000	1
16-Nov-12	0.3800	0.3800	0.3800	2,670	2
03-Dec-12	0.4200	0.4200	0.4200	11,535	1
17-Jan-13	0.3500	0.3500	0.3500	356	1
18-Jan-13	0.3250	0.3250	0.3250	8,541	2
30-Jan-13	0.3400	0.3400	0.3400	3,559	1

04-Feb-13	0.3200	0.3000	0.3000	158,147	6
13-Feb-13	0.3200	0.3200	0.3200	89,975	1
14-Feb-13	0.3400	0.3400	0.3400	16,368	1
20-Feb-13	0.3250	0.3250	0.3250	3,557	1
21-Feb-13	0.3300	0.3300	0.3300	6,618	1
22-Feb-13	0.3500	0.3400	0.3500	5,551	2
13-Mar-13	0.3200	0.3200	0.3200	2,847	1
14-Mar-13	0.3200	0.3200	0.3200	40,712	2
28-Mar-13	0.3500	0.3500	0.3500	14,233	1
02-Apr-13	0.3550	0.3550	0.3550	14,233	1
03-Apr-13	0.3900	0.3900	0.3900	35,581	1
TOTALS				1,008,855	
Source: Computershare					

As the above table shows, the Company is not a highly traded stock. The Berklee Share price has varied over the year from a low of \$0.30 to a high of \$0.50, albeit on very thin volumes.

5 Evaluation of the Proposed Transaction

5.1 Conclusion

In Wilson Hanna's opinion, the Proposed Transaction is fair and reasonable to the Non-Related Party Shareholders of the Company, in the absence of a superior proposal.

The Proposed Transaction does however require careful consideration given the related party relationship between the Company and Tilbal, by virtue of Mr Rick van Berkel, notwithstanding the monetary consideration being offered is nominal. Mr Rick van Berkel is a director of Tilbal and up until 27 March 2013 was a director of the Company. Additionally, Mr Rick van Berkel and his associated entities hold a 26.59% shareholding in the Company.

Other important factors that Berklee Shareholders should take into account when deciding whether to vote for or against the Proposed Transaction include the following:

- The current strategy of the Company, including the relative recent China Replacement initiative, has not led to any material improvement in its trading operations. The Company still continues to generate operating losses in the vicinity of \$100,000 per month. In the event that Proposed Transaction is approved, management estimates operating losses in the vicinity of \$25,000 to \$30,000 per month, whilst they undertake to realise the remaining assets;
- The Independent Directors of the Company advised Wilson Hanna that the Board put in place appropriate protocols and procedures to ensure that the Proposed Transaction was negotiated on an arm's length basis. Wilson Hanna has no reason to believe that Berklee and Tilbal did not have an equal bargaining position in negotiating the Proposed Transaction;
- Over the past 12 months, the total value of Berklee shares traded on the ASX was approximately \$0.4 million. With only 53 transactions taking place during the year, there is a lack of liquidity in the Company's shares.
- There are currently limited alternative options available to Berklee Shareholders other than trade-on, vote for the Proposed Transaction, hope for an alternative offer to materialise or liquidation. We understand that the Berklee Board has considered a number of proposals for the Company since 2012, and also called for expressions of interest in an ASX Announcement on 1 February 2013. Further, we understand that the Proposed Transaction is the only offer received to date that the Directors believe is capable of being put to the Company's Shareholders.
- The Proposed Transaction has a number of benefits for the Company, including:
 - Opportunity to significantly reduce the operating losses currently being generated by the Company;
 - Enhances the potential realisation returns from the remaining assets of the Company;
 - Transfers a number of liabilities, potential contingent liabilities and obligations of the Company across to Tilbal; and
 - Provides a pathway for an eventual capital return to Shareholders, after an orderly realisation of the remaining assets.

5.2 Fairness

5.2.1 Summary

Our approach to assessing the fairness of the Proposed Transaction has been determined having regard to paragraph 57 of RG 111 which states that a proposed related party transaction is 'fair' if the value of the financial benefit to be provided by the entity to the related party is equal to or less than the value of the consideration being provided to the entity and that this comparison should be made assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length. In valuing the financial benefit given and the consideration received by the entity, all material terms of the proposed transaction should be taken into account.

The monetary consideration of \$1.00 offered by Tilbal to the Company under the Proposed Transaction is on the face of it negligible. Additionally, the impact on the face of the Company's balance sheet is also not significant. After having regard to a number of factors including the quantum of assets, liabilities and obligations transferred from Berklee to Tilbal as well as the prospect of significantly reducing the ongoing operating losses currently being experienced by the Company, in Wilson Hanna's opinion, the Proposed Transaction is 'fair' and therefore 'reasonable'.

5.2.2 Approach

Typically, the most reliable evidence as to the value of a business or asset is the price at which comparable businesses or assets have been bought or sold in arms length transactions. In the absence of direct market evidence of value, estimates of value are made using methodologies that infer value from other available evidence. There are four primary valuation methodologies that are commonly used for valuing businesses or assets:

- capitalisation of earnings or cash flows;
- discounting of projected cash flows;
- industry rules of thumb; and
- estimation of the aggregate proceeds from an orderly realisation of assets

Each of these valuation methodologies is appropriate in different circumstances. The primary criteria for determining which methodology is appropriate, is the actual practice adopted by purchasers of the type of business or asset involved.

In view of the Company's loss making operating results and prospects, we consider it to be inappropriate to adopt a capitalisation of earnings or cash flows valuation approach, nor a discounted cash flow approach. Further, given the nature of the Proposed Transaction, there are no industry rules of thumb that are considered appropriate in the circumstances. Accordingly, we have adopted an orderly realisation of assets approach.

In adopting the orderly realisation of assets approach, Wilson Hanna has also had regard to certain contingent liabilities, as specified in the Agreement, which will be transferred to Tilbal under the Proposed Transaction. Wilson Hanna considers that these contingent liabilities need to be taken into consideration when assessing the fairness of the Proposed Transaction because these obligations are being transferred to Tilbal. Further, in the event that the Proposed Transaction is not approved by the Non-Related Party Shareholders, and a superior offer is not forthcoming, it is the current Directors intention to explore alternate options including the potential winding up of the Company due to its poor operating performance and outlook. This in turn would result in these contingent liabilities becoming actual liabilities.

As at 31 December 2012, the Directors of the Company considered the carrying values of its assets, including the assets of the Proposed Transaction, and after having regard to third party valuations impaired these assets to reflect their fair values.

5.2.3 Value of the Consideration under the Proposed Transaction

The monetary consideration offered by Tilbal to the Company under the Proposed Transaction for the Sale Assets, as set out in the Agreement, is \$1.00. A summary of the Sale Assets is set out below:

Sale Assets	Notes	December 2012 \$'000
Manufacturing Assets	1	330
Office Furniture & Equipment	1	3
Intellectual Property	2	0
Goodwill of the Business	2	0
Tooling	1	37
Advertising Material	2	0
TOTAL SALE ASSETS		370

Source: Financial Statements for 6 months ended 31 December 2012

Notes:

1. The assets in the financial statements as at 31 December 2012 were written down by the Directors of the Company to reflect their fair values, after having regard to third party valuations. As part of our analysis, we reviewed these third party valuations and the basis on which they were prepared.

In the event that the Proposed Transaction is not approved by the Non-Related Party Shareholders, and a superior offer is not forthcoming, it is the current Directors intention to explore alternative options including the potential winding up of the Company. Accordingly, we consider the value, and the basis on which it was prepared, to be appropriate in the circumstances.

The Company has been depreciating these assets by approximately \$28K each month since 31 December 2012.

2. The financial statements for the 6 months ended 31 December 2012 contained a nil value for these asset classes.

In addition to the above, the Agreement sets out a number of liabilities and obligations to be transferred by Berklee to Tilbal as part of the Proposed Transaction. These liabilities and obligations include a mix of readily quantifiable liabilities as well as a number of potential contingent liabilities and obligations that require assumptions and a degree of judgement in order to estimate the potential liabilities. Set out in the table below is a summary of the liabilities and contingencies:

Liabilities & Contingencies	Notes	Low \$'000	High \$'000
Liabilities			
Annual Leave	1	16	16
Long Service Leave	2	115	115
Make Good Keilor (Undacar Vic)	3	25	40
Contingencies			
Employee Redundancies	4	283	283
Make Good Wendouree	5	100	125
Material Contract Termination	6	350	600
TOTAL LIABILITIES & CONTINGENCIES		889	1,179

Source: Berklee

Notes:

1. This represents the accrued annual leave liability for all employees, other than Excluded Employees, as at 31 December 2012;
2. This represents the accrued long service leave liability for all employees, other than Excluded Employees, as at 31 December 2012;
3. This represents the estimate of the likely make good that will be incurred upon vacating the Keilor premises. As at 31 December 2012, a provision of \$25K had been recognised in the financial statements;

Wilson Hanna considers that the following contingent liabilities need to be taken into consideration when assessing the fairness of the Proposed Transaction because these obligations are being specifically transferred to Tilbal. Further, if the Proposed Transaction is not approved by the Non-Related Party Shareholders, and a superior offer is not forthcoming, it is the current Directors intention to explore alternate options including the potential winding up of the Company due to its poor operating performance and outlook. This in turn would result in these contingent liabilities becoming actual liabilities and as such the following liabilities have been considered when assessing the fairness of the Proposed Transaction.

4. This represents the estimated redundancy liability for all employees, other than Excluded Employees, as at 31 December 2012;
5. This represents the Directors estimate of the likely make good costs that will be incurred upon vacating the Wendouree premises; and
6. The Directors have based their estimate of the potential contract termination payments on analysis conducted by an external party together with management's commercial experience. Under the terms of the Company's material contracts, the Company may be able to reduce and/or transfer various financial obligations to other parties. The above range reflects the Company's ability, or otherwise, to do so. As part of our analysis, Wilson Hanna has reviewed the Directors' estimate of its potential liabilities.

On the face of it, Berklee is transferring a net liability position in the order of \$519K - \$809K to Tilbal in exchange for \$1.00.

	Low \$'000	High \$'000
Total Sale Assets	370	370
Less: Total Liabilities & Contingencies	889	1,179
Net benefit to Berklee shareholders	519	809

Source: Berklee

Additionally, the following factors have been taken into consideration before arriving at any conclusions:

Rental Arrangement – The Proposed Transaction involves Tilbal paying a peppercorn rental of \$1.00 per annum for the use of the factory at Wendouree until the property is sold, at which time the rent increases to \$200K for one year. In exchange, Tilbal will be responsible for the insurance, outgoings and maintenance associated with the property, which is estimated to be in the vicinity of \$95K to \$100K per annum, up until its sale to a third party.

Given the location and nature of the property and the Company's intention to sell it, management believe the Company is unlikely to attract an external party as a tenant in the lead up to any sale due to the likely costs and uncertainties involved with any such interim arrangement by a potential tenant.

Whilst it is recognised that Tilbal potentially receives a benefit from the peppercorn rental arrangement under the Proposed Transaction, for an unquantifiable period of time, this must be weighed up against Tilbal assuming the obligations to pay the property outgoings, and maintenance costs, until the property is sold.

Additionally, Wilson Hanna considers that the increased rental, following the sale of the property, together with the make good obligations being transferred to Tilbal, approximates a market rental.

Accordingly, Wilson Hanna considers that the proposed rental arrangement does not affect the fairness of the Proposed Transaction.

- Inventory Holdings – In recent years, the Company has endeavoured to sell all slow moving inventory holdings with varying degrees of success. As at 31 December 2012, the Directors increased the provision against the value of inventory to \$600K, resulting in the inventory balance being reduced to \$1.259 million.

As part of the Proposed Transaction, Tilbal holds the stock on a consignment basis and has agreed to pay the Company 70% of the historical cost of the inventory upon its sale or use in the manufacturing process.

In the event that Tilbal was able to use or sell all of the inventory holdings, the Company should receive proceeds that approximate the current book value of inventory (ie. $(\$1.259\text{M} + \$0.600\text{M}) = \$1.859\text{M}$ (being historical cost) $\times 70\% = \$1.3\text{M}$).

In the event that the Proposed Transaction is not successful, the Company considers that the fair value for inventory has been reflected in the balance sheet as at 31 December 2012.

Accordingly, Wilson Hanna considers that the inventory arrangement does not affect the fairness of the Proposed Transaction.

- Operating Losses – In the event that the Proposed Transaction is successful, management believe this should lead to a significant reduction in the operating losses being experienced by the Company. Currently, the Company is generating operating losses in the vicinity of \$100K each month. Whilst a number of ongoing costs are still likely to be incurred after Completion Date – for example, ASX Listing fees, audit and tax costs, and employee obligations in respect of the remaining employees of the Company – it follows that the Proposed Transaction should lead to a lower level of operating losses being incurred, thereby slowing the erosion in the net asset position of the Company.

The ongoing operating costs have been estimated by the Company to be in the vicinity of \$25K to \$30K per month.

- Goodwill and Intellectual Property – The Company commenced operations in 1966 and since this time has developed a range of tools, practices, knowledge and know-how; acquired a depth of experience in the industry and has established a number of brands. The value of this intellectual property has not been recognised as an asset on the balance sheet of the Company as at 31 December 2012. In considering the potential value of this intellectual property, Wilson Hanna has had regard to the likely benefits being derived along with the financial performance of the Company. Given the magnitude of the operating losses and the considerable time period over which they have been incurred, when coupled with the current performance of the Company and the outlook for the automotive parts & accessories market in Australia, it is difficult to arrive at any positive value for the underlying goodwill and intellectual property of the Company.

This is further supported by the fact that the Company's current market capitalisation of approximately \$3.5 million is significantly below the book value of net assets of \$7.7 million as at 31 December 2012.

After having regard to all of the above, the value of the financial benefit to be provided by the Company to Tilbal is less than the monetary consideration offered by Tilbal to the Company, and therefore the Proposed Transaction is in Wilson Hanna's opinion considered to be 'fair'.

5.3 Reasonableness

We note that pursuant to RG 111, the Proposed Transaction is reasonable if it is fair. However, in assessing the Proposed Transaction, we have also considered a number of factors including:

- The Opportunity Cost;
- Alternatives;
- Berklee's Bargaining Position;
- Other Advantages and Benefits;
- Disadvantages and Risks; and
- Other Matters.

Each of these factors is now considered in more detail below.

5.3.1 Opportunity Cost

In considering the opportunity cost to the Company of the Proposed Transaction, we have had regard to a number of factors including:

- In recent years, the Company has examined a broad range of scenarios including:
 - the winding up of the Company and returning capital to Shareholders;
 - merging with, or selling to, a competitor with a view to assisting in the rationalisation of the industry; and
 - significantly rationalising the Company.
- Consistent with the above, the Company has explored a number of potential options over the past few years to realise value for its Shareholders and has engaged in discussions with a number of industry participants. Despite these efforts, it is the Directors view that no firm offers have eventuated that could be put to Berklee Shareholders, other than the Proposed Transaction with Tilbal.
- Management has endeavoured to turn the Company around and has made some progress in terms of restructuring the business and streamlining its working capital levels. However, the Company has still been unable to achieve the necessary sales volume to deliver a cash neutral outcome. Consequently, the Company's value continues to decline month on month, notwithstanding it currently remains solvent, due to its positive asset base.
- The recent, current and projected trading performance of the Company, coupled with its lack of scale, relatively low market capitalisation and lack of liquidity in its Shares, has led the Board to consider whether the costs of public ownership outweigh the benefits.
- In the financial statements for the 6 months ended 31 December 2012, the Auditor's Review Report contained an Emphasis of Matter, as follows:
 - *"Without qualifying our conclusion expressed above, we draw attention to Note 1(b) in the half-year financial report which indicates that the consolidated entity reported an operating loss after tax of \$1,862k for the six month period to 31 December 2012 (prior half year - loss of \$933k) and cash outflows from operations of \$668k (prior half year - loss of \$847k). The consolidated entity has a surplus of current assets over current liabilities of \$2,972k (year ended 30 June 2012 - \$3,900k) and a positive net asset position of \$7,667k (year ended 30 June 2012 - \$9,529k). The directors are currently in negotiations for the sale of various parts of the business. Depending on the outcome of these negotiations, the directors will consider other options such as the orderly sale of the consolidated entity's assets. Whilst the consolidated entity currently has positive working capital and equity, these conditions, along with other matters as set forth in Note 1(b), indicate the existence of a material uncertainty which may cast significant doubt about the*

consolidated entity's ability to continue as a going concern and, therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business."

- In Note 1(b) of the financial statements for the 6 months ended 31 December 2012, the Directors state *"in the event that the Directors are unable to successfully negotiate the sale of the business, the Directors would consider the option of the orderly sale of assets of the Consolidated entity... In the event that the Consolidated entity is unsuccessful in either of these courses of action, there is material uncertainty whether the Consolidated entity could continue as a going concern. If the Consolidated entity is unable to continue as a going concern it may be required to realise its assets and discharge its liabilities other than in the normal course of business"*.
- In conclusion, the opportunity cost of the Company's Shareholders accepting the Proposed Transaction with Tilbal is that they would forgo the right to participate in any future value generated should the Company be successful in turning around its trading performance.

5.3.2 Alternatives

In weighing up the Proposed Transaction, the Non-Related Party Shareholders of the Company need to have regard to the alternatives realistically available to them.

Wilson Hanna considered a number of alternatives available to the Company, including:

- The Company retaining full ownership of the business and assets that form part of the Proposed Transaction, and continuing to trade as currently configured. This represents the current position and will be the outcome if the Proposed Transaction is not approved.

Under this scenario, it is the view of management that the Company is likely to continue experiencing operating losses thereby further eroding its net asset position. The Directors also commented in Note 1(b) of the financial statement for the 6 months ended 31 December 2012, that *"in the event that the Directors are unable to successfully negotiate the sale of the business, the Directors would consider the option of the orderly sale of assets of the Consolidated entity"*.

Further, as mentioned in 5.3.1 above, the Directors indicated that the status quo is not an option for the Company as they are of the view that *"there is material uncertainty whether the Consolidated entity could continue as a going concern. If the Consolidated entity is unable to continue as a going concern it may be required to realise its assets and discharge its liabilities other than in the normal course of business"*.

- The Company undertaking its own orderly realisation of assets. This scenario presents potential challenges where the Company plans to cease trading, especially in regard to the collection of debtors and orderly realisation of inventory, along with the contingent liabilities that are likely to be triggered (including make good provisions, potential contract damages and warranty related issues).

This alternative has some similarities with the Proposed Transaction, however the Company is likely to be exposed to operating losses for a longer timeframe if it continues to trade. In addition, where the Company ceases trading, the collection of debtors and inventories may be more difficult and a number of potential material contract contingent liabilities may be triggered.

- The Company waiting for alternative offers. We understand that the Berklee Board has considered a number of proposals for the Company since 2012, and also called for expressions of interest in an ASX Announcement on 1 February 2012. Further, we understand that the Proposed Transaction is the only formal offer received to date that the Directors believe is capable of being put to the Company's shareholders. This scenario needs to be weighed up against the current operating losses being experienced

by the Company and the outlook for the industry.

In Wilson Hanna's opinion, these alternatives are either unlikely to result in a superior outcome or lack certainty when compared with the terms and conditions of the Proposed Transaction.

5.3.3 Berklee's Bargaining Position

The Proposed Transaction was negotiated on an arm's length basis. Wilson Hanna believes that Berklee and Tilbal had an equal bargaining position in negotiating the Proposed Transaction:

- Berklee established an independent Board committee consisting of Mr Alan Beckett and Mr Grantly Anderson to consider the Proposed Transaction. Berklee's other directors, Mr Rick van Berkel and Mr Brett Jones³ did not participate in the negotiation of the Proposed Transaction, as they were not considered to be independent;
- The cash component of the consideration offered under the Proposed Transaction, whilst immaterial, exceeds the value of the assets, liabilities and obligations to be transferred to Tilbal, as set out in section 5.2.2; and
- Notwithstanding the monthly operating losses being experienced by the Company, Berklee was free to negotiate with Tilbal by virtue of its existing cash reserves and property assets owned by the Company.

5.3.4 Other Advantages and Benefits

The Proposed Transaction has other benefits for the Company and its Shareholders, including:

- The opportunity to significantly reduce the operating losses being generated by the Company. The Company has been experiencing losses in the order of approximately \$100,000 per month. Should the Proposed Transaction be successful, it is management's view that this should lead to a significant reduction in these operating losses. Having said this, certain costs would still continue to be incurred, including (but not limited to) ASX Listing fees, audit, tax and employee expenses associated with remaining employees and directors;
- Potential to enhance the likely realisation returns from the assets remaining with the Company. Should the Proposed Transaction be successful, the business operations transferred to Tilbal are likely to continue as a going concern and as such is likely to lead to higher realisations by the Company in respect of the collectability of debtors and inventory as well as a likely reduction in potential contingent liabilities (including make good provisions, contract damages and potential warranty related issues) as these obligations will be transferred and assumed by Tilbal;
- The Proposed Transaction affords further protection to the Company as Mr Rick van Berkel is required, as a Conditions Precedent, to execute a Guarantee and Indemnity thereby reducing potential ongoing exposures back to the Company for liabilities and obligations transferred across to Tilbal;
- The lease arrangement with Tilbal in respect of the Wendouree property, may enhance the saleability of the property to certain buyers given that the property comes with a ready tenant, albeit at a below market rent; and
- The cessation of the trading business should lead to a more orderly realisation of assets, thereby enabling a capital return to Shareholders in due course.

³ Mr Brett Jones was not a member of the independent Board committee as he had lodged his own separate competing proposal to acquire parts of the Company. It is worth noting that Mr Brett Jones is not a party to the Proposed Transaction, and has been nominated as one of the Excluded Employees by Tilbal.

5.3.5 Disadvantages and Risks

There are a number of disadvantages associated with the Proposed Transaction, including:

- It does not provide the Company Shareholders with a clean exit, as the Company is still required to conduct an orderly realisation of the remaining assets, which may take some time;
- The Company retains the risk on inventory until it is used or sold. Furthermore, the Directors have advised that any inventory that is still outstanding after 12 months will be reviewed with a view to disposing of it.
- The Proposed Transaction provides for the transfer of certain liabilities and contractual obligations. This may necessitate the consent or approval being obtained from third parties, which may or may not be forthcoming;
- The peppercorn rent in respect of the Wendouree property could remain at \$1.00 for an extended period of time, should the property prove slow to sell; and
- The lease arrangement with Tilbal in respect of the Wendouree property, at a below market rental, may detract from the saleability of the property to certain buyers should those buyers be seeking immediate occupancy.

5.3.6 Other Factors

The Company has estimated that the transaction costs associated with the Proposed Transaction will be approximately \$0.1 million, the vast majority of which will have been incurred prior to the time that the Company's Non-Related Party Shareholders vote on the Proposed Transaction. These costs are one off in nature and not material in the overall context, representing approximately 2.8% of the Company's current market capitalisation. While the transaction costs are significant in the context of the consideration being offered under the Proposed Transaction, this is not unusual given the relatively small value of the Proposed Transaction.

If the Proposed Transaction is not approved by the Non-Related Party Shareholders, and a superior offer is not forthcoming, it is the current Directors' intention to explore alternative options including the potential 'winding up' of the Company. This view is based on the Company's current operating performance and outlook for the industry.

After having regard to all of the above, the Proposed Transaction is in Wilson Hanna's opinion considered to be 'reasonable'.

5.4 Shareholder Decision

The decision whether to vote for or against the Proposed Transaction is a matter for individual shareholders based on each shareholder's view as to value, their expectations about future market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. In particular, taxation consequences may vary from shareholder to shareholder. If in any doubt as to the action they should take in relation to the Proposed Transaction, shareholders should consult their own professional adviser.

Similarly, it is a matter for individual shareholders as to whether to buy, hold or sell securities in the Company. This is an investment decision independent of a decision on whether to vote for or against the Proposed Transaction upon which Wilson Hanna does not offer an opinion. Shareholders should consult their own professional adviser in this regard.

6 Sources of Information, Qualifications and Declarations

6.1 Sources of Information

In preparing this report, Wilson Hanna has relied upon, without independent verification, various sources of information, including:

- the Explanatory Memorandum and notice of meeting;
- Audited Financial Statements for the five years ended 30 June 2012 and the 6 months ended 31 December 2012;
- Independent valuations of property, plant and equipment;
- ASX announcements;
- IBISWorld Industry Report C2819 “Automotive Parts and Accessories Manufacturing in Australia”;
- Computershare Registry and share price information;
- Australian Bureau of Statistics, www.abs.gov.au;
- Federal Chamber of Automotive Industries, www.fc.ai.com.au;
- Federation of Automotive Products Manufacturers, www.fapm.com.au;
- Discussions with management and site visits;
- Berklee website;
- Correspondence in relation to potential alternative monetisation options;
- Unaudited management accounts for Berklee for YTD FY13;
- a budget for Berklee for the year ending 30 June 2013 prepared by Berklee management;
- material contracts;
- other confidential documents, board papers, minutes, strategy papers, presentations and working papers; and
- other publicly available information.

Wilson Hanna has also held discussions with, and obtained information from, the Company’s senior management, directors and consultants.

6.2 Qualifications

Wilson Hanna Pty Ltd holds Australian Financial Services Licence number 426848 under the Corporations Act, 2001.

The persons responsible for preparing this report on behalf of Wilson Hanna are John Patton BEc ACA F Fin and Martin Toll B Bus ACA. Each has a significant number of years of experience in relevant corporate advisory matters. Each of the above persons is a representative of Wilson Hanna pursuant to its Australian Financial Services Licence under Part 7.6 of the Corporations Act.

6.3 Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than as an expression of Wilson Hanna’s opinion as to whether the Proposed Transaction is fair and reasonable. Wilson Hanna expressly disclaims any liability to any Berklee Shareholder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

Wilson Hanna has prepared this report with care and diligence and the statements and opinions given by Wilson Hanna in this report are given in good faith and in the belief on reasonable grounds that such statements and opinions are correct and not misleading. Neither Wilson Hanna, nor any of its officers or employees, accepts any responsibility for errors or omissions however arising in the preparation of this report, provided that this shall not absolve Wilson Hanna from liability arising from an opinion expressed recklessly or in bad faith.

Wilson Hanna has had no involvement in the preparation of the Explanatory Memorandum issued by the Company and has not verified or approved any of the contents of the Explanatory Memorandum. Wilson Hanna does not accept any responsibility for the contents of the Explanatory Memorandum (except for this report).

6.4 Independence

Prior to accepting this engagement, Wilson Hanna considered its independence with respect to the Proposed Transaction with reference to the ASIC Regulatory Guide 112 *Independence of Expert's Reports* ("RG 112").

Wilson Hanna does not have at the date of this report, and has not had within the previous two years, any business or professional relationship with the Company or Tilbal or any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide and unbiased opinion in relation to the Proposed Transaction.

Wilson Hanna advises that no Wilson Hanna executives hold any shares in Berklee or Tilbal.

Wilson Hanna commenced analysis of the Company in October 2012, following receipt of the initial indicative takeover offer by interests associated with Mr Rick van Berkel. The Proposed Transaction is materially different from the initial offer. At no stage has Wilson Hanna participated in setting the terms of, or negotiations leading to, the Proposed Transaction.

Wilson Hanna had no part in the formulation of the Proposed Transaction. It's only role has been the preparation of this report.

Wilson Hanna will receive an estimated fee of \$47,500 for the preparation of this report. This fee is not contingent on the outcome of the Proposed Transaction. Wilson Hanna's out of pocket expenses in relation to the preparation of this report will also be reimbursed. Wilson Hanna will receive no other benefit for the preparation of this report.

6.5 Limitations and Reliance on Information

This report and opinion is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.

Wilson Hanna has prepared this report on the basis of financial and other information provided by the Company and publicly available information. Wilson Hanna has considered and relied upon this information. Wilson Hanna has no reason to believe that any information supplied by the Company was false or that any material information has been withheld. Wilson Hanna has evaluated the information provided by the Company and other experts through inquiry, analysis and review, and nothing has come to our attention to indicate the information provided was materially misstated or would not afford reasonable grounds upon which to base our report. Nothing in this report should be taken to imply that Wilson Hanna has audited any information supplied to us, or has in any way carried out an audit on the books of accounts or other records of the Company.

This report has been prepared to assist the independent directors of the Company in advising the Non-Related Party Shareholders in relation to the Proposed Transaction. This report should not be used for any other purpose. In particular, it is not intended that this report should be used for any purpose other than as an expression of Wilson Hanna's opinion as to whether the Proposed

Transaction is fair and reasonable to the Non-Related Party Shareholders.

The Company has agreed that it will indemnify Wilson Hanna and any director, officer, employee, consultant or adviser of Wilson Hanna, who may be involved in or in any way associated with the performance of services contemplated by our engagement letter, against any and all losses, claims, damages and liabilities arising out of or related to the performance of those services, except gross negligence and wilful misconduct, and which arise from reliance on information provided by the Company, which the Company knew or should have known to be false and/or reliance on information, which was material information the Company had in its possession and which the Company knew or should have known to be material and which the Company did not provide to Wilson Hanna. The Company will reimburse any indemnified party for all expenses (including without limitation, legal expenses) on a full indemnity basis as they are incurred.

6.6 Consents

Wilson Hanna consents to the issuing of this report in the form and context in which it is to be included in the Explanatory Memorandum to be sent to Shareholders of the Company. Neither the whole nor any part of this report nor any reference thereto may be included in any other document, resolution, letter or statement without the prior written consent of Wilson Hanna as to the form and context in which it appears.

6.7 Other

The accompanying letter dated 17 May 2013 and the Appendices form part of this report.

Wilson Hanna has prepared a Financial Services Guide as required by the Corporations Act, 2001. The Financial Services Guide is set out at the beginning of this report.

WILSON HANNA PTY LTD
17 May 2013

7 Appendix B – Glossary

\$	Australian Dollars
ACIS	Automotive Competitiveness and Investment Scheme
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
ATS	Automotive Transformation Scheme
Berklee	Berklee Limited
Berklee Shareholders	Shareholders of Berklee
Company	Berklee Limited
FAPM	Federation of Automotive Products Manufacturers
FSG	Financial Services Guide
FY	Financial Year
Non-Related Shareholders	The shareholders of Berklee not related to Mr Rick van Berkel pursuant to Section 228 of the Corporations Act
OEM	Original Equipment Manufacturer
PEP	Pacific Equity Partners
Peppercorn	A peppercorn in legal parlance is a metaphor for a very small payment, a nominal consideration, used to satisfy the requirements for the creation of a legal contract. ⁴
RG 76	ASIC Regulatory Guide 76 “Related party transactions”
RG 111	ASIC Regulatory Guide 111 “Content of expert reports”
RG 112	ASIC Regulatory Guide 112 “Independence of experts”
Spotless	Spotless Group Limited
Tilbal	Tilbal Pty Ltd and other associated individuals and entities that are existing shareholders of Berklee
VWAP	Volume Weighted Average Price
Wilson Hanna	Wilson Hanna Pty Ltd
YTD	Year to date

⁴ Wikipedia definition