ASX RELEASE
TUESDAY, 9 AUGUST 2005

BIRON
CAPITAL LIMITED

52 Ord Street
West Perth
WA 6005
ABN 58 009 087 469

NOTICE OF GENERAL MEETING & EXPLANATORY MEMORANDUM

Tuesday 9 August 2005: Biron Capital Ltd (ASX: BIC, "the Company" or "Biron") Please find attached the Notice Of General Meeting & Explanatory Memorandum to be held at 48 Ord Street, West Perth, Western Australia on 8 September 2005 at 9.30am WST.

- ENDS -

FOR FURTHER INFORMATION PLEASE CONTACT:

John Corr
Executive Chairman
Biron Capital Limited
Tel: +61 (0) 418 642 535

BIRON CAPITAL LIMITED
ABN 58 009 087 469

NOTICE OF MEETING

AND

EXPLANATORY MEMORANDUM

IMPORTANT INFORMATION
This is an important document that should be read in its entirety.
If you do not understand it you should consult your professional advisers without delay.

If you wish to discuss any aspect of this document with the Company please contact the Company Secretary, Mr Gabriel Chiappini on telephone(08) 9486 1644

Legal Adviser to the Company
JEREMY SHERVINGTON
Barrister & Solicitor
52 Ord Street
West Perth WA 6005
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TABLE OF CONTENTS

			Page
A	CHAIRMAN'S LETTER		
B	NOTICE OF MEETING		1
C	EXPLANATORY MEMORANDUM		7
	1.	INTRODUCTION	7
	2.	RESOLUTION 1	9
	2.1	Background – The Company	9
	2.2	Background – Industry Overview	9
	2.3	Background – Ed Harry	14
	2.4	Background – Physico	19
	2.5	Financial Information	24
	2.5.1	Funding	24
	2.5.2	Pro Forma Financial Position	25
	2.5.2.1	Pro Forma Consolidated Statement of Financial Position	25
	2.5.2.2	Financial Performance	28
	2.5.2.3	Capital Structure	30
	2.6	Background – The Acquisition of Ed Harry & Physico	31
	2.6.1	Ed Harry	31
	2.6.2	Physico	33
	2.7	Proposed Directors/Executives	34
	2.8	Risks	36
	2.9	Regulatory Requirements	41
	3.	SPECIAL RESOLUTION 2	58
	4.	SPECIAL RESOLUTION 3	59
	5.	SPECIAL RESOLUTION 4	60
	6.	SPECIAL RESOLUTION 5	61
	7.	RESOLUTIONS 6, 7 & 8	61
	7.1	Background	61
	7.2	Key Details of the Options to be granted	62
	7.3	Chapter 2E of the Corporations Act	62
	7.4	Listing Rule Disclosures	64
	7.5	Terms and Conditions of 60 cent Options	65
	7.6	Valuation of 60 cent Options	66
	8.	RESOLUTIONS 9 & 10	67
	9.	DEFINITIONS	67
	10.	PROXY FORM	81
D	INDEPENDENT EXPERT'S REPORT		

CHAIRMAN'S LETTER

4 August 2005

Dear Shareholder,

Enclosed is a Notice of Meeting and Explanatory Memorandum outlining proposal for a significant change to the affairs of Biron.

The Meeting to approve the transaction will be held on Thursday, 8 September 2005 at 9.30am.

Biron is poised to enter an exciting new phase in its existence with the proposed entry into the apparel industry. Subject to Shareholder approval at the Meeting and the satisfaction of various conditions Biron will enter both the wholesale and retail sectors of the market with its concurrent acquisitions of the Ed Harry men's retail group and the Physico women's wholesale group.

Funding for the acquisitions includes a combination of bank debt and equity funds approval for the raising of which is sought at the Meeting.

Ed Harry was established in 1986 and is now Australia's largest independently owned specialty retailer of men's apparel. It has more than 170 stores located in every mainland State and Territory of Australia, including all major Australian capital cities.

Physico was founded in 1993 and it has since grown to become a significant Australian clothing company specialising in the sourcing and supply of ladies apparel and sleepwear to the major department and specialty chains in Australia and New Zealand. Physico has operations in China which export men's, ladies and children's apparel to volume retailers in Europe, Canada, Russia and South Africa.

The acquisitions of Ed Harry and Physico will create a vertically integrated apparel group, with a strong presence in the Australian market. The Directors expect significant synergies to result from the creation of a vertically integrated business model. Most of the expected benefits are likely to stem from improved gross profits from the leveraging of Physico's wholesaling capabilities across the combined group and from a reduction in corporate overheads.

The Directors of Biron believe the future growth prospects for the Company are strong. Both Ed Harry and Physico have identifiable organic growth opportunities; Ed Harry has the opportunity for continued retail store rollout while Physico has the potential to further expand its offshore wholesaling activities and expand its womenswear supply chain expertise into menswear. In addition to expected strong organic growth, the Directors will also consider growth by acquisition, if the Board views those acquisitions as positive for shareholder value, however there are no additional acquisitions contemplated at this stage.

The Board and senior management team of Biron will include individuals with comprehensive experience in the retail and wholesale textile markets. Importantly, the founders of both Ed Harry and Physico will remain active in the merged business and will become significant equity stakeholders in Biron, ensuring their future commitment to the growth of the Company.

The Board recommends that you read the enclosed material thoroughly.

Please note in particular the Report by the independent expert which sets out the advantages and disadvantages of the proposed Transaction. The independent expert concludes that "the Proposal is "fair and reasonable" to Non Associated Shareholders".

On behalf of the Board, I encourage you to attend the Meeting and support the Resolutions in respect of the Transaction or, if you are unable to attend, to complete and lodge a proxy form.

Yours sincerely,

John Corr
Executive Chairman

NOTICE OF MEETING

BIRON CAPITAL LIMITED
ABN 58 009 087 469

Notice is hereby given that a general meeting of members of the Company will be held at 9.30 am on Thursday, 8 September 2005 at 48 Ord Street, West Perth, Western Australia to consider and, if thought fit, to pass the following Resolutions:

1. Ordinary Resolution

"That subject to and conditional upon the due passage of Resolutions 2, 3 and 4 hereof, approval be and is hereby given to the acquisition by the Company of Ed Harry and Physico for the purposes described in the Explanatory Memorandum (including Listing Rules 7.1, 10.11 and 11.1 and Division 3 of Part 2E.1 and Section 611 item 7 of the Corporations Act) and for the consideration and on the terms and subject to the conditions contained and described in the Explanatory Memorandum and, in connection therewith and without limiting the generality of the foregoing:

(A) (a) to the allotment and issue by the Company of:

(i) Between 5,000,000 and 7,500,000 of the Capital Raising Shares at a price of 60 cents per Share in cash to the Physico Vendors Group;

(ii) The Balance Capital Raising Shares at a price of 60 cents per Share in cash to the Cash Subscribers; and

(iii) 6 million Shares to the Physico Vendors as part consideration for the acquisition of the Physico Group; and

(iv) 2 million Shares to Investec in part payment of the Transaction Fees; and

(v) 3,333,333 Shares to Suregroup as part consideration for the acquisition of Ed Harry; and

(vi) 3,333,333 Performance Shares to Supergroup as part consideration for the acquisition of Ed Harry; and

(vii) 8 million Performance Shares to the Physico Vendors as part consideration for the acquisition of the Physico Group; and

(viii) 3 million 72 cent Options to Investec in part payment of the Transaction Fees; and

(b) to the Company entering into the Property Lease; and

(c) to the Company entering into the Suregroup Consultancy Agreement; and

(d) to the Company entering into the Elterman Services Agreement; and

(e) to the Company entering into the Greenblo Services Agreement; and

(f) to the Company entering into the Rohald Services Agreement; and

(g) to the Company entering into the Enbee Documentation; and

(h) to the terms of the Alexandria Lease; and

(B) the acquisition of 8 million Shares by the Physico Vendors upon the occurrence of the Performance Shares Conversion for the purposes and on the terms and subject to the conditions contained in the Explanatory Memorandum.

(C) the significant change in the nature of the Company's activities as described in the Explanatory Memorandum."

2. Special Resolution

"That subject to and conditional upon the due passage of Resolutions 1, 3 and 4 hereof approval be and is hereby given for the purposes of Section 260B of the Corporations Act to the execution by the Company of the Enbee Documentation and the performance of the terms thereof."

3. Special Resolution

"That subject to and conditional upon the due passage of Resolutions 1, 2 and 4 hereof approval be and is hereby given for the purposes of Section 260B of the Corporations Act to the Company entering into the Senior Debt Documentation and the performance of the terms thereof."

4. Special Resolution

"That subject to and conditional upon the due passage of Resolutions 1, 2 and 3 hereof approval be and is hereby given for the purposes of Section 260B of the Corporations Act to the Company performing those aspects of the Physico Acquisition Agreement, the Cost Sharing Arrangements and the Alexandria Lease as involve the Company financially assisting any of the Physico Vendors to acquire Shares in the terms described in the Explanatory Memorandum."

5. Special Resolution

"That subject to and conditional upon the due passage of Resolutions 1, 2 , 3 and 4 hereof and from the time of Completion the name of the Company be changed from "Biron Capital Limited" to "Biron Apparel Limited"."

6. Ordinary Resolution

"That subject to the due passage of Resolutions 7 and 8 hereof approval be and is hereby given to the issue of 600,000 60 cent Options to Mr John Corr or his nominee for the purposes and on the terms and subject to the conditions contained in the Explanatory Memorandum."

7. Ordinary Resolution

"That subject to the due passage of Resolutions 6 and 8 hereof approval be and is hereby given to the issue of 200,000 60 cent Options to Mr Gavin Argyle or his nominee for the purposes and on the terms and subject to the conditions contained in the Explanatory Memorandum."

8. Ordinary Resolution

"That subject to the due passage of Resolutions 6 and 7 hereof approval be and is hereby given to the issue of 200,000 60 cent Options to Panga Pty Ltd for the purposes and on the terms and subject to the conditions contained in the Explanatory Memorandum."

9. Ordinary Resolution

"That Mr John Corr be and is hereby re-elected as a Director of the Company."

10. Ordinary Resolution

"That Mr Jeremy Shervington be and is hereby re-elected as a Director of the Company."

DATED this 4th day of August 2005.

BY ORDER OF THE BOARD

G Chiappini
Company Secretary

Notes:

Definitions

Terms which are used in this Notice and which are defined in Section 9 of the Explanatory Memorandum have the meanings ascribed to them therein.

Voting Entitlement

Biron (as convenor of the Meeting) has determined that a person's entitlement to vote at the Meeting will be the entitlement of that person set out in the register of members as at 7pm Sydney time on the 6th day of September 2005.

This means that any holder registered at 7pm Sydney time on the 6th day of September 2005 is entitled to attend and vote at the Meeting.

Proxies

A member entitled to attend this Meeting and vote is entitled to appoint a proxy to attend and vote for the member at the Meeting. A proxy need not be a member. If the member is entitled to cast 2 or more votes at the Meeting the member may appoint 2 proxies. If a member appoints 2 proxies and the appointment does not specify the proportion or number of the member's votes each proxy may exercise, each proxy may exercise half of the votes. A form of proxy is attached with this notice.

Voting Restrictions

1. In accordance with Rules 7.1, 7.3.8, 10.11, 10.13 and 14.11 of the Listing Rules and Section 224 and Section 611 of the Corporations Act the Company will disregard any votes cast on Resolution 1 by:

    - Suregroup;
    - Mr D Greenblo
    - Mr C Elterman
    - Mr N Brine
    - Mr S Rohald
    - The Lessor
    - The Physico Vendors
    - The Physico Vendors Group
    - Investec
    - The Underwriter
    - Enbee Holdings
    - The Cash Subscribers
    - A person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities in the Company if Resolution 1 is passed; and
    - Any associate of the abovementioned persons.

However this prohibition does not apply if:

- A vote is cast by a person as a proxy appointed by writing that specifies how the proxy is to vote on the proposed Resolution; or

- A vote is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides; and

- The vote is not cast on behalf of a related party or associate of a kind referred to in subsection 224(1) of the Corporations Act.

2. In accordance with Subsection 260B(1) of the Corporations Act no votes may be cast in favour of Resolution 2 by Suregroup or by any of its associates.
3. In accordance with Subsection 260B(1) of the Corporations Act no votes may be cast in favour of Resolution 4 by any of the Physico Vendors or by any of their associates.

4. In accordance with Rules 10.11., 10.13 and 14.11 of the Listing Rules and Section 224 of the Corporations Act the Company will disregard any votes cast on Resolution 6 by:

   - Mr J Corr; and

   - Any associate of Mr J Corr.

   However this prohibition does not apply if:

   - A vote is cast by a person as a proxy appointed by writing that specifies how the proxy is to vote on the proposed Resolution; or

   - A vote is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides; and

   - The vote is not cast on behalf of a related party or associate of a kind referred to in subsection 224(1) of the Corporations Act.

5. In accordance with Rules 10.11, 10.13 and 14.11 of the Listing Rules and Section 224 of the Corporations Act the Company will disregard any votes cast on Resolution 7 by:

   - Mr G Argyle; and

   - Any associate Mr G Argyle;

However this prohibition does not apply if:

- A vote is cast by a person as a proxy appointed by writing that specifies how the proxy is to vote on the proposed Resolution; or

- A vote is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides;

- The vote is not cast on behalf of a related party or associate of a kind referred to in subsection 224(1) of the Corporations Act.

6. In accordance with Rules 10.11, 10.13 and 14.11 of the Listing Rules and Section 224 of the Corporations Act the Company will disregard any votes cast on Resolution 8 by:

- Panga Pty Ltd;

- Mr J Shervington; and

- Any associate of Panga Pty Ltd or Mr J Shervington.

However this prohibition does not apply if:

- A vote is cast by a person as a proxy appointed by writing that specifies how the proxy is to vote on the proposed Resolution; or

- A vote is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides; and

- The vote is not cast on behalf of a related party or associate of a kind referred to in subsection 224(1) of the Corporations Act.

BIRON CAPITAL LIMITED
ABN 58 009 087 469

EXPLANATORY MEMORANDUM

This Explanatory Memorandum forms part of a Notice convening a Meeting of members of the Company to be held on the 8th day of September 2005. This Explanatory Memorandum is to assist Shareholders in understanding the background to and the legal and other implications of the Notice and the reasons for the Resolutions proposed. Certain terms used in this Explanatory Memorandum are defined in Section 9.

1. INTRODUCTION

On 7 March 2005, Biron announced its in principle agreements to acquire the Ed Harry mens' apparel retail business and the Physico Clothing Company Pty Ltd womens' apparel wholesale business.

If successful, these acquisitions will transform Biron into a vertically integrated apparel business with over 170 retail stores as well as an established wholesale infrastructure, including an office in China. Pro Forma 2005 revenues of the combined entity are in excess of $120 million.

By the accompanying Notice, a Meeting of Shareholders is convened for 8 September 2005 to approve the Transaction, including the acquisition of Ed Harry and Physico.

The Biron Board will be expanded to include Mr David Greenblo, the current managing director of Physico, and Mr Neil Brine, the current managing director of Ed Harry. It is expected that Mr Argyle will leave the Board at Completion. Mr Greenblo will assume the role of chief executive and Mr Brine will act as a consultant to Biron.

Key Investment Features

The Transaction includes the following key investment features:

Vertical Integration Merger

Ed Harry and Physico are highly complementary businesses. Physico has an under-utilised wholesaling and importing infrastructure, whilst Ed Harry does not currently import product directly, in contrast to many of its vertically integrated peers.

Experienced Board and Senior Management

The new Board of Biron will be well balanced and will include members with comprehensive experience in the apparel retail and wholesale industries. In addition, the Board will include members with a strong legal and finance background. Both the vendors of Ed Harry and Physico intend to remain actively involved in the business.

Established National Retail Brand

Ed Harry is a national retail brand, represented in all states and territories with the exception of Tasmania. With over 170 stores, Ed Harry is able to benefit from having reached critical mass while still having a strong store rollout profile.

Diversified Retail Brands

Ed Harry's retail brands are well diversified by lifestyle category (eg. classic daywear, fashion dresswear), customer demographic and price point.

Balance of Own Label and Third Party Labels

In addition to company owned brands, Ed Harry has a portfolio of retail brands, some of which are exclusive to Ed Harry or provided on an exclusive line basis.

High Level Incentives for Senior Management

Collectively, senior management of Biron will hold over 37% of the ordinary equity of the Company. In addition, senior management will also hold a significant component of Performance Shares in the Company. These equity interests are strong incentives for senior management to grow shareholder value.

Strong Organic Growth Opportunities

Biron will have strong organic growth prospects on both the retail and wholesale sides of the combined entity. Retail growth is likely to be driven by continued store rollout, particularly in NSW and QLD where Ed Harry is relatively under represented. The wholesale business has significant organic growth opportunity through increased export activity from China and through increased volumes resulting from becoming a part of a vertically integrated model.

Attractive Valuation Metrics, Relative to Peers

The Capital Raising is being priced at an historical price to earnings ratio of 6.7 times, based on pro forma 2005 EBIT and adjusted for the Directors' estimate of ongoing interest and tax expenses. This PE ratio is calculated on an undiluted basis and excludes any potential synergy benefits.

2. RESOLUTION 1

2.1 Background – The Company

The reviewed statement of financial position of the Company as at 31 December 2004 disclosed the Company's net assets at that time as amounting to $3,491,921 comprising cash and receivables of $3,565,141, property, plant and equipment of $17,656 and current liabilities of $90,876.

As at 30 April 2005 the unaudited management accounts prepared on behalf of the Board disclosed that the Company's net assets amounted to $3,264,016 at that time.

Since their appointment the Current Directors have been sourcing and examining business opportunities for the Company suitable for a transaction that would see the Company emerge from its current position through acquiring a significant business enterprise with strong current earnings and with growth prospects.

2.2 Background – Industry Overview

Biron Capital, through its acquisition of Ed Harry and Physico, will become a vertically integrated apparel group, focused on the Australian market. A majority of the Company's revenues will be derived from two industries: Apparel retailing and Apparel wholesaling. The apparel wholesaling industry primarily performs a procurement and distribution service to the apparel retailing industry. Some retailers have adopted a strategy of developing a wholesale division to supply their retail division, thereby organically creating a vertically integrated business model.

Ed Harry operates in the men's apparel segment of the Apparel retailing industry and Physico operates in the general apparel wholesale industry.

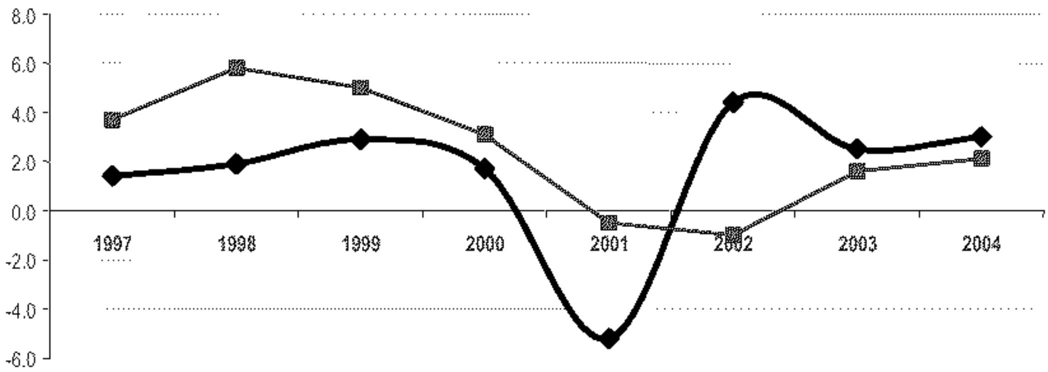
The apparel retail and apparel wholesale industries are closely linked. In particular, they share some key demand drivers, including the following:

- Real household disposable income - Increases in income lead to greater expenditure on consumer products;
- The price of clothing relative to other goods - As the price of clothing falls in relation to other products (due to increased levels of cheap imports), consumers are willing to purchase larger volumes of clothing;
- Population size - Increases in population levels leads to greater demand for clothing and apparel;
- Fashion - Changes in fashion cycles lead to greater expenditure on clothing items. Swings in fashion cycles have become more common in recent years;
- Seasons - Consumers purchase different products for different seasons, which also stimulates demand and fashion cycles;

- Weather - People tend to purchase a wide variety of clothing to adapt to changes in weather; and

- Consumer confidence and attitudes - Different age groups spend various amounts on clothing to define them from friends and peers. This is most common in the younger age groups.

Retail and wholesale apparel industry growth rates (% pa)



Source: IBISworld

The apparel retailing and apparel wholesaling industries are discussed in more detail below:

Background

The Australian apparel retailing sector encompasses businesses involved in sourcing a variety of products (such as clothing, gloves, hosiery, etc) and selling these products directly to consumers, generally without developing or changing the products further. Most retailers in this industry undertake sales and administrative activities such as customer service; product merchandising; advertising; and inventory control.

Industry participants source their products in a number of ways. These include own manufacture, contract manufacture, or purchase through a wholesaler or brand owner.

Products can be sourced locally or from overseas, the latter being predominantly from Asia. Ed Harry has historically sourced most of its products from domestic wholesalers.

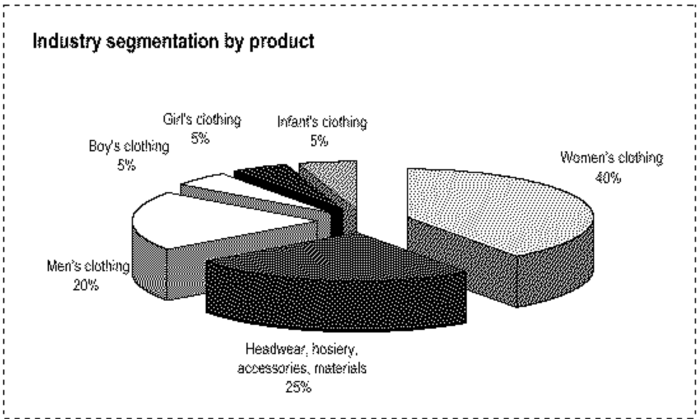
For imports, the level of clothing tariffs and exchange rates will affect the cost of the goods. Since 1990, import tariffs in Australia in relation to clothing have fallen from 55% to 17.5% as at 1 January 2005.This has reduced the landed cost products for many Australian retailers.

The majority of clothing imported from Asia is priced in United States dollars and consequently Australian imports are exposed to movements in the A$/US$ exchange rate. The appreciation of the Australian dollar in recent years has served to reduce the A$ and NZ$ cost of purchases which should have benefited importers of clothing.

Physico has historically reduced its exposure to currency movements by placing buying orders when selling orders have been received. This matching process ensures Physico does not carry material currency risk.

Industry Structure

The retail apparel markets in Australia are highly fragmented. In 2003-04, the three largest participants accounted for approximately 20% of industry revenue. The majority of the industry is accounted for by small independent stores. Men's apparel, the sub sector in which Biron Capital's retail operations will participate, accounts for 20% of the total retail sector, as shown in the Figure below.



The apparel retail sector comprises a wide range of retail formats including specialty retail apparel chains, full service department stores, discount department stores and single store operations. Store locations include major shopping centers, prime retail strips, country towns and resort villages. In Australia, specialty apparel stores are estimated to account for approximately 60% of women's and men's clothing sales. In recent years, the specialty apparel market has grown faster than department stores.

Apparel demand is influenced by general economic conditions (including GDP, interest rates and employment levels) and consumer sentiment.

This industry is in the mature stage of its life cycle. Competition is strong among participants, exacerbated by external competition from department stores. It is estimated that department stores account for approximately 35% to 40% of total retail sales in women's and men's clothing. Despite strong external competition, niche segments in this industry continue to achieve high gross profit margins.

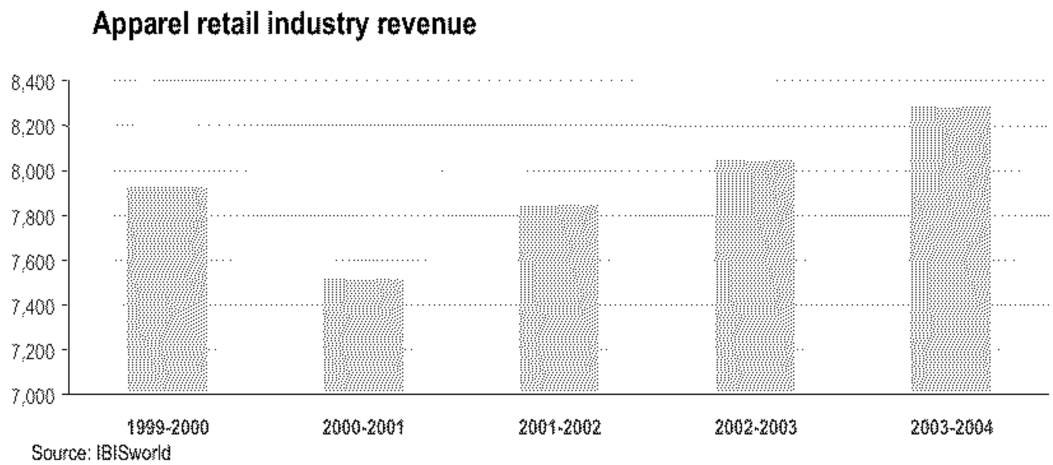
Chain stores currently have an advantage over independent stores in the form of greater buying power due to the benefit of scale. The trend towards greater vertical integration may again disadvantage the independent store operator, as chain stores will have greater control over their supply chain and be able to reduce costs through the elimination of the 'middleman'.

Industry Growth

An industry analysis of the Clothing Retailing Industry in Australia during 2003-04 (Source: IBISWorld) shows:

- industry revenue increased by 3.0% in 2003-04 to $8283 million;

- historic industry growth has been modest. Over the past five years, industry revenue has increased at an average rate of 1.2% per annum. Over the past three years, industry revenue has strengthened and the average rate of growth has been 3.3% per annum;



The demand for clothing is affected by a number of factors, including:

- Level and movement of real household disposable income
- Consumer confidence and attitudes
- Brand recognition
- Changes in fashion
- Price of clothing relative to other goods
- Seasonal/weather conditions

Apparel Wholesaling

Background

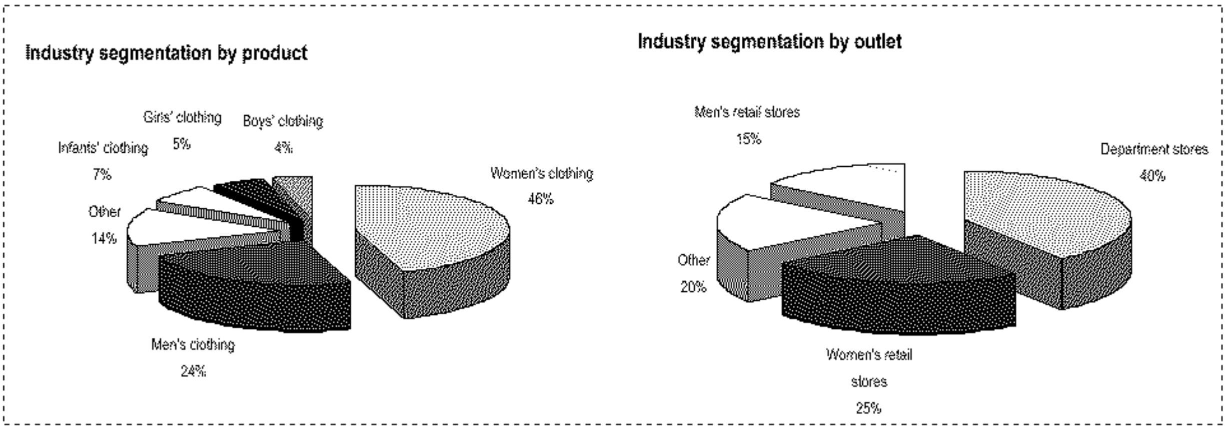
The apparel wholesaling industry consists of businesses mainly engaged in purchasing clothing and selling the garments to retailers (e.g. clothing retailers, department stores, etc), generally with minimum or no further development of the items. Most wholesalers in this industry undertake sales and administrative activities, such as establishing relationships with manufacturers and retailers to ensure the reliable supply and demand of stock, marketing and advertising their products, and storage and transportation of stock.

Industry Structure

Australian Bureau of Statistics (ABS) data as at June 2004 estimates that there were approximately 2,015 enterprises operating as clothing wholesalers in Australia. These businesses are primarily involved in the distribution of clothing products to retailers. The industry is characterised by a high level of integration in which many operators are also involved in the manufacturing and/or retailing of clothing products. There are also specialist wholesalers who act purely as the distributor from manufacturers to retailers. Some operators are also involved in the design of the product and will generally outsource the manufacturing process.

The apparel wholesaling industry is highly fragmented. IBISWorld estimates that no one participant has more than a 10% share of the market.

The Figures below show segmentation of the apparel wholesaling industry by product and by retail outlet. The major market for wholesalers is the retailers such as department stores, specialty men's, women's stores and children's stores. Other retail stores that may be part of this segment can be sports and surfwear retail stores. Men's clothing, the product sub market in which Ed Harry participates accounts for approximately 24% of total industry sales.



Margins within this industry tend to vary according to the type and quantity of merchandise. Basic non-fashion items such as T-shirts, skivvies and underwear attract smaller margins than imported merchandise and fashion items of clothing, due to risk associated with stocking particular or untested lines of fashion and the low number of stock turns associated with these types of goods. Generally there is an inverse relationship between margins and the number of stock turns. Price competition at all levels, but most particularly the retail level, and the substitutability of certain goods (i.e. jeans and slacks, T-shirts and blouses) have resulted in reduced margins at the wholesale level.

Profitability within this industry has been under pressure due to price competition in recent years.

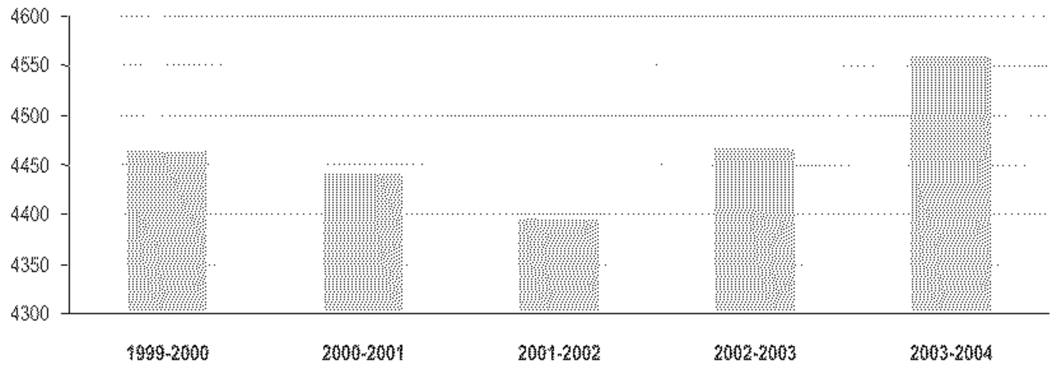
Industry Growth

Industry analysis of the Clothing Wholesaling Industry in Australia during 2003-04 (Source: IBISWorld) shows:

- the industry reported revenue of $4.56 billion. This represents an increase of 2.1% from the previous fiscal year;

- Industry growth has been modest, with total sales revenue increasing at a compound average growth rate of 4.2% for the 10 years to 30 June 2004.

Apparel wholesale industry revenue



Source: IBISworld

The apparel wholesale industry is a mature industry and this is reflected by the moderate historic sales growth rates experienced. Industry revenue is highly dependent upon demand in the clothing market, which is in turn dependent upon the overall level of economic activity. In addition to macroeconomic factors, growth rates have been curtailed by two key trends:

- Price competition within the industry, resulting from a large number of participants in a fragmented market; and
- The trend towards retailers by-passing wholesalers and establishing new channels for sourcing products from overseas suppliers.

These trends may increase consolidation activity in the apparel wholesaling sector, both between wholesalers and between wholesalers and retailers as part of vertical integration strategies.

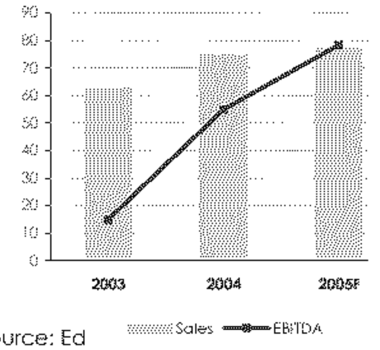
2.3 Background – Ed Harry

Overview

Ed Harry was established in 1986 with a small store in Victoria Square (Adelaide). Suregroup acquired a stake in the business in 1990, before taking full control in 1993. Since then the business has grown to a network of over 170 stores.

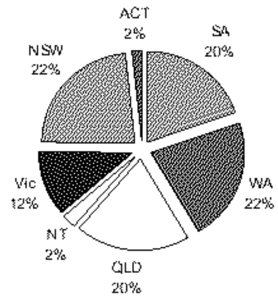
Ed Harry is now Australia's largest independently owned specialty retailer of men's apparel (by number of company owned stores). It currently has over 170 company owned stores across Australia, with plans to roll out an additional 130 stores in the next 6 years. The Figure below shows the track record of sales and EBITDA growth achieved by Ed Harry.

Ed Harry Unaudited Sales and EBITDA ($m)

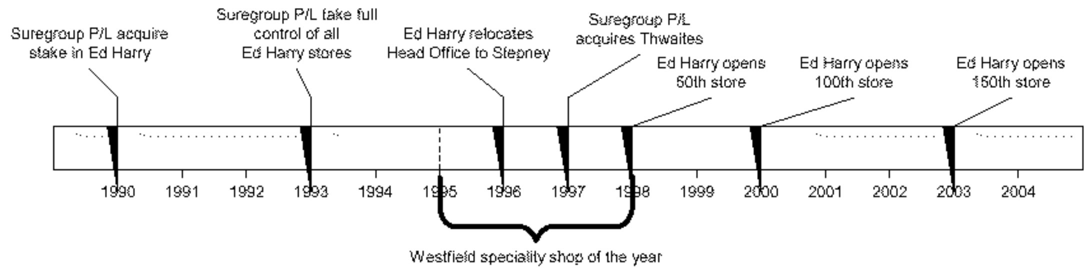


Source: Ed

Ed Harry Number of Stores by State



Ed Harry retails men's fashion apparel to a double generation target of males aged 25 years and 45 years with an underlying value for money proposition across four lifestyle categories.



Source: Ed Harry

Ed Harry offers customers a broad range of casual apparel including: suits, shirts, tops, pants, jeans, shorts, t-shirts, underwear and other accessories. Ed Harry sells own branded products, including: Contemporary, Jonathan Adams, Easy Street, Tribute, Mogul, Mancini, Eds, EdTek and Easy Surf. It also sells well known third party brands such as: Tarocash, Lee Cooper, Quarterback, Essential, Point Zero, Back Bay, Yarra Trail, Farah, Aussie Male, Bracks, Mod Culture, Blueprint and Angry Minds. Some of these third party brands are supplied exclusively to Ed Harry, or are supplied on an exclusive line basis.

Ed Harry's head office is in Adelaide, South Australia. The Ed Harry Business has approximately 660 employees approximately one third of which are full time, with the remainder being casual.

Business model

Ed Harry's business model is distinguished by a number of key attributes, including:

- An established national retail brand with a reputation for selling products with the highest possible quality to price ratio;
- Sells a range of products including company owned and third party brands within four lifestyle categories and across different price points;
- Has a portfolio of third party brands, some of which are exclusive to Ed Harry or are supplied on an exclusive line basis (i.e. products are developed specifically for Ed Harry);
- The ability to establish new stores in smaller catchment areas, and adopting a strategy of opening clusters of stores in particular regions, to achieve economies of scale;
- A distinctive store appearance with flexible layout that encourages multiple unit sales and focuses on female shoppers, which comprise 60% of Ed Harry's customers;
- An experienced management team and retail staff, who have been given the responsibility to make 'real' decisions reflecting a strong 'owner' mentality amongst staff;
- An efficient supply chain and head office structure; and
- Strong alliances with key suppliers, which enables ranges to be revisited and corrected in-season to meet product demand.

The retail sector and business community has continued to recognise the achievements of Ed Harry, with the following awards:

- Westfield Specialty Store of the Year 1995-1998;
- 4 consecutive years as one of the BRW fastest growing private companies 1996-1999;
- Ernst & Young Entrepreneur of the Year Finalist 2003; and
- Australia Day Council Business Award Certificate of Business Achievement in 2000.

Product Range and Brands

Ed Harry has established a strong position in the Australian men's apparel retail sector. Ed Harry's product range contains a mixture of own branded (approximately 70% sales) and third party brands (approximately 30% sales). Products are focused towards casual wear and to a lesser extent relaxed formal wear, covering both day and evening dressing.

Ed Harry's products have a 'commercial' fashion element and the highest possible quality to price ratio.

Whilst the early success of the Business was based on wide choice and best value, a new market focus, based on "best choice and best value", has been established.

This has allowed for better purchasing, presentation and a clear market position with the introduction of company owned branded merchandise, and the joint development of exclusive lines for some third party fashion labels.

Selected Ed Harry owned brands	Selected 3rd party brands
Jonathan Adams, Mogul, easy st., tribute	BALOUCCI, POINT ZERO, YARRA TRAIL, EMD eatmydirt.com.au

Ed Harry has successfully positioned its brands and products within four discreet lifestyle categories:

Classic Daywear	Fashion Daywear	Classic Dresswear	Fashion Dresswear
Yarra Trail (E)	Point Zero (E)	Mancini (O)	Tarocash (R)
Back Bay (R)	Easy Street (O)	Bracks (R)	Mod Culture (R)
WFTW (E)			Jonathon Adams (O)
	Mogul (O)	Baloucci (R)	
Tribute (O)	David & Goliath (R)	Christopher George (R)	
Contemporary (O)	Angry Minds (R)	Aussie Male (R)	
Eds (O)	Blue Print (R)	Essential (E)	
EdTek (O)	Lee Cooper (R)		
	Easy Surf (O)		
	Eat My Dirt (new) (E)		

O – Company owned brands
E – Third party brands exclusive to Ed Harry or products supplied on exclusive line basis
R – Third party brands, where products bought from supplier range
Source: Ed Harry

Approximately 20% of total sales come from non-season products (which trade from season to season) with the remainder of sales coming from seasonal products.

Market Position

Ed Harry operates in the Australian men's clothing retail sector, which according to IBISWorld, generated turnover of around $1.5 billion (or 19% of the total clothing retail sales) in FY 2003.

The Business sells quality products with a commercial fashion element, and an underlying value for money proposition across all segments and price points (i.e. the highest possible quality to price ratio).

Ed Harry's clothing range appeals to men aged between 20 years and 55 years, with a defined target market of men between 25 years and 45 years (double generation). (Both Generation X and Baby Boomers comprise 74% of the male population.) Ed Harry is the largest independently owned specialty menswear retailer in Australia, (by number of company owned stores), and shares the menswear segment with:

- Other specialist menswear retailers
- Department stores; and
- Unisex retailers.

Product Sourcing and Distribution

Ed Harry develops the majority of its merchandise in-house with the support of its 6 major suppliers (all Australian based).

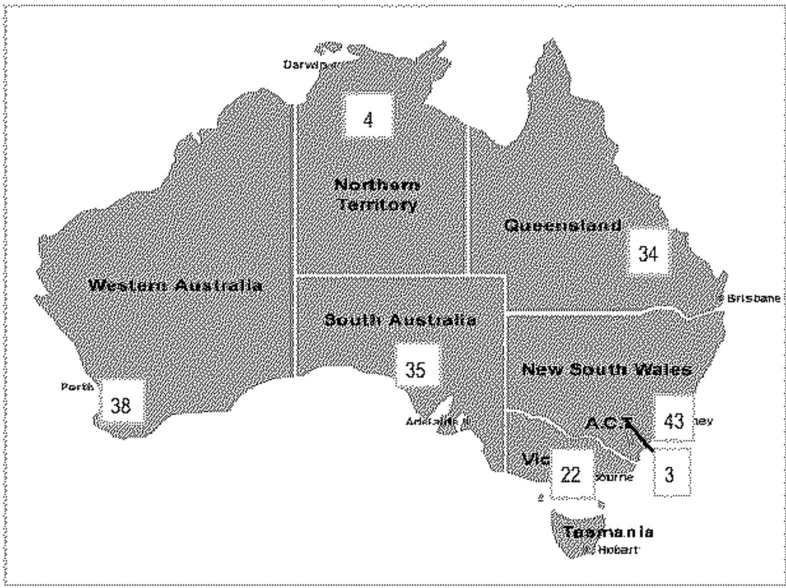
Ed Harry's products are predominantly manufactured in China, using established and reliable manufacturers. Approximately 90% of stock (by volume) is delivered direct into store, and 10% is delivered into store from Ed Harry's warehouse located at head office. All of Ed Harry's products are paid for in A$.

Stores

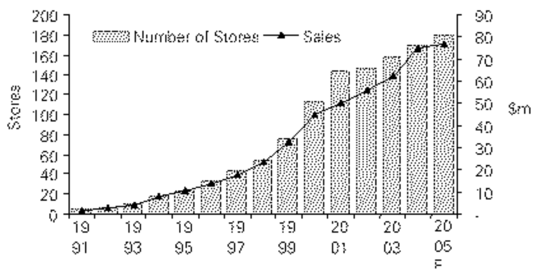
Ed Harry currently has over 170 stores (including 3 factory outlets) located in all mainland States and Territories in Australia with a strong presence in regional areas.

The diagram below illustrates the geographic distribution of the Ed Harry Stores:

Ed Harry Store Information



Ed Harry Store and Sales Growth Analysis **Ed Harry Store and Industry by State**



Ed Harry's retail stores range in size from 72 m^2 to 250 m^2, with a target store size of around 120 m^2. The majority of Ed Harry's stores are leased with terms of 5 years to 6 years. Landlords include Westfield, Lend Lease, Gandel Group, Stockland and Centro.

Information technology

Ed Harry management has viewed information gathering, analysis and dissemination as the core of its future development. Consequently, Ed Harry has recently invested heavily in the future by implementing integrated Windows based management systems (Retail Directions, Time Target, Finance One). These systems are currently being implemented and cover all aspects of Ed Harry's supply chain, the sales process (including POS), Payroll and Financial Control. As part of the continuing drive for best practice and future proofing, Ed Harry stores are on line 24 hours a day, 7 days a week, using the latest Virtual Private Networking systems. Having the VPN has delivered several benefits including enhanced speed and accessibility of key sales and inventory data by all personnel across Australia (in real time); and the ability to better analyse and act on stock movements/trends in particular regions.

2.4 Background – Physico

Overview

David Greenblo and Colin Elterman founded PCC in 1993 and it has since grown to become a significant Australian clothing company specialising in the sourcing, manufacturing and supply of both branded and generic ladies apparel and sleepwear to the major department and specialty chains in Australia and New Zealand.

Physico has operations in China which, as well as supplying the needs of the Australian market, export men's, ladies and children's apparel to volume retailers in Europe, Canada, Russia and South Africa.

Physico established operations in China in 2000, in response to an identified need to secure a long term, cost effective supply network. In 2003 a major growth opportunity to supply major South African retailers was identified.

Business model

Physico operates from its 7,000m2 office, showroom and distribution centre in Alexandria, Sydney as well as from its sourcing office and showroom in Nanjing, China and its sales office in South Africa.

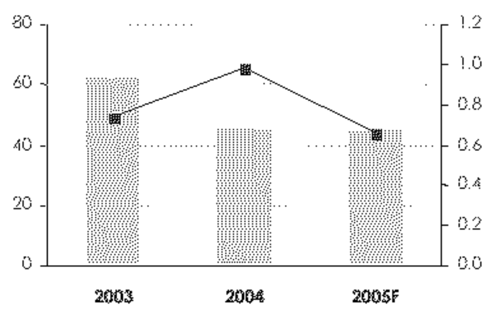
Physico has two distinct business units: Physico Australia and Physico China. The majority of revenue is derived from Physico Australia's three operating divisions (Outwear, Intima and Popstar) with Physico China's export division comprising the remainder.

Physico focuses on efficient supply chain management and the timely delivery of quality product to its market segments. Biron Capital believes that this core competency, together with substantial product development and China sourcing capabilities, will allow Physico to continue to succeed as a mass-market clothing supplier in Australia.

A key part of Physico's strategy is to focus on commitment to servicing its customers and on a flexible approach to reacting and responding to the ever-changing fashion and basic needs of its competitive environment.

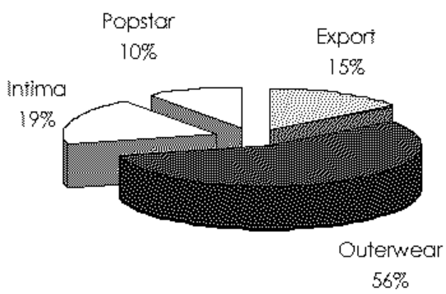
For the 2004 financial year Physico recorded $44.9 m in revenue. The Company expects revenue to remain around this level in financial year 2005 as shown in the diagram below:

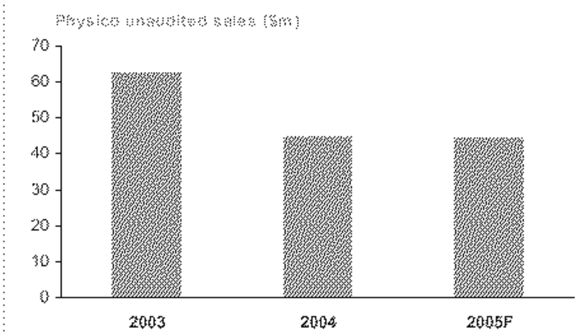
Physico Unaudited Sales ($m) Forecast

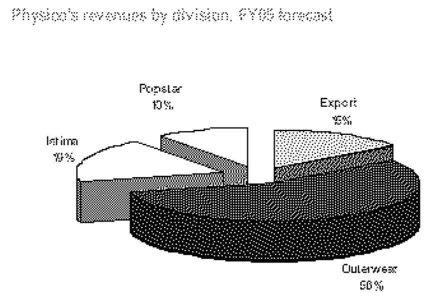


Source: Physico Sales EBITDA

Physico Revenue by Division, FY05







Physico Australia

Physico's Australian business is comprised of three divisions: Outerwear, Intima and Popstar. The table below summarises the key attributes of each division: division description, product description, target market, and revenue contribution.

	Outerwear Division	Intima Division	Popstar Division
Division Description	Develops and sources fashionable ladies apparel in a range of knitted and woven fabrics	Designs, develops and sources sleepwear and lingerie for both ladies and girls	High fashion, affordable merchandise for young women and girls
Product Description	Classic and contemporary garments that appeal to the mass market consumer	Generic sleepwear and lingerie, licenced product for a specialty retailer and branded product under the company's own brand "Anywear Anytime"	Branded, close to the mark high fashion garments supplied under the company's own brands of "Popstar" "Curve" and "Toile". All are registered trademarks
Target Market	Consumers aged 18 to 65 across both traditional and large sizes	Mass-market female consumers of all ages and sizes. Merchandise is supplied to the major retailers and independent boutique stores	Young, fashion conscious ladies and teenagers aged 15 to 30, who prefer smaller sized merchandise. In addition an interpretation of the product is supplied to a major retailer for ages 7 to 14. Product is supplied to major retailers as well as independent boutique stores
Revenue contribution (FY05 Forecast)	56%	19%	10%

Physico China

In 2000 the management of Physico recognised the need to respond to the changing manufacturing environment within Australia and its need to formalise its sourcing operation from off shore. Accordingly Physico set up the company's own sourcing and export office in Nanjing, China.

The infrastructure in China, is responsible for procuring and controlling approximately 80% of Physico's production requirement. In addition, through this capability, the company has developed an Export customer base to which it supplies both ladies and men's apparel on a Free On Board (FOB) basis. As a result of this, the company has set up a sales and design office in Cape Town, South Africa to service its customers in that region. The revenue generated from the Export Division is seen by management as the real growth opportunity for the company.

The Export Division has grown rapidly over the past 18 months and now comprises approxomately15% of total revenues.

Physico has secured its manufacturing capacity by developing strategic relationships with a number of factories. Physico has secured the substantial production capacity of four factories and is considering investing in its own factory to further expand its manufacturing and export capability.

Physico currently employs 55 people in its China office. All financial transactions and reporting is administered and controlled by Head office in Australia.

Physico supplies many of the major chain stores and all of the department stores in Australia. With the exception of branded product which Physico markets to department and independent retailers, all of the company's merchandise is developed specifically for the needs of individual customers. Physico has sales teams that concentrate only on specific customers and works with those customers in the development of unique product for that customers specific market segment.

Each Sales Team has a merchandise team in China to support them and shares the combined resources of the company such as the graphic arts centre, China sourcing, quality assurance, shipping, warehousing, administration, IT and distribution.

This centralized support structure allows Physico the flexibility to increase volumes and revenues to existing customers whilst minimizing cost increases associated with this growth.

Biron – The Merged Entity

Biron's acquisitions of Ed Harry and Physico will transform Biron into a vertically integrated apparel business with over 170 retail stores, and an established wholesale infrastructure, including an office in China. Pro Forma 2005 revenues of the combined entity are forecast to be in excess of $120 million.

The key opportunity for the combined entity is supply chain improvement. Unlike many Australian retailers, Ed Harry does not directly import, but sources most if its product from domestic suppliers. Physico's core competencies include importation and wholesaling.

The Directors believe the merging of Ed Harry and Physico to create a vertically integrated business model should create value by:

- Allowing Biron to capture increased wholesale gross profit as the Company leverages the Physico wholesale infrastructure across the Ed Harry Business;
- Providing Ed Harry with a means to buy direct from offshore (via Physico), thereby accessing cheaper product;
- Combining management expertise from the retail and wholesale spheres to better service customers; and
- Achieving cost savings from increased scale of operations as a result of merging two businesses.

Prospective investors should read the Risks set out in Section 7 carefully before considering an investment.

Strategy

Biron's strategy seeks to focus the Company on preserving the existing profitability of Ed Harry and Physico, while positioning the Company to benefit from expected synergies resulting from the merger of the two businesses. Biron's current strategy can be summarised as follows:

Phase 1 – Integrate acquisitions, focus on continued retail store rollout;

Phase 2 – Increase wholesaling activities and consider acquisitions;

Retail Growth Opportunities

The Director's of Biron believe there are a number of excellent growth opportunities for the Ed Harry brand, excluding the opportunities arising from its combination with Physico. Some of these growth opportunities are as follows:

- Continued store growth - Biron believes there is the potential to increase Ed Harry's total stores to in excess of 300 stores within 6 years in Australia and New Zealand). The focus of store rollout will initially be on New South Wales and Victoria, where Ed Harry is underrepresented on a pro rata population basis;
- Expansion and further refinement of the business' product range, including the introduction of new brands and development of new accessory ranges with suppliers (socks, ties, underwear, belts);
- Build on Ed Harry's existing brand awareness and profile through greater advertising and promotion; and

- An ability to leverage Ed Harry's cost structure as new stores are rolled out.

Wholesale Growth Opportunities

Physico has a number of growth opportunities other than the supply of menswear to Ed Harry. Although other domestic growth opportunities exist, Biron believes most of the opportunity for growth is in offshore markets. Key growth opportunities include:

- *Canada, the United Kingdom as well as other European countries* - Physico has been successful in establishing relationships with both retail and wholesale customers in these regions and believes that future revenue from such relationships is a growth opportunity for the Company. Physico has also recently entered into an exclusive arrangement with a UK based fashion company that supplies retailers at the volume, fashion forward end of the market.
- *South Africa* - Traditionally, South Africa has manufactured a large proportion of its own clothing requirements but with the reduction in tariffs and the globalization of the apparel industry, retailers have only recently started seriously focusing on China as a source of apparel. As a result, imports are rising. Physico has an opportunity to become a significant player in the South African market as it has already established relationships with two major customers.
- *United States* - The reduction of import quotas in the US may result in opportunities to supply more volume to US companies as they seek new sources of supply.
- *Australia* - Whilst it is acknowledged that the wholesale market in Australia is becoming more competitive as a result of vertical integration, opportunities for growth remain, particularly through participating in the consolidation of the wholesaling industry through acquisition. Biron is prepared to make further 'bolt on' acquisitions in the apparel wholesaling industry, should attractive opportunities arise. Biron is also investigating innovative supply arrangements with other Australian wholesalers and retailers.

2.5 Financial Information

2.5.1 Funding

It is proposed that the payment and funding of the cash consideration, working capital requirements and Transaction Fees in respect of the acquisitions of Ed Harry and Physico will be sourced as follows:

The cash of $15 million ($9 million net of the Enbee Loan) payable at Completion for Ed Harry together with up to a further $25 million for working capital for the Group will be contributed as to:

- Up to $22 million by drawdown under the Senior Debt Facility of which $8 million will be available for drawdown at Completion. In advance of the Company procuring the Senior Debt Facility, Investec had made commitments to the Company to provide financial accommodation in connection with the Transaction. Those commitments are now replaced by the Senior Debt Facility. Part of the fee payable to Investec in respect of the prior commitment it made to the Company comprises the issue of the 72 cent Options. These are the securities that are the subject of paragraph (A)(a)(viii) of Resolution 1;

- $9 million by the issue of 15,000,000 Shares at 60 cents per Share. These are the securities that are the subject of paragraphs (A)(a)(i) and (A)(a)(ii) of Resolution 1. As at the date of this Explanatory Memorandum the Company is negotiating with Tricom the terms of an underwriting in respect of the issue of 6,666,667 of the Balance Capital Raising Shares to raise $4 million and, as noted elsewhere in this Explanatory Memorandum, the Physico Vendors have agreed with the Company that they will procure subscribers for between 833,333 and 3,333,333 of the Balance Capital Raising Shares at Completion;

- Approximately $3 million by utilisation of the Company's existing cash reserves;

- It is proposed that the $6 million of Deferred Purchase Price will be met from cash flow arising from the Groups' operations and/or funds from the Senior Debt Facility;

- 2 million Shares and 3 million 72 cent Options forming part of the Transaction Fees will be issued at Completion. These are the securities referred to in paragraph (A)(a)(iv) and (A)(a)(viii) of Resolution 1.

- $6 million will be made available as from Completion under the Enbee Loan Facility.

2.5.2 Pro Forma Financial Position

2.5.2.1 Proforma Consolidated Statement of Financial Position

Set out in the table below is the financial position of Biron Capital and Proforma Consolidated Statement of Financial Position of the Group, as at 28 February 2005. This information should be read in conjunction with the information provided elsewhere in this Explanatory Memorandum.

$'000s		Proforma Consolidated	Actual
Current Assets			
Cash Assets		2,250	3,395
Receivables		6,321	-
Inventories		9,944	-
Other		592	
Total Current Assets		19,107	3,395
Non-Current Assets			
Property, plant & equipment		6,343	17
Intangibles		24,420	-
Deferred Borrowing Costs		670	
Other		128	
Total Non-Current Assets		31,561	17
Total Assets		50,668	3,412
Current Liabilities			
Payables		8,122	31
Interest bearing liabilities		8,000	-
Provisions		754	-
Total Current Liabilities		16,876	31
Non-Current Liabilities			
Interest bearing liability		48	
Deferred settlement		10,698	-
Provisions		205	
Options reserve		270	
Total Non-Current Liabilities		11,221	-
Total Liabilities		28,097	31
Net Assets		22,571	3,381
Equity			
Contributed Equity		27,773	8,583
Accumulated losses		(5,202)	(5,202)
Net Equity		22,571	3,381

Assumptions for the Preparation of the Proforma Consolidated Statement of Financial Position

The Proforma Consolidated Statement of Financial Position of Biron Capital as at 28 February 2005 is based on the actual position of Biron Capital as at 28 February 2005, which has been extracted from the reviewed financial statements as at that date, adjusted as if the following transactions had taken place as at 28 February 2005:

- The acquisition of the Ed Harry Business payable as to $9 million in cash, the issue of 3,333,333 ordinary shares in Biron Capital at 60 cents each $6 million by way of the Deferred Purchase Price, $6 million in vendor finance and 3,333,333 Performance Shares. The Deferred Purchase Price and the vendor finance are shown in the Proforma Statement of Financial Position at their present value estimated at $5,260,000 and $5,438,000 respectively.

  The Performance Shares are included in the Proforma Statement of Financial Position at their estimated fair value of $1,300,000.

- The net assets of Ed Harry included in the Proforma Statement of Financial Position are based on the actual net assets at 28 February 2005, and adjusted to reflect only those net assets to be acquired by Biron Capital and the minimum net tangible assets to be delivered to Biron Capital pursuant to the Ed Harry Acquisition Agreement, of $4.6 million.

  The goodwill arising on this transaction is estimated at $18.4 million;

- The acquisition of additional property, plant and equipment from the vendor of Ed Harry , estimated at $950,000;

- The acquisition of shares in the Physico Group. The consideration payable for shares in the Physico Group is to be satisfied by way of issue of 6 million shares in Biron Capital at 60 cents each and 8 million Performance Shares. The Performance Shares are included in the Proforma Statement of Financial Position at their estimated fair value of $3,120,000.

  The net assets of the Physico Group included in the Proforma Statement of Financial Position are based on the actual net assets as at 28 February 2005, and adjusted to reflect the minimum net tangible assets to be delivered to Biron Capital pursuant to the Physico Acquisition Agreement of $3.6 million.

  The goodwill arising on this transaction is estimated at $3.1 million.

- The payment of incidental costs (including stamp duty) associated with the acquisitions of Ed Harry and Physico Group, estimated at $1,665,000. These expenses have been capitalised as part of the cost of acquisitions;
- The offer of Capital Raising Shares as outlined in the Prospectus being the issue of 15,000,000 million shares to raise gross proceeds of $9 million;

- The payment of expenses associated with the Capital Raising, estimated at $1,030,000. These expenses have been charged against new equity raised;

- The payment of expenses associated with the Senior Debt Facility, estimated at $400,000. The expense is reflected in the Proforma Statement of Financial Position as a deferred borrowing cost;

- The repayment of PPC Loan of $5 million;

- Drawdown of the Senior Debt Facility to settle the transactions described above;

- The issue of 2 million Shares in part payment of the Transaction Fees. These costs have been capitalised as part of the cost of acquisitions; and

- The issue of 3 million 72 cent options in part payment of the borrowing costs. Those options are reflected in the Proforma Statement of Financial Position, as a deferred borrowing cost and a liability, at their estimated fair value of $270,000.

In preparing the Proforma Statement of Financial Position, regard has been had to AASB 3 *Business Combinations*, being the Australian version of the International Financial Reporting Standard ("IFRS") number 3 *Business Combinations*, under which consideration is to be given as to whether or not there has been a "reverse takeover", in this case by the Physico Vendors. In the opinion of the Biron directors, control of Biron is achieved by Physico Vendors, only after the Physico Vendors complete the Physico subscription in other words, the payment of cash for the issue of the Biron Shares – and accordingly, the provisions of the Business Combinations standard do not apply. Alternatively, should the Business Combinations standard in fact apply, there would be an immaterial adjustment to the goodwill on consolidation, arising from the acquisition of Physico.

2.5.2.2 Financial Performance

Set out in the table below are the Summarised Proforma Consolidated Historical and Forecast Statements of Financial Performance for Biron Capital and Ed Harry and the Physico Group. This information should be read in conjunction with the information provided elsewhere in this Explanatory Memorandum.

$'000s	**FY 2004 (1)**	**8 Months to 28 Feb 2005**	**FY 2005 2,3,4**
Revenue	119,601	95,056	121,135
EBITDA	**5,478**	**6,048**	**6,343**
Depreciation	842	739	953
EBIT	**4,636**	**5,309**	**5,390**
Number of EH Stores at end of period	170	173	178

Notes

1. The Summarised Proforma Consolidation Historical Statement of Financial Performance for the financial year ended 30 June 2004 and eight months ended 28 February 2005 have been extracted from the Entities' financial reports and normalised to exclude non-recurring items.

In particular, given that the principal activities of Biron consisting of the provision of secured mortgage finance were discontinued during FY2005, the results of those activities for FY2004 and eight months ended 28 February 2005 have been excluded in preparing the Summarised Proforma Consolidated Financial Performance. Listed public company costs of $500,000 and $400,000 have however been allowed in the results for FY2004 and eight months to 28 February 2005 respectively.

2. The Summarised Proforma Consolidated Forecast Statement of Performance for FY 2005 is derived from the Proforma Consolidated Historical Financial Information for the eight months ended 28 February 2005 and Directors forecasts for the four months ending 30 June 2005 as if the Trading Entities were acquired as at 1 July 2004. Listed public company costs, estimated at $600,000 per annum, have been included. Expected synergy benefits and additional costs arising from aggregating the Trading Entities have not been included.
3. The FY 2005 Statutory Financial Results of Biron Capital will differ from the Summarised Proforma Consolidated Forecast Statement as the acquisition of the Trading Entities will only be effective from 1 July 2005.
4. The Proforma Consolidated Forecast Financial Information is based on a number of best estimate assumptions and proforma adjustments as described below.

Key Assumptions used in the Preparation of the Forecast Financial Information

The following key Best Estimate Assumptions have been used in the preparation of the Proforma Consolidated Forecasts. These Best Estimate Assumptions should be read in conjunction with the risk factors outlined below.

General Assumptions

The following General Assumptions have been made in preparing the Proforma Consolidated Forecasts:

- There are no issues of securities during the forecast periods apart from those outlined in this Prospectus;
- There are no changes in the statutory, legal or regulatory requirements in the markets in which the Trading Entities operate that would have a material effect on the Trading Entities operating results;
- There are no material beneficial or adverse effects arising from changes in industrial, political or economic conditions in the markets in which the Trading Entities operate;
- The material contracts to which the Trading Entities and the Company are a party to remain in force and are not terminated, rescinded or varied in a manner which would have a material impact on the Trading Entities and the Company;
- There are no material beneficial or adverse effects from changes in technology or the actions of competitors;
- There will be no significant turnover of key executives during the forecast period;
- The Trading Entities and the Company's accounting policies remain consistent during the forecast period. It is also assumed that there will be no changes in applicable accounting standards or the Corporations Act that will have a material effect on the reporting of the Company's results;

- There will be no acquisitions of additional businesses during the forecast period;
- The business models operated by each of the Trading Entities will remain substantially unchanged during the forecast period.

Specific Assumptions

The forecast financial performance of each of the Trading Entities for FY 2005 has been based on the actual results to 28 February 2005 and the Director forecasts for the four months to June 2005, which have been adjusted to include actual results achieved or reflected in the management accounts, where available.

Key assumptions include:

- Ed Harry
  - Sales and margin for the period March to June 2005 are based on results achieved;
  - Expenses are based on actual results to May 2005 and estimate for June 2005.
- Physico Group
  - Sales and margins for the period March to June are based on orders on hand at February 2005;
  - Expenses are based on current monthly expenditure of Physico Group on a stand-alone basis.

2.5.2.3 Capital Structure

At Completion the capital structure of the Company will, assuming none of the Existing Options have been exercised and assuming all Resolutions are passed, be as follows:

	Ordinary Shares
Existing Shares	9,560,837
Shares issued to Physico Vendors	6,000,000
Shares issued to Suregroup	3,333,333
Shares issued as part of Transaction Fees	2,000,000
Capital Raising Shares	6,666,667
Capital Raising Shares – Underwritten by Physico Vendors	8,333,333
	35,894,170

Performance Shares

Performance Share to be issued to Physico Vendors	8,000,000
Performance Shares to be issued to Suregroup	3,333,333

Options

Existing Options	9,778
60 cent Options	1,000,000
72 cent Options	3,000,000

Subject to ASX's satisfaction that the Company meets the "profit test" in Listing Rule 1.2 it is not expected that any of the 6 million Shares to be issued to the Physico Vendors nor any of the 11,333,333 Shares that will result from the Performance Share Conversion nor any of the 3,333,333 EH Consideration Shares will be the subject of any restrictions on disposal imposed by ASX. As noted in Section 1.2 above certain of the Physico Vendors have agreed to certain of their Shares being voluntarily escrowed for twelve months from the Completion Date.

2.6 Background - The Acquisition of Ed Harry and Physico

Acquisition Agreements

On 7 March 2005 the Company announced that it had reached in principle agreement to acquire:

- The Ed Harry mens' apparel retail business; and
- The Physico Clothing Company Pty Ltd which operates a womens' apparel wholesale business.

Set out below is a summary of the essential terms of the Acquisition Agreements.

2.6.1 Ed Harry

The Company entered into the Ed Harry Acquisition Agreement on 18 July 2005.

Under the Ed Harry Acquisition Agreement the Company has agreed to acquire the Ed Harry Business from the Effective Date for a consideration comprising the payment of $15 million in cash (subject to adjustment as described hereunder), the issue of 3, 333, 333 Shares at an issue price of 60 cents each 3,333,333 Performance Shares at Completion, the payment of a Deferred Purchase Price of $4 million in cash provided the EBIT Hurdles are achieved and the payment of a Deferred Purchase Price of $2 million in cash provided the EBITDA Hurdle is achieved.

The EH Consideration Shares are the subject of paragraph (A)(a)(v) of Resolution 1.

The 3,333,333 Performance Shares to be issued to Suregroup are the subject of paragraph (A)(a)(vi) of Resolution 1.

The Ed Harry Acquisition Agreement includes provision for the payment by the Company at Completion by way of a reimbursement to Suregroup of certain capital expenditure outlaid by Suregroup on the Ed Harry Business during the period from 1 December 2004 to the Business Day immediately prior to the Completion Date. It is currently estimated that his will involve a payment of approximately $950,000.

It is a requirement of the Ed Harry Acquisition Agreement that to the extent that the net tangible assets of the Ed Harry Business at the Completion Date are less than $4.6 million there will be an adjustment to the purchase price payable which will be achieved by an appropriate reimbursement by Suregroup to the Company. The Ed Harry Acquisition Agreement prescribes the method of calculation and composition of net tangible assets for this purpose and, importantly, provides that the value of stock of the Ed Harry Business on the Completion Date will, subject to certain qualifications, be calculated as the lower of Suregroup's cost and its net realisable value with a proviso that the absolute maximum value attributable to stock on Completion Date is to be $9 million.

It is a provision of the Ed Harry Acquisition Agreement that at Completion Suregroup will procure that the Enbee Loan Facility is made available to the Company.

It is a term of the Ed Harry Acquisition Agreement that as from Completion the Company and Suregroup will enter into the Suregroup Consultancy Agreement pursuant to which Suregroup will procure that the services of Mr Brine are provided to the Company as the chief executive officer of the Ed Harry Business on a full time basis for 6 months from Completion, on a half time basis for the next 6 months thereafter in a senior capacity and on a quarter time basis for the ensuing 6 months thereafter in a senior capacity.

The remuneration payable under the Suregroup Consultancy Agreement is $100 per hour for the initial 6 months and $94 per hour thereafter.

The Ed Harry Acquisition Agreement imposes "restraint of trade" restrictions in respect of Suregroup and Mr Brine.

Mr Neil Brine has provided a limited guarantee and indemnity of and in respect of the obligations of Suregroup under the Ed Harry Acquisition Agreement. The amount recoverable under the guarantee/indemnity is limited to $2.5 million.

Pursuant to the Ed Harry Acquisition Agreement the Lessor and EDH have entered into the Property Lease in respect of premises situated at 16 Nelson Street, Stepney in South Australia from which head office functions (including warehouse, administration, sales, marketing, buying and general management) of the Ed Harry business will be operated.

It is agreed under the Ed Harry Acquisition Agreement that the net cash movement arising pursuant to the conduct of the Ed Harry Business from 1 July 2005 is for the account of Biron.

There are various other provisions of the Ed Harry Acquisition Agreement and the other documents described above including extensive warranties that reflect the arms length negotiations that preceded their execution.

2.6.2 Physico

Under the Physico Acquisition Agreement the Company has agreed to subscribe for the Physico Shares and the Finwave Shares for a consideration comprising the issue of 6 million Shares and the issue of 8 million Performance Shares to the Physico Vendors in the Agreed Proportions.

The Physico Consideration Shares are the subject of paragraphs (A)(a)(iii) and (A)(a)(vii) of Resolution 1.

At Completion the Existing Physico Shares and the Existing Finwave Shares will be cancelled and as a result of this and the subscription by the Company for the Physico Shares and the Finwave Shares the Physico Group will from the Effective Date become 100% owned by the Company.

It is requirement of the Physico Acquisition Agreement that at Completion the Physico Vendors procure that $5 million of application moneys is lodged with Biron together with duly executed applications for 8,333,333 of the Capital Raising Shares. Between 60% and 90% of these 8,333,333 Shares i.e. between 5 million and 7.5 million Shares will be subscribed for by the Physico Vendors Group. This range of Shares is the subject of paragraph (A)(a)(i) of Resolution 1.

In fulfilment of their obligations under the Physico Acquisition Agreement the Physico Vendors will be required to procure that non-associated third parties subscribe for between 3,333,333 (maximum) and 833,333 (minimum) of the Balance Capital Raising Shares. These Shares will form part of the Balance Capital Raising Shares in paragraph (A)(a)(ii) of Resolution 1.

It is also a provision of the Physico Acquisition Agreement that Biron will advance the PCC Loan Sum to PCC on the condition that the PCC Loan Sum is used to payout all Physico Shareholder Loans and all the PCC Loan.

The Physico Acquisition Agreement also contains provisions requiring that at Completion Invertex enters into a voluntary escrow agreement with the Company under which one half of the total of 1,995,000 Shares to be allotted to Invertex at Completion (997,500 Shares) will be restricted from disposal for 12 months from Completion and that Leantale and Rohald also execute voluntary escrow agreements in relation to all of the Shares allotted to them at Completion (a total of 2,295,000 Shares) for an escrow period of 12 months from Completion.

It is a requirement of the Physico Acquisition Agreement that to the extent that the net tangible assets of the Physico Group at the Completion Date are less than $3.6 million the Physico Shareholders must pay to PCC, in the Agreed Proportions, the shortfall amount within 5 Business Days after the date on which the final calculation of the net tangible asset position is determined. Conversely, if the net tangible assets of the Physico Group at Completion exceed $3.6 million Biron must pay the excess to the Physico Vendors.

The Physico Acquisition Agreement prescribes the method of calculation and composition of net tangible assets for this purpose and provides for disputes to be resolved by reference to an independent firm of chartered accountants.

The Physico Acquisition Agreement contains undertakings by the Physico Indemnifiers that from Completion until 28 February 2007 none of the Physico Indemnifiers will allow any encumbrances to exist in respect of their respective assets other than certain encumbrances agreed by Biron and that Invertex and Leantale will maintain net tangible assets of at least $1,050,000 each and that Clothold will maintain net tangible assets of at least $900,000. These undertakings by the Physico Indemnifiers will in turn be supported by personal undertakings respectively given by Mr Elterman (for Invertex) Mr Greenblo (for Leantale) and Mr Gary Burg (a director of Clothold) (for Clothold) whereby they each undertake to remain directors of the relevant companies that they respectively control until 28 February 2007 and to procure that the relevant companies comply with their respective obligations in the terms described above.

It is a further term of the Physico Acquisition Agreement that as from Completion the Rohald Services Agreement, the Greenblo Services Agreement and the Elterman Services Agreement are entered into with the Company.

The premises in New South Wales which Physico occupies is leased by Physico under a seven year lease which expires in May 2008 from Physico Property Pty Ltd a company controlled by Mr Elterman and Mr Greenblo. The current rental under the lease is $480,000 per annum exclusive of GST and Physico pays outgoings, rates and taxes, repairs and management fees.

There are various other provisions of the Physico Acquisition Agreement and the other documents described above including extensive warrants and indemnities that reflect the arms length negotiations that preceded their execution. There is a $3 million limit on the maximum aggregate amount an indemnified party may recover against an indemnifying party.

The parties to the Physico Acquisition Agreement agree that subject to Completion occurring the economic effect as between them will be as if Biron owned Physico Group as from 1 July 2005.

The Ed Harry Acquisition Agreement is conditional upon Biron raising at least $9 million under the Prospectus and on the amount raised under the Prospectus together with the amount of Senior Debt being sufficient to enable the Company to pay all amounts payable under the Acquisition Agreements.

Completion under each of the Acquisition Agreements is conditional upon Completion under both occurring and also upon the passage of Resolutions 1, 2, 3 and 4.

2.7 Proposed New Directors / Senior Executives

Under the Acquisition Agreements it is proposed that as from Completion Mr David Greenblo will be appointed as the chief executive officer of Biron, Mr Neil Brine will become a director of Biron, Mr Sean Rohald will be appointed as the chief executive officer of PCC and Mr Colin Elterman will be appointed as a business development manager of Biron and that 1 of the Current Directors will resign from the Board.

David Greenblo

David Greenblo immigrated to Australia in 1980 after graduating with an Honours Degree in Economics from The University of Cape Town, South Africa.

David was employed by Myer as a Graduate Trainee and after graduating, held various management positions in both buying and stores. David then went on to hold General Management positions at Cue Design, a vertically integrated retailer and Depict Fashions, a wholesale fashion supplier.

In 1987 David and Colin Elterman established a retail sporting goods chain which they built to ten stores and then sold. In 1990 Physico Clothing Company was established and David, as Managing Director, has been instrumental in the growth and success of the business to date.

Neil Brine

Neil is celebrating his 40th year in the clothing industry and has been the key executive in the development of the Ed Harry business since 1990.

Prior his career involved 18 years with Sportscraft Group in roles including Sales, Marketing, Product Development leading to the directorship in the Consolidated Company and the role as Managing Director for Sportscraft's Menswear operations.

Over recent years Neil has assisted Business SA in the development of young entrepreneurs in a mentoring role and more recently taken up the challenge as a grower to the SA Wine industry.

Mark Slattery

Mark has a great depth of experience within the fashion retail industry working in key management positions of three major Australian fashion businesses over the past 16 years. The experience most relevant to his current role was derived in his first role, where he spent 13 years with the Sussan Group. Over this time, Mark worked in a variety of roles, which allowed him to develop a complete understanding of successful retailing. Mark was exposed at both a detailed operational level and a high level senior management level. In the past 3 year and a half years, this experience has been complemented with 18 months at Gazal working on the international expansion of the Mambo division, and most recently Mark has spent two years on the Oroton Group heading the group's finance department. Mark has developed a broad understanding of finance, accounting, supply chain IT, merchandise planning, retail operations, and to a lesser extent buying and marketing and sourcing.

Sean Rohald

Sean is responsible for the day to day running and control of the business. Sean is an accountant and has 9 years of experience in the clothing industry. He was the managing director of a company in South Africa, similar in structure to that of Physico.

Colin Elterman

Colin is an accountant who has run many businesses both locally and internationally during his 30 year business career. Colin is responsible for new business development within the group.

2.8 Risks

Risk Factors

There are a number of risks, both company specific to Biron Capital and general investment risks, which may materially and adversely affect the future operating and financial performance and financial condition of Biron Capital and the value of the Company.

While some of these risks can be mitigated by the use of appropriate safeguards and systems, many of them are outside the control of the Company and its Directors. There can be no guarantee Biron Capital will achieve its stated objectives or that any forward-looking statements or forecasts will eventuate.

Specific Risks

Vertical Integration and Offshore Procurement

There has been a recent trend in Australia towards vertical integration. Vertical integration occurs where a retail business and a wholesale business combine, usually through a retail business acquiring a wholesale business. Biron Capital's proposed acquisition of Ed Harry and Physico is an example of vertical integration. If any of Physico's current wholesale customers decide to vertically integrate, Physico may lose some or all of the revenue attributable to those customers. Similarly, if any of Physico's wholesale customers decide to source a some or all of their product direct from offshore sources, Physico's revenues and profitability may be adversely impacted.

Merger and Integration Risk

A key driver of Biron Capital's future success is likely to be the success of the integration between Ed Harry and Physico, the two businesses being acquired by Biron Capital. The integration challenges include the consolidation of operating and technology processes, the elimination of duplicate corporate expenses and maximising cross selling opportunities. The ability of the newly combined group to realise these challenges as soon as possible will impact the future profitability of the Biron Capital group. For a variety of reasons, the integration process may not proceed as expected and this may result in the profitability of Biron Capital being adversely affected. There is also a risk that some of Physico's current customers perceive that the combination of Physico with Ed Harry will reduce Physico's reliance on external customers and therefore reduce the customers' ability to negotiate purchase pricing and terms with Physico. This may cause existing customers to purchase less volume from Physico. Biron Capital is committed to ensuring Physico's offering and service levels remain attractive to all customers following its acquisition of Physico.

Key Customer Relationships

The apparel wholesaling industry is characterized by large, relatively low margin orders. These orders are placed by the customer's product buying managers. To the extent that buyers with whom Physico has a strong relationship leave the retail industry or become employed by customers unwilling to source product from Physico, Biron Capital's revenues and profitability may decline.

Competitive Environment

The Australian specialty apparel retail markets are highly competitive with a large number of market participants and few barriers to entry. Ed Harry's concepts compete for both target customers and store locations with a wide range of retail formats including local, national and international specialty apparel retail chains, full service national department stores, discount department stores and single store operations.

Although Ed Harry has demonstrated an ability to compete effectively in these markets, there can be no assurance that the actions of existing or new competitors or changes in consumer preferences will not have a material adverse effect on Biron Capital's performance.

Brand and Fashion

The apparel retail industry is subject to rapid and occasionally unpredictable changes in customer preferences. Biron Capital's success in each of its brands depends upon the Company's ability to identify and respond to movements in fashion trends, and to develop appealing merchandise in popular sizes on a timely basis. If Biron Capital misjudges consumer trends or fails to sell stock at anticipated prices, lower sales and margins could result. In addition, customers' perceptions that one or more of Biron Capital's formats is no longer able to offer fashionable products and reasonable prices, may also adversely impact the reputation of Biron Capital's brands.

Supply Chain and Product Sourcing

Both Ed Harry and Physico have established an extensive and reliable supply chain that allows them to procure and deliver products to customers in a timely and efficient manner. The efficiency of Biron Capital's supply chain management assists in managing working capital levels, in particular, inventory levels and the reliability of delivery to customers. Disruption to any aspect of the Company's supply chain could have a material adverse effect on Biron Capital's operational and financial performance.

Ed Harry sources its product from wholesalers locally, however all of the products purchased by Physico are presently sourced from China from a number of different suppliers located in different regions throughout China. This makes the Biron Capital vulnerable to the political and economic environments in this country, including movements in the Chinese yuan / United States dollar exchange rate, which could have a material adverse effect on the Company's ability to source product at competitive prices.

Customer Concentration

By definition, retail businesses have low customer concentration. However, wholesale businesses generally have relatively high customer concentration. Physico's five largest customers account for approximately 60% of Physico's sales (30% of Biron Capital's sales). The loss of any one of Physico's largest customers may result in an adverse impact on the Company's revenues and profitability.

Relationship with Landlords

Ed Harry has 170 retail stores and 1 warehouse, all operated on a leasehold basis. While leases are distributed across landlords, with no one landlord having greater than 20% of leases, maintenance of strong relationships with landlords is an important aspect of the Company's business.

Although the majority of the leases are governed by State and Territory Retail Tenancy legislation which obliges landlords to consent to assignments of lease to financially sound parties with reasonable retail experience, (which Biron Capital has through its Ed Harry and Physico personnel), certain of the leases require the landlords' consent for Biron Capital to continue as a tenant following a change of control in the Company. If some or all of these consents are not provided, it may have an adverse impact on the Company.

Given that the Company's future growth prospects depend in part upon its ability to increase sales at existing stores, refurbish existing stores, open new stores at new locations, develop new concepts and continue to operate stores on a profitable basis, any adverse change in Biron Capital's relationships with landlords could increase the Company's costs or adversely impact the ability of the Company to operate stores in preferred locations.

Whilst the Company generally enters into medium-term leases typically for a period of five years, the Company can give no assurance that it will be able to renew leases on acceptable terms.

Failure to renew leases on acceptable terms could result in the loss of revenue and profitability.

Loss of Key Personnel

Biron Capital's success depends to a large extent on its key personnel who play an important role in the business, in particular the senior management team discussed in Section 2.7.

Whilst efforts are made to retain the services of key employees, the loss of key personnel could have a material adverse effect on Biron Capital's earnings or growth prospects. The Company may not be able to recruit replacements within a short timeframe.

Funding/Cost of Borrowing

It is possible that Biron Capital's expansion as referred to below will be funded by a combination of debt and equity. Biron Capital, as a borrower of money, is potentially exposed to adverse interest rate movements that may increase the financial risk inherent in its business. Whilst this risk may be partially reduced due to interest rate hedging, there remains residual exposure both now, and at the expiry date of the existing interest rate swaps. Biron Capital's ability to raise finance by way of equity funding will be dependent on its own performance and the performance of local and international stock markets and investor sentiment which may be negative at any given time.

Expansion Plans

The continued growth of the Company, its revenue and profitability is to a certain extent dependent upon opening new stores and upgrading existing ones. This expansion is dependent upon the Company's ability to successfully identify suitable sites, negotiate acceptable lease terms and open new stores on time. Additionally, although the Company employs strict financial criteria prior to committing to the opening of new stores and the refurbishment of existing stores, there can be no assurance that these stores will meet established targets.

Seasonality

Biron Capital's sales are subject to some seasonal fluctuations. There is typically increased demand in the period leading up to Christmas and the Company experiences a peak in sales and profitability in December. Any significant decrease in sales during this period could have a material adverse effect on the Company's financial performance.

Intellectual Property Conflicts

The designs used in Biron Capital's branded products may be similar to the designs of other designers and retailers. On occasion, other designers and retailers have alleged that Biron Capital's products infringe on their intellectual property rights.

Biron Capital cannot guarantee that claims will not be brought against the Company in the future. In the event that the Company is unable to satisfy or defend any such claim, the financial position of the Company may be adversely affected.

Information Technology

Biron Capital has invested significantly in the development of information systems designed to assist the Company in monitoring and maximising profits, whilst allowing loss-making situations to be identified and rectified. While the Company will make every effort to ensure that these systems are maintained and improved to best meet the demands of the market, system failures may negatively impact on the Company's performance.

GENERAL RISKS

Macroeconomic Factors

Biron Capital, like most other retailers and wholesalers, is affected by general business cycles and economic conditions including interest rates, inflation, disposable income levels, consumer sentiment, population growth and population demographics.

Changes in general macroeconomic factors may result in consumers changing spending patterns or their level of consumption, which may have a material adverse impact on Biron Capital and its earnings.

Stock Market Fluctuations

The price of the Biron Capital shares on ASX may rise or fall due to numerous factors, including:

- general economic conditions, including inflation rates and interest rates;
- variations in the local and global market for listed stocks, in general, or for industrial, textile and clothing or retail stocks, in particular;
- changes to government policy, legislation or regulation;
- inclusion or removal from major market indices;
- the nature of competition in the markets in which Biron Capital operates; and
- general operational and business risks.

In particular, the share prices for many companies have in recent times been subject to wide fluctuations, which in many cases may reflect a diverse range of non-company specific influences such as global hostilities and tensions, acts of terrorism and the general state of the economy. Such market fluctuations may materially adversely affect the market price of Biron Capital shares.

No assurances can be made that the Company's market performance will not be adversely affected by any such market fluctuations or factors. None of Biron Capital, its Directors or any other person guarantees Biron Capital's market performance.

Liquidity and Realisation

There can be no guarantee that an active market in Biron Capital shares will develop or that the price of the shares will increase. There may be relatively few potential buyers or sellers of the shares on ASX at any time. This may increase the volatility of the market price of the shares. It may also affect the prevailing market price at which Shareholders are able to sell their shares. This may result in Shareholders receiving a market price for their Shares that is less or more than the price that Shareholders paid.

Taxation

Any change to the current rate of company income tax in jurisdictions where Biron Capital operates will impact on Shareholder returns. Any changes to the current rates of income tax applying to individuals and trusts will similarly impact on Shareholder returns. In addition, any change in tax arrangements between Australia and other jurisdictions could have an adverse impact on future NPAT of the Company and the level of dividend franking.

2.9 Regulatory Requirements

2.9.1 Corporations Act – Part 6.1

Section 606 of the Corporations Act prohibits a person, from acquiring a "relevant interest" (defined in the Corporations Law as holding or controlling the vote attached to or the disposal of a security) in issued voting shares in a company where as a result of that acquisition that person's or some other person's voting power in the company increases to in excess of 20%.

A person's "voting power" for these purposes is defined as the total number of votes attached to voting shares in the company in which that person or his associate has a relevant interest expressed as a percentage of the total number of votes attached to all voting shares in the relevant company.

At Completion 6 million Shares and 8 million Performance Shares will be issued to the Physico Vendors as consideration for Physico and the Physico Vendors will procure subscriptions for 8,333,333 of the Capital Raising Shares for $5 million in cash.

Of these 8,333,333 Shares between 5 million Shares and 7,500,000 Shares will be acquired by the Physico Vendors Group.

At the same time as these securities are issued to the Physico Vendors and the Physico Vendors Group the Balance Capital Raising Shares, the EH Consideration Shares and 3, 333, 333 Performance Shares will be issued.

The issued capital of the Company will immediately upon Completion occurring. assuming none of the Existing Options have been exercised, include 35,894,170 issued voting Shares.

It is assumed that as at Completion the Physico Vendors and the other members of the Physico Vendors Group are associated with each other.

Immediately upon the issue of the Physico Consideration Shares to the Physico Vendors and the Physico Cash Shares to the Physico Vendors Group on the Completion Date, therefore, the voting power of each of the Physico Vendors Group will become between approximately 30.6% and 37.6% namely between 11 million votes and 13.5 million votes out of a total of 35,894,170 votes.

As at the date hereof and, it is anticipated, immediately prior to the Completion Date the Physico Vendors Group, will have a "voting power" of nil votes attaching to voting Shares in the Company.

At the time of the Performance Shares Conversion, the "voting power" of the Physico Vendors Group will become between approximately 40.2% and 45.5%to namely between 19 million votes and 21.5 million votes out of a total of 47,227,503 votes – depending on how many of the Physico Cash Shares are subscribed by the Physico Vendors Group and assuming that no other voting shares have been issued by the Company between Completion and the date of the Performance Shares Conversion.

Section 606 of the Corporations Act also prohibits an acquisition of "relevant interest" in issued voting shares which results in a persons voting power increasing form a starting point that is above 20% and below 90%.

Section 611 Item 7 of the Corporations Act excludes from the prohibition in Section 606 an acquisition of relevant interests in voting shares in a company if the company has approved of the allotment by a resolution passed at a general meeting at which no votes were cast in relation to the resolution in respect of any shares held by, or by an associate of, the person to whom the first mentioned shares were to be allotted.

Section 611 of the Corporations Act provides that the following information must be provided to Shareholders in connection with a vote on a resolution designed to satisfy its requirements:

The members of the company must be given all information known to the person proposing to make the acquisition or their associates, or known to the company, that was material to the decision on how to vote on the resolution, including:

2.9.1.1 *the identity of the person proposing to make the acquisition and their associates; and*

2.9.1.2 *the maximum extent of the increase in that person's voting power in the company that would result from the acquisition; and*

2.9.1.3 *the voting power that person would have as a result of the acquisition; and*

2.9.1.4 *the maximum extent of the increase in the voting power of each of that person's associates that would result from the acquisition; and*

2.9.1.5 *the voting power that each of that person's associates would have as a result of the acquisition.*

Resolution 1 is, therefore, designed to fulfil the requirements of Section 611 of the Corporations Act in relation to the acquisition of the 6 million Shares and 8 million Performance Shares to be issued to the Physico Vendors at Completion and in relation to the Physico Cash Shares to be issued to the Physico Vendors Group at Completion and in relation to the 8 million Shares that will be acquired by the Physico Vendors on the conversion of the Performance Shares.

The calculation of voting share entitlements of the Physico Vendors Group set out above also assumes that no Shares are acquired or disposed of by the Physico Vendors Group between the Completion Date and the date of the Performance Shares Conversion.

2.9.2 ASC Policy Statement

The ASC (the predecessor to the ASIC) issued a Policy Statement (No. 74) which sets out the information which the ASC considered should be provided to the shareholders of the relevant company in relation to resolutions put for the purpose of Section 623 of the Corporations Law (as it then was). It is assumed that the ASIC has adopted the same policy and that it will apply to Section 611 of the Corporations Act. The information set out below is intended to fulfil the requirements of ASC Policy Statement No. 74 and Section 611 of the Corporations Act:

(a) the identity of the allottee and any person who will have a relevant interest in the Shares to be allotted.

The allottees of the Physico Consideration Shares are the Physico Vendors in the Agreed Proportions namely:

Leantale - 1,995,000 Shares and 2,660,000 Performance Shares (which will Convert to 2,660,000 Shares on Conversion)
Invertex - 1,995,000 Shares and 2,660,000 Performance Shares (which will Convert to 2,660,000 Shares on Conversion)
Clothold – 1,710,000 Shares and 2,280,000 of the Performance Shares (which will Convert to 2,280,000 Shares on Conversion)

Rohald – 300,000 Shares and 400,000 of the Performance Shares (which will Convert to 400,000 Shares on Conversion)

The proposed allottees of the Physico Cash Shares are the Physico Vendors Group.

The persons who will have a relevant interest in the Shares to be allotted to:

Leantale – Mr David Greenblo
Invertex – Mr Colin Elterman
Clothold – Clothold is a subsidiary of a public company registered in Ireland which has a range of shareholders
Rohald – Mr Rohald alone will have a relevant interest in any Shares he acquires

The associates of the Physico Vendors who are known as at the date of this Explanatory Memorandum are:

As at the date of this Explanatory Memorandum it is anticipated that out of the Physico Cash Shares to be subscribed for by the Physico Vendors Group a minimum of 2.5 million Shares will be subscribed for by Clothold or by one or more entities which may or may not be associated with Clothold and a minimum of 2.5 million Shares will be subscribed for by Invertex. The precise identities of the other associates of the Physico Vendors who will subscribe the balance of the Physico Cash Shares is at the date of this Explanatory Memorandum unknown. It is possible, but unlikely, that Invertex or Clothold or a combination thereof will subscribe for some or all of the balance of the Physico Cash Shares.
The persons who will have a relevant interest in the Shares to be allotted to the above known associates of the Physico Vendors are:

Invertex – Mr Colin Elterman
Clothold - Clothold is a subsidiary of a public company registered in Ireland which has a range of shareholders

(b) all particulars (including both the number and percentage) of the Shares in the Company to which the allottee will be "entitled" immediately before and after the proposed acquisition:

It is expected that the Physico Vendors Group will have nil "voting power" in the Company immediately prior to the Completion Date.

On the above assumptions the Physico Vendors Group will have the "voting power" of between 11 million Shares and 13.5 million votes attaching to voting shares in the Company (constituting between approximately 30.6% and 37.6% of the then voting power) immediately after the Completion Date and between 19 million Shares

and 21.5 million Shares (constituting between approximately 40.2% and 45.5% of the then voting power) immediately after the date of the Performance Shares Conversion.

These percentages are based on the assumptions noted in Section 2.9.1 above that the Physico Vendors Group do not otherwise acquire or dispose of any other voting shares in the Company.

(c) the identity, associations with the allottee and with any of their associates and qualifications of the persons who it is intended will become Directors if Shareholders agree to the allotment:

Mr David Greenblo – Mr Greenblo controls Leantale which is one of the Physico Vendors

Mr Neil Brine - Mr Brine is not associated with the Physico Vendors Group

(d) a statement of the allottee's intentions regarding the future of the Company if Shareholders agree to the allotment and in particular:

2.9.2.1 any intention to change the business of the Company.

2.9.2.2 any intention to inject further capital into the Company, and if so how.

2.9.2.3 the future employment of the present employees of the Company.

2.9.2.4 any proposal whereby any property will be transferred between the Company and the allottee or any person associated with any of them.

2.9.2.5 any intention to otherwise re-deploy the fixed assets of the Company.

The Physico Vendors intend that as from Completion the Company will focus its attention and resources on the operation and development of the Ed Harry and Physico businesses. At the present time the Company has no operations or employees, other than the Current Directors and the current company secretary. As noted above it is intended that 1 of the Current Directors will retire at Completion. It is intended that the services of the current Company Secretary will be retained for the immediate future.

Other than through their procuring the contribution of $5 million for the Physico Underwritten Shares at Completion the Physico Vendors do not presently have any intention to inject further capital into the Company. Other than the acquisition of Physico the Physico Vendors do not propose that any property will be transferred between them (or

any associates) and the Company. The Company does not presently have any fixed assets of any significance.

(e) particulars of the terms of the proposed allotment and any other contract or proposed contract between the allottee and the Company or any of their associates which is conditional upon or directly or indirectly dependant upon shareholders' agreement to the allotment;

As described elsewhere in this Explanatory Memorandum.

(f) when the allotment is to be made;

It is proposed that the allotment of the 6 million Shares and the 8 million Performance Shares to the Physico Vendors and the allotment of the Physico Cash Shares to the Physico Vendors Group contemplated by Resolution 1 will be on the Completion Date. The Conversion of the 8 million Performance Shares to 8 million Shares will occur if and when the Performance Hurdles are met.

(g) an explanation of the reasons for any proposed allotment;

The reasons are fully dealt with elsewhere in this Explanatory Memorandum.

(h) the interests of the Directors in the Resolution numbered 1.

The Current Directors of the Company have no interest in Resolution numbered 1 other than as the holders of securities in the Company and other than as detailed in Section 2.9.5 below.

(i) in the case of a listed company any additional information that the Listing Rules require to be disclosed.

All such information is disclosed elsewhere in this Explanatory Memorandum.

Policy Statement 74 also provides that shareholders of the Company should be provided with:

(A) the identity of the Directors who approved or voted against the proposal to put the resolution to Shareholders and the relevant explanatory memorandum to Shareholders;

All Directors of the Company voted in favour of the relevant resolution. Details of the Directors are set out below:

Mr John Corr
Mr Gavin Argyle
Mr Jeremy Shervington

(B) the recommendation or otherwise of each Director as to whether non-associated shareholders should agree to the acquisition and the reason for that recommendation or otherwise;

The Directors recommend that Shareholders vote for the Resolution because the acquisition of the 6 million Shares, the Physico Cash Shares, the 8 million Performance Shares and the 8 million Shares resulting from the Performance Shares Conversion are fundamental to the Acquisition Agreements and the Directors consider that the implementation of the Acquisition Agreements is in the best interests of Shareholders.

(C) any intention of the allottee to change significantly the financial or dividend policies of the Company.

The financial policies of the Company will alter because at the present time the Company has no operations and is simply seeking out business opportunities. After Completion the financial policies of the Company will be guided by the intentions of all parties concerned, including the Physico Vendors to operate and develop Ed Harry and Physico. There are currently no dividend policies in place in respect of the Company.

(D) an analysis of whether the proposal is fair and reasonable when considered in the context of the interests of, the shareholders other than those involved in the proposed allotment or associated with such persons.

Policy Statement 74 provides that the directors of a company may satisfy their obligation to provide shareholders with an analysis of a "Section 623" proposal by those directors not associated with the proposal commissioning an independent expert's report. Attached to this Explanatory Memorandum is a report prepared by Horwath Investment Services Pty Ltd.

Policy Statement 74 also provides that regardless of whether an independent expert's report is provided shareholders should be informed of the particulars of how the proposal was examined and evaluated as well as the results of the examination and evaluation. The Directors have independently formed the view that the transactions contemplated by the Acquisition Agreements will improve the financial prospects of the Company.

Policy Statement 74 requires that the Notice of Meeting and information memorandum should be despatched to shareholders not less than 21 days before the meeting. This requirement has been met by the Notice of Meeting.

2.9.3 Chapter 11 – Listing Rules

Under Rule 11.1 of the Listing Rules it is provided that if an entity proposes to make a significant change, either directly or indirectly, to the nature or scale of its activities, it must provide full details to ASX as soon as is practicable. It must do so in any event before making the change.

Rule 11.1.1 specifically requires that an entity must give ASX information regarding the change and its effect on future potential earnings and any information that ASX asks for.

The proposed acquisition of Ed Harry and Physico in the terms contemplated by the Acquisition Agreements constitutes a change of the nature contemplated by Rule 11.1.

The announcement made by the Company to ASX on 7 March 2005 and subsequent announcements together with the contents of the Notice and of this Explanatory Memorandum are intended to fulfil the above requirements of Rule 11.1

Further, Rule 11.1.2 of the Listing Rules provides that in the case of a change of the nature contemplated by Rule 11.1, if ASX requires, the entity must get the approval of holders of its ordinary securities and must comply with any requirements of ASX in relation to the relevant notice of meeting.

By despatching the Notice and this Explanatory Memorandum and by proposing Resolutions 1, 2 and 3 the Company also fulfils this requirement, subject to the passage of Resolutions 1, 2, 3 and 4.

Further, Rule 11.1.3 of the Listing Rules provides that if ASX requires, the relevant entity must meet the requirements of Chapters 1 and 2 of the Listing Rules as if the entity were applying for admission to the Official List.

The Company proposes (but at this stage there is no guarantee that it will – however, Completion will not proceed unless it does) to meet the requirements of Rule 11.1.3 viz:

- The Company will ensure that on or before Completion the "spread requirements" of Listing Rule 1.1 are met namely:

  (i) that the Company has at least 400 Shareholders each having a parcel of Shares with a value (based on 60 cents each) of at least $2,000 excluding "restricted securities"; and

  (ii) that persons who are not related parties of the Company hold more than 25% of the issued Shares (excluding "restricted securities");

  To the extent that Biron's existing shareholder base does not enable this requirement to be satisfied, the Company will endeavour to ensure that the subscriptions under the Prospectus are such that this requirement is met at the time of Completion.

- The Company's Constitution is consistent with the Listing Rules;

- The Company will issue the Prospectus;

- There is a requirement that Shares in the Company trade at or above or are issued at a price at or above 20 cents prior to Completion. This will be achieved via the Prospectus;

- The Company will comply with Listing Rule 1.1 (Condition 11) by reason that the Existing Options, the 60 cent Options and the 72 cent Options have an exercise price in excess of 20 cents.

- Biron will issue a Prospectus which will be lodged with ASIC in respect of the Capital Raising i.e. an issue of 15 million Shares at 60 cents per Share (as well as in respect of the other securities to be issued in connection with the Transaction). It is anticipated that this will be lodged and issued between the date of despatch of the Notice of Meeting and the date of the Meeting.

- It is proposed that completion of the Transaction will occur on or before 31 August 2005 with effect from the Effective Date.

- At the time of Completion of the Transaction the Company will meet the requirements of Listing Rule 1.3 in that it will have a market capitalisation (based on the issue price of 60¢ per share under the Prospectus) of approximately $21.5m. (or $28.3m if all the Performance Shares are treated as Shares) and less than half of the Company's total tangible assets (after the costs of the Transaction) will be in cash or in a form readily convertible to cash.

- The Prospectus will include a statement that the Company has sufficient working capital to carry out its stated objectives and the Company's working capital, as at Completion, will be at least $1.5 million (or would be at least $1.5 million if the Company's budgeted revenue for the first full financial year that ends after Completion was included in the working capital calculation).

- Prior to Completion Biron will satisfy Listing Rule 1.3.5(a) by giving to ASX any accounts in respect of Biron, Ed Harry and Physico together with any audit report or review:

  - For the last three full financial years (or shorter period of ASX agrees); and
  - For the last half year (or longer period if available) from the end of the last full financial year.

- Biron has included a reviewed pro forma consolidated balance sheet of Biron (based on Completion having occurred) in this Explanatory Memorandum in satisfaction of Listing Rule 1.3.5(c). A similar pro forma will be included in the Prospectus.

- Within seven days of the issue of the Prospectus the Company will apply for quotation of the securities to be issued under the Prospectus. On or before Completion the Company will also seek quotation of any other ordinary shares to be issued as part of the Transaction. This will meet the requirements of Listing Rule 2.4.

- To the extent that ASX classifies any of the securities to be issued as part of the Transaction as "restricted securities" the Company will be required to obtain executed restriction agreements from the relevant holders and give them to ASX – it is planned that this will occur on or before Completion.

If shareholders approve of the Transaction at the Meeting trading in the Company's securities will be suspended until the requirements of Chapters 1 and 2 of the Listing Rules have been satisfied. Biron will request a trading halt for the day of the Meeting.

So long as any of the requirements of Chapters 1 and 2 are still outstanding trading in the Company's securities will not start again before those requirements are satisfied. It is expected that this will occur immediately following Completion.

The Acquisition Agreements are conditional upon the Company meeting all of the above requirements in relation to Rule 11.1.3 at or prior to Completion.

2.9.4 Chapter 7 – Listing Rules

Under Chapter 7 of the Listing Rules there are limitations on the capacity of a company to enlarge its capital by the issue of equity securities in any 12 month period. The limitation is to 15%.

The issue of the Shares, the Performance Shares and the 72 cent Options the subject of Resolution 1, when combined with the 60 cent Options to be issued pursuant to Resolutions 6, 7 and 8 would exceed that limit.

Accordingly one of the purposes of Resolution 1 is to meet the requirement of Rule 7.1 of the Listing Rules that an issue of securities can exceed the 15% threshold if the issue receives the prior approval of the holders or ordinary securities in the Company by ordinary resolution.

The creation of the 11,333,333 Shares as a result of the Performance Shares Conversion will be permitted under Rule 7.1 because the Performance Shares are in effect "convertible securities" as defined in the Listing Rules and Exception 4 in Listing Rule 7.2 applies because approval is being obtained for the issue of the Performance Shares in accordance with the Listing Rules.

Rule 7.3 of the Listing Rules contains certain requirements as to the contents of a notice sent to Shareholders for the purposes of Rule 7.1 and the following information is included in this Explanatory Memorandum for that purpose:

- The maximum number of securities to be issued pursuant to Resolution 1 is 26,333,333 Shares, the 11,333,333 Performance Shares and the 3 million 72 cent Options;

- The Shares, the 11,333,333 Performance Shares and the 72 cent Options will be issued on the Completion Date, no later than one month after the Meeting;

- The issue price of the Shares, the Physico Consideration Shares, the Performance Shares and the EH Consideration Shares is 60 cents each. In the case of the Physico Consideration Shares, the Performance Shares and the 8 million Shares to be issued to the Physico Vendors resulting from the Performance Share Conversion the issue price is to be satisfied by the issue of the Physico Shares and the Finwave Shares to the Company. The EH Consideration Shares and 3,333,333 Performance Shares are being issued as part of the consideration for Ed Harry. In the case of the remainder of the Shares the issue price is payable in cash other than the 2 million Shares in paragraph (A)(a)(iv) of Resolution 1 being issued to Investec which are to be issued in payment of Transaction Fees;

- No cash is being paid for the 72 cent Options;

- The names of the allottees of the Shares – The proposed allottees are the Physico Vendors (6 million Shares and 8 million of the Performance Shares), the Physico Vendors Group in respect of the Physico Cash Shares, (it is currently anticipated that Invertex and Clothold (or possibly one or more entities which may be associated with Clothold) will each subscribe for at least 2.5 million of the Physico Cash Shares) Suregroup in respect of the EH Consideration Shares and 3,333,333 Performance Shares, unassociated persons who the Physico Vendors procure to subscribe for between 833,333 and 3,333,333 of the Balance Capital Raising Shares, the Current Directors in respect of up to 1,666,666 Shares, Investec as to 2 million of the Shares and those other Cash Subscribers who subscribe to the remainder of the Balance Capital Raising Shares being, it is expected, various unassociated clients of any Underwriter;

- The allottee of the 72 cent Options is Investec;

- The terms of issue of the Shares: the Shares that will be issued pursuant to Resolution 1 will be issued on the same terms and conditions as the Existing Shares and will from the date of issue rank equally in all respects with all of the Existing Shares including the right to participate in any dividends paid or declared after the date of issue;

- the terms of issue of the Performance Shares are defined in Section 9. It is noted that the Conversion of the Performance Shares to Shares will occur automatically upon the occurrence of the events in either paragraphs (a) or (b) of the definition of "Conversion Date" in Section 9 and that there is no vesting period or expiry date in respect of the Conversion Date;

- The intended use of the funds raised: – as noted above the Physico Consideration Shares, the EH Consideration Shares and 3,333,333 Performance Shares will be issued as part consideration for the acquisition of the Physico Shares and Ed Harry respectively and, therefore, no funds will become directly available from the issue; The 2 million Shares in paragraph (A)(a)(iv) of Resolution 1 are issued as consideration for Transaction Fees. The cash raised from the issue of the Capital Raising Shares will be used to pay part of the consideration under the Acquisition Agreements and to supplement the working capital of the Company including for the costs of the Transaction;

- The terms of issue of the 72 cent Options are as follows:

  (a) each Option is exercisable between 18 months after the Completion Date and 5 years after the Completion Date;

  (b) The Options held by each holder can be exercised in whole or in part, and if exercised in part multiples of 5,000 must be exercised on each occasion;

  (c) The exercise price is 72 cents in cash;

  (d) The Options can be transferred;

  (e) The Optionholder will be permitted to participate in any new pro-rata issue of securities of the Company on prior exercise of the Options in which case the Optionholder will be afforded the period of at least 9 Business Days prior to and inclusive of the record date to determine entitlements to the issue to exercise the Options;

  (f) The Options do not confer on the holder any right to participate in dividends until Shares are allotted pursuant to the exercise of the Options;

  (g) In the event of a reorganisation of the issued capital of the Company, the Options will be reorganised in accordance with the Listing Rules (if applicable) and in any case in a manner which will not result in any benefits being conferred on Optionholders which are not conferred on Shareholders;

  (h) The number of Shares to be issued pursuant to the exercise of Options will be adjusted for bonus issues made prior to exercise of the Options so that, upon exercise of the Options the number of Shares received by the Optionholder will include the number of bonus Shares that would have been issued if the Options had been exercised prior to the record date for the bonus issues. The exercise price of the Options shall not change as a result of any such bonus issues;

  (i) At any time during the period that the 72 cent Options are exercisable the holder of all of the 72 cent Options can by 30 days written notice to the Company elect to forfeit all of the 72 cent Options and in that event at the end of the 30 day notice period the Company will cancel all the 72 cent Options and pay the holder of all of the 72 cent Options $500,000 in exchange for the delivery of the certificate or holding statement in respect of all of the 72 cent Options.

(j) No application will be made for the 72 cent Options to be granted quotation by ASX.

- The Shares, the Performance Shares and Options the subject of Resolution 1 will all be issued simultaneously at Completion;
- The relevant notice is required to include a voting exclusion statement – this is included in the Notice.

2.9.5 Corporations Act - Chapter 2E

Chapter 2E of the Corporations Act prohibits a public company from giving a financial benefit to a related party. Because it is proposed, pursuant to the Acquisition Agreements, that each of them will become a director of the Company at Completion, Messrs D Greenblo and N Brine are each a related party of the Company pursuant to Subsection 228(6) of the Corporations Act.

Pursuant to Subsection 228(4) of the Corporations Act any entity controlled by Messrs D Greenblo or N Brine is each a related party of the Company.

Messrs C Elterman and S Rohald, Invertex and Clothold are regarded as acting in concert with Mr D Greenblo and, therefore, pursuant to Subsection 228(7) of the Corporations Act each of Messrs C Elterman and S Rohald, Invertex and Clothold is a related party of the Company.

Pursuant to Subsection 228(2) of the Corporations Act each of Messrs J Corr, G Argyle and J Shervington as directors of the Company are related parties to the Company as are entities that they respectively control.

The definition of what constitutes giving a financial benefit is broad and does not necessarily involve paying money. It includes buying or selling of assets, issuing securities and granting options. It includes giving a financial benefit indirectly, for example, through 1 or more interposed entities.

Paragraph 229(1)(c) of the Corporations Act provides that in deciding whether a financial benefit is given any consideration that is or may be given for the benefit is to be disregarded, even if it is adequate.

Various aspects of the Transaction, therefore, contemplated by Resolution 1 constitute the Company giving a financial benefit to a related party namely:

- The acquisition of Ed Harry from Suregroup (which is controlled by Mr N Brine) in the terms provided for in the Ed Harry Acquisition Agreement;

- The issue of the EH Consideration Shares and 3,333,333 Performance Shares to Suregroup as part of the consideration under the Ed Harry Acquisition Agreement;

- The Company entering into the Property Lease with the Lessor which is controlled by Mr N Brine;

- The acquisition of Physico from the Physico Vendors in the terms provided for in the Physico Acquisition Agreement and the issue of the Physico Consideration Securities to them;

- The subscription by any of the Physico Vendors for any of the Physico Cash Shares (if being currently anticipated that Clothold and Invertex will each subscribe for a minimum of 2.5 million of the Physico Cash Shares).

- The participation of the Current Directors (or entities respectively controlled by them) in the Capital Raising as follows. The number of Shares that the Current Directors may subscribe for in total is 1,666,666 and the allocation of that total number of Shares between the Current Directors remains to be determined as at the date of this Explanatory Memorandum. Accordingly, the maximum participation of each of the Current Directors (which assumes in each case that the other 2 Current Directors do not participate in the Capital Raising at all) is as follows:

  Mr J Corr – the subscription for up to 1,666,666 of the Capital Raising Shares;

  Mr G Argyle – the subscription for up to 1,666,666 of the Capital Raising Shares;

  The subscription by Panga Pty Ltd (controlled by Mr J Shervington) - for up to 1,666,666 Shares in the Capital Raising;

- The Company entering into the Suregroup Consultancy Agreement;

- The Company entering into the Elterman Services Agreement;

- The Company entering into the Greenblo Services Agreement;

- The Company entering into the Rohald Services Agreement;

- The Company entering into the Enbee Loan Facility with Enbee Holdings in relation to the advance of $6 million;

- The Cost Sharing Arrangements and the performance thereof;

- The Company providing the benefits to Physico Property Pty Ltd (controlled by Messrs Elterman and Greenblo) under the Alexandria Lease;

Section 208 of the Corporations Act provided an exemption from the prohibition contained in Chapter 2E and provides that a public company may give a financial benefit to a related party if a resolution of the shareholders of the public company permits the benefit to be given, and the resolution was passed at a general meeting of the public company held within 15 months before the public company gives the benefit and if the conditions prescribed by Division 3 of Part 2E.1 of the Corporations Act have been satisfied in relation to the resolution.

Resolution 1 is therefore, intended to satisfy these requirements in relation to the "related party" aspects of the Transaction that fall within Resolution 1.

The requirements of Section 219 of the Corporations Act in relation to the Explanatory Memorandum to accompany a notice of meeting for these purposes are as follows. The Explanatory Memorandum must set out:

(a) the related parties to whom the proposed resolution would permit financial benefits to be given. The related parties are:

  (i) Suregroup and Mr Brine;

  (ii) The Lessor controlled by Mr Brine;

  (iii) The Physico Vendors;

  (iv) The Current Directors;

  (v) Messrs Greenblo, Elterman and Rohald;

  (vi) Enbee Holdings controlled by Mr Brine;

(b) the nature of the financial benefits: The financial benefits are in summary:

  (i) Suregroup – the initial cash consideration of $15 million and the Deferred Purchase Price being provided for the purchase of Ed Harry and the reimbursement of certain capital expenditure as provided for in the Ed Harry Acquisition Agreement;

  (ii) Suregroup – the issue of the Ed Harry Consideration Securities and 3,333,333 Performance Shares as part of the consideration under the Ed Harry Acquisition Agreement;

  (iii) The Lessor – the benefits to the Lessor that will accrue under the Property Lease;

  (iv) The Physico Vendors – the issue of the Physico Consideration Securities and the payment of the PCC Loan Sum being the consideration to be given for the purchase of Physico as provided for in the Physico Acquisition Agreement; and

  (v) The Physico Vendors -

  the issue of up to 7.5 million of the Physico Cash Shares for 60 cents per Share in cash;

(vi) Suregroup – the benefits under the Suregroup Consultancy Agreement;

(vii) Messrs Greenblo, Elterman and Rohald – the benefits under respectively the Greenblo Services Agreement, the Elterman Services Agreement and the Rohald Services Agreement;

(viii) Enbee Holdings – the benefits under the Enbee Loan Facility and the Enbee Documentation;

(ix) The Physico Vendors – the Cost Sharing Arrangements under which up to $75,000 may be paid by Biron in connection with expenses incurred by the Physico Vendors in relation to the Transaction;

(x) The Current Directors – the issue of up to a total of 1,666,666 of the Capital Raising Shares for 60 cents per Share;

(xi) Messrs Greenblo and Elterman – the benefits that may flow indirectly to them under the Alexandria Lease as controllers of Physico Property Pty Ltd;

and any advantages thereby conferred which can only be gauged by reference to, amongst other things, the consideration being provided and received at Completion or to be provided and received after Completion in each case being cash, various assets and services and shares and the other rights and benefits in the various contracts described above, the price of the Company's Shares from time to time and the number of Shares and other securities on issue in the Company from time to time.

(c) in relation to each Director of the Company:

(i) if the Director wanted to make a recommendation to members about the proposed resolution - the recommendation and his or her reasons for it; or

(ii) if not why not? or

(iii) if the Director was not available to consider the proposed resolution - why not?

The Directors unanimously recommend that Shareholders vote for Resolution 1 because its passage is an integral part of the Acquisition Agreements the implementation of which will in the Directors' view see an increase in the value of the Existing Shares and also in view of the conclusions arrived at by Horwath (NSW) Pty Ltd in its Report which forms part of this Explanatory Memorandum. This recommendation is made notwithstanding that the Current Directors may receive a "financial benefit" in the form of the issue of a portion of the Capital Raising Shares, account being taken of the fact that if these Shares are subscribed for they will be subscribed for at the same price and on identical terms to arms length unrelated parties.

(d) In relation to each such director whether the director had an interest in the outcome of the proposed resolution:

None of the Directors has a personal interest in the outcome of the proposed Resolution save as referred to below.

The Current Directors hold Shares and will if Resolutions 6, 7 and 8 are passed hold Options and may, if Resolution 1 is passed choose to participate in the Capital Raising.

Although it is not a direct interest or benefit, Fearis Salter Power Shervington, a legal firm of which Mr Shervington is a partner, will on Completion be paid professional fees (estimated at approximately $50,000) out of the Company's cash reserves as supplemented by the Capital Raising Funds in respect of legal work in connection with this Notice of Meeting, the Prospectus and the Transaction generally.

Mr Corr is a party to an executive service agreement with the Company under which he will, subject to Completion occurring, act in a corporate planning and development role for the Company for a minimum of 20 hours per week for a term of 1 year from the Commencement Date for a remuneration package comprising $240,000 per annum plus reimbursement for 2.5 days per week of office rental costs plus reimbursement of certain communication costs.

(e) All other information that is reasonably required by members in order to decide whether or not it is in the Company's interest to pass the proposed Resolutions and is known to the Company or any of its directors.

Other than as set out in this Explanatory Memorandum, there is no such further information considered by the Directors to be relevant.

2.9.6 Listing Rules - Chapter 10

Chapter 10 of the Listing Rules contains certain provisions in relation to transactions between a company and "persons in a position of influence" which includes "related parties" as defined in the Corporations Act. One of the exceptions to the Rule is a transaction between a company and a person who is a related party by reason only of the transaction and the application to it of Section 228(6) of the Corporations Act. (Please refer to Section 2.9.5 above for a description of this Section.) Accordingly, those aspects of the transaction which involve "related parties" connected with Suregroup and the Physico Vendors fall within this exemption. However, Rule 10.11 provides that a company must not issue equity securities to a "related party" (or a person whose relationship with a related party is, in ASX's opinion, such that shareholder approval should be obtained) without the approval of the holders of ordinary securities by ordinary resolution. As noted above the Current Directors are "related parties". Approval is, therefore, sought under Resolution 1 for the purposes of fulfilling the requirements of Listing Rule 10.11 in relation to the participation of the Current Directors in the Capital Raising.

The following information is included in this Explanatory Memorandum for the purposes of Listing Rule 10.13:

- the number of securities to be issued if any one or more of the Current Directors elect to participate in the Capital Raising is a total of 1,666,666 Shares to be distributed in proportions yet to be determined between Mr J Corr or his nominee, Mr G Argyle or his nominee and Panga Pty Ltd (associated with Mr J Shervington);

- The Shares are to be issued at 60 cents each;

- The allottees of the Shares will be the Current Directors and associates as shown above;

- The terms of issue of the Shares the Shares will rank equally in all respects with Existing Shares;

- The intended use of the funds raised – as noted above the funds will form part of the Capital Raising Shares and no funds will become directly available;

- The Shares will all be issued simultaneously at Completion within a month of the Meeting;

- The relevant notice is required to include a voting exclusion statement – this is included in the Notice.

3. SPECIAL RESOLUTION 2

The Corporations Act provides in paragraph 260A(1)(b) that a company may financially assist a person to acquire shares in the company only if, amongst other things, the assistance is approved by shareholders of the company under Section 260B of the Corporations Act.

It is suggested by Suregroup's advisers that the connection between the issue of the EH Consideration Shares and the Company entering into and performing the Enbee Documentation may constitute the Company financially assisting Suregroup to acquire shares in the Company i.e. the EH Consideration Shares and 3,333,333 Performance Shares. Accordingly, approval is being sought under Special Resolution 2 for the purpose of meeting the requirements of Section 260B of the Corporations Act.

Sub-section 260B(5) of the Corporations Act requires that before a notice of meeting is sent out for the purposes of sub-section 260A(1) of the Corporations Act the relevant company must lodge with ASIC a copy of the notice and any document relating to the financial assistance that will accompany the notice of the meeting send to the members. This has occurred in respect of this Notice and Explanatory Memorandum.

Sub-section 260B(6) of the Corporations Act provides that the relevant company must lodge with ASIC at least 14 days before giving the financial assistance a notice in the prescribed form stating that the assistance has been approved under Section 260B. This will occur immediately following the Meeting.

Sub-section 260B(4) of the Corporations Act provides that a company that calls a meeting for the purposes of sub-section 260B(1) must include with the notice of the meeting a statement setting out all the information known to the company that is material to the decision on how to vote on the resolution.

Essentially Resolution 2 will allow the Company to issue the EH Consideration Shares and 3,333,333 Performance Shares which form part of the consideration for the acquisition of Ed Harry and to enter into and perform the Enbee Documentation under which Enbee Holdings will provide the Enbee Loan Facility of $6 million to the Company and the Company will provide security to Enbee Holdings in the form of charges over its assets to secure the repayment of all moneys owing to Enbee Holdings which security will be subordinated to the securities that will be held by the Senior Debt Provider under the Senior Debt Documentation.

The impact of the Company borrowing funds under and providing security in respect of the Enbee Loan Facility is reflected in the pro-forma balance sheet of the Company in Section 2.5.2 and as further described in the final paragraph of Section 4 hereunder and elsewhere in this Explanatory Memorandum.

4. SPECIAL RESOLUTION 3

As noted above, the Corporations Act provides in paragraph 260A(1)(b) that a company may financially assist a person to acquire shares in the company only if, amongst other things, the assistance is approved by shareholders of the company under Section 260B of the Corporations Act.

At Completion each member of the Physico Group and the Company will enter into the Senior Debt Documentation with the Senior Debt Provider to secure the obligations of the Company and the Physico Group to the Senior Debt Provider under the Senior Debt Facility and the Senior Debt Documentation. The provision of the Senior Debt and the securities and covenants given under the Senior Debt Documentation will assist the Company in acquiring the shares in the Physico Group, both directly and indirectly, by assisting the Company to meet its commitments under the Ed Harry Acquisition Agreement (on which the Physico Acquisition Agreement is conditional) by assisting the Company to pay the PCC Loan and by providing the Company with funds to pay Transaction costs and for working capital. Under the Physico Acquisition Agreement the Physico Vendors covenant to procure that resolutions are passed by each member of the Physico Group that fulfil the requirements of Section 260B(1) in respect of each such company. This will occur before the Meeting.

Under Section 260B(2) of the Corporations Act, because each of the Physico Group companies will become a subsidiary of Biron immediately after the acquisition of the Physico Shares by Biron, the financial assistance must also be approved by a special resolution passed at a general meeting of Biron.

Sub-section 260B(5) of the Corporations Act requires that before a notice of meeting is sent out for the purposes of sub-section 260A(1) of the Corporations Act the relevant company must lodge with ASIC a copy of the notice and any document relating to the financial assistance that will accompany the notice of the meeting sent to the members. This has occurred in respect of each member of the Physico Group and in respect of this Notice and Explanatory Memorandum.

Sub-section 260B(6) of the Corporations Act provides that the relevant company must lodge with ASIC at least 14 days before giving the financial assistance a notice in the prescribed form stating that the assistance has been approved under Section 260B. This will occur in respect of Biron immediately following the Meeting and prior to the Meeting in respect of the meetings of the Physico Group member companies.

Sub-section 260B(4) of the Corporations Act provides that a company that calls a meeting for the purposes of sub-section 260B(1) must include with the notice of the meeting a statement setting out all the information known to the company that is material to the decision on how to vote on the resolution.

Set out above is a summary description of the nature of the financial assistance to be provided by Biron and the Physico Group. Its impact on Biron will be that at Completion Biron will have acquired Ed Harry and Physico, its capital structure will have altered to that set out in Section 2.5.2.3, its financial position will have altered by the borrowing and utilisation of the Senior Debt as illustrated in the pro forma balance sheet in Section 2.5.2 and its overall circumstances and prospects will have altered as described throughout this Explanatory Memorandum.

5. SPECIAL RESOLUTION 4

Please refer to Sections 3 and 4 above for a description of Section 260B of the Corporations Act.

Under the Physico Acquisition Agreement the Company will:

(a) repay the Physico Shareholder Loans; and
(b) pay the PCC Loan Sum in repayment of the PCC Loan.

Under the Cost Sharing Arrangements, up to $75,000 may be paid to the Physico Vendors at Completion in connection with Transaction related expenses.

Pursuant to the Physico Acquisition Agreement the Company will acquire Physico which is a party to the Alexandria Lease.

As noted elsewhere in this Explanatory Memorandum the Physico Vendors Group will subscribe for between 5 million and 7.5 million of the Physico Underwritten Shares. As at the date of this Explanatory Memorandum it is anticipated that

Invertex and Clothold (or one or more entities which may be associated with Clothold) will each subscribe for 2.5 million of the Physico Cash Shares and it is possible that some or all of the other Physico Vendors may subscribe for some of the Physico Cash Shares also.

To the extent that any of the Physico Vendors subscribe for any of the Physico Cash Shares and to the extent that they receive cash under the Physico Acquisition Agreement, the Cost Sharing Arrangements or the Alexandria Lease, the Company will have financially assisted them in the acquisition of those Shares.

Similarly, to the extent that the payment of the PCC Loan relieves any of the Physico Vendors from any financial obligations (contingent or actual) in connection with the affairs of the Physico Group then the Company may, to that extent, have financially assisted any of those Physico Vendors who may subscribe for any of the Physico Cash Shares to acquire those Shares.

The impact of the financial assistance described above on Biron is illustrated in the pro forma balance sheet in Section 2.5.2 and its overall circumstances and prospects will have altered as described throughout this Explanatory Memorandum.

6. SPECIAL RESOLUTION 5

The proposed change of name is to reflect the proposed new focus of the Company.

7. RESOLUTIONS 6, 7 & 8

7.1 Background

Resolutions 6, 7 and 8 seek Shareholder approval for the grant of 1,000,000 Options – 600,000 to Mr J Corr, 200,000 to Mr G Argyle and 200,000 to Mr J Shervington (or their respective nominees) on the terms and conditions set out in Section 7.5.

On 17 February 2005 Directors resolved to issue the 60 cent Options and to put the issue of the Options to Shareholders for approval.

The primary purpose of the grant of 60 cent Options was to supplement the remuneration package of the Directors given the Board's desire to preserve the Company's cash reserves in advance of the Board succeeding in its efforts at that time in pursuit of opportunities that would enhance the Company's earnings profile thereby providing an incentive to assist in retaining appropriately qualified Board members for the Company.

In determining the number of Options that are proposed to be granted to Directors, the Board has considered several matters, including the number and terms of Existing Options on issue and the fact that the exercise price of the 60 cent Options is approximately 35% higher than the weighted average trading price of the Company's Shares in the 8 week period prior to the Board's decision to grant the Options, thus providing what was considered an appropriate level of incentive to the Directors to further the Board's objective of sourcing and consummating a transaction to enhance the Company's earnings and growth profile. It concluded that the number of Options proposed to be issued and the value that would be attributed to them under a valuation along the lines of the valuation referred to in Section 7.4 taking into account the above factors offered a reasonable level of supplemental remuneration and incentive.

7.2 Key Details of the Options to be Granted

Key details of the 60 cent Options are set out below:

Director	No. of Options	Offer Price per Option	Exercise Details	Expiry Date
Mr J Corr	600,000	No consideration is payable in respect of the issue of Options	Each Option has an exercise price of \$0.60 (60 cents) and is exercisable from the date of the grant until the expiry date	5 years from the date of the Meeting
Mr G Argyle	200,000	No consideration is payable in respect of the issue of Options	Each Option has an exercise price of \$0.60 (60 cents) and is exercisable from the date of the grant until the expiry date	5 years from the date of the Meeting
Mr J Shervington	200,000	No consideration is payable in respect of the issue of Options	Each Option has an exercise price of \$0.60 (60 cents) and is exercisable from the date of the grant until the expiry date	5 years from the date of the Meeting

A summary of the other terms and conditions of the 60 cent Options is set out in Section 7.5.

7.3 Chapter 2E of the Corporations Act

As noted above in Section 2.9.5 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 one of the nominated exceptions to the provisions; or

(b) prior Shareholder approval is obtained to the giving of the benefit.

Each Director and each entity controlled by a Director is a related party of the Company.

The proposed grant of Options to the Directors or their respective nominees involves the provision of a financial benefit to a related party of the Company and, therefore, requires Shareholder approval. In accordance with the requirements of Chapter 2E and in particular, section 219 of the Corporations Act, the following information is provided to allow Shareholders to assess the proposed grant of 60 cent Options in Resolutions 6, 7 and 8:

(a) Mr J Corr, Mr G Argyle and Mr J Shervington (or their respective nominees) are the related parties of the Company to whom Resolutions 6, 7 and 8 would respectively permit the financial benefit to be given;

(b) The proposed financial benefits to be given to the Current Directors are the grant of 1,00,000 60 cent Options and the advantages thereby conferred which can only be gauged by reference to the consideration provided (being nil cash consideration) the underlying assets of the Company, the market price of the Company's Shares from time to time and the number of Shares and Options and other securities on issue in the Company from time to time;

(c) Resolutions 6, 7 and 8 are interconditional. As at the date of this Explanatory Memorandum, the issued capital of the Company is 9,560,837 Shares and 9,778 Options. If the 60 cent Options are issued and the Directors exercised all the 1 million Options (assuming no Existing Options were exercised and that no other securities were issued by the Company in the meantime) the issued capital of the Company would increase from 9,560,837 to 10,560,837 Shares.

In that event the exercise of the Options would result in a dilution of all other Shareholders' holdings in the Company and the 1 million Shares issued upon exercise would represent approximately 9.5% of the then issued capital (based on the number of Shares on issue on the date of this Notice of Meeting).

If Resolutions 1, 2, 3 and 4 are passed and Completion occurs the 1 million Shares would, if the Options were exercised and no other Options were exercised and no securities other than those contemplated by Resolutions 1, 2, 3 and 4 had been issued and that the Performance Share Conversion had not occurred comprise 1 million out of 36,894,170 Shares or approximately 2.7% of the then issued ordinary capital. On those same assumptions but on the basis that the Performance Share Conversion had occurred that 1 million Shares would represent approximately 2.1% of the then issued Shares.

To the extent that the exercise price of the 1 million 60 cent Options may be below the market price of the Company's Shares at the time(s) those Options are exercised the Company will have foregone the opportunity of issuing the relevant Shares at a price higher than the 60 cent exercise price and closer to the relevant market price at that time.

None of the Current Directors wish to make any recommendation to Shareholders about proposed Resolutions 6, 7 or 8 because each has a material interest in the outcome of the Resolution that relates to him and the three Resolutions are interdependent.

Assuming that Resolutions 6, 7 and 8 are approved, the Current Directors will in the absence of any participation in the Capital Raising be entitled to the following securities in the Company:

Director	Shares currently held directly or indirectly	60 cent Options
Mr J Corr	600,000	600,000
Mr G Argyle	30,000	200,000
Mr J Shervington	Nil	200,000

The 60 cent Options will be granted for no consideration and otherwise on the terms set out in Section 7.5.

Details of the Current Directors current monthly remuneration is as follows:

Director	Base Fee
Mr J Corr	40,000
Mr G Argyle	40,000
Mr J Shervington	40,000

Statutory superannuation payments are made in addition to the above base fee.

Each Director is entitled to charge a daily rate of $2,000 for executive time spent on behalf of the Company outside of the ordinary course of Director's duties.

Please refer to Section 2.9.5(d) above for a description of legal fees payable to a firm of which Mr Shervington is a partner and to the executive services agreement to which Mr Corr is a party.

The value attributable to each Option to be granted is calculated to be in a range of between $0.23 and $0.28 with a "preferred value" of $0.26 (please refer to the Option pricing methodology which is set out in Section 7.6);

During the last 12 months, the Company's Shares have traded on ASX in the price range between 20.3 cents on 20 July 2004 and 70 cents on 15 March 2005. However, account needs to be taken of the fact that during that 12 month period there has been a capital return by the Company which was approved by Shareholders on 5 October 2004 of 28 cents per Share together with a concurrent 1 for 4 consolidation of the Company's capital; and

Other than the information specified above, the Board believes that there is no other information that would be reasonably required by Shareholders in order to decide whether it is in the best interest of the Company to pass Resolutions 6, 7 and 8 .

7.4 Listing Rule Disclosures

As noted in Section 1.7.6 Listing Rule 10.11 provides, in essence, that a listed company may not issue securities (including options to subscribe for shares) to any

Director or Director controlled entity without the approval of ordinary shareholders by ordinary resolution:

One other reason for seeking Shareholder approval for Resolutions 6, 7 and 8 , therefore, is pursuant to Listing Rule 10.11.

The following information is included in this Explanatory Memorandum to comply with the requirements of Listing Rule 10.13:

(a) the maximum number of Options to be granted is 1,000,000;

(b) the Options will be issued no later than one month after the date of the Meeting (or such later date as permitted by any ASX waiver or modification of the ASX Listing Rules) and it is anticipated that the Options will be issued simultaneously on one date;

(c) the Options which are to be issued pursuant to Resolutions 6, 7 and 8, are being issued for nil consideration and, consequently, no funds will be raised by the grant of the Options;

(d) the purpose of the issue of the Options is as outline above, to assist the Company in retaining directors with appropriate expertise and experience. The Company acknowledges the issue of options to non-executive directors is contrary to recommendation 9.3 of the ASX Principles of Good Corporate Governance and Best Practice Recommendations. However, the Board considers the grant of the 60 cent Options to be reasonable in the circumstances given the Company's size and nature of its operations and the necessity to retain experienced professionals in the role, whilst maintaining the Company's cash reserves;

(e) the proposed allottees of the 60 cent Options are Messrs J Corr (600,000), G Argyle (200,000) and Panga Pty Ltd (200,000) or their respective nominees; and

(f) the terms and conditions of the Options are set out in Section 7.5.

Under Exception 14 to Rule 7.1 approval is not required under that Rule in order to issue the 1 million Options if approval is obtained under Listing Rule 10.11 and a statement to that effect is included in this Explanatory Memorandum.

7.5 Terms and Conditions of 60 cent Options

The material terms and conditions of the 60 cent Options to be issued pursuant to Resolutions 6, 7 and 8 are as follows:

(a) Each Option entitles the holder to subscribe for and be allotted one Share in the capital of the Company when exercised. The Options will not be quoted on ASX;

(b) The Options are exercisable at any time on or before 5.00pm Perth time 5 years from the date of the Meeting;

(c) The exercise price of each of the Options is $0.60 (60 cents);

(d) Subject to the Corporations Act, the Constitution and the Listing Rules, the Options are transferable;

(e) The Options are exercisable by delivering to the registered office of the Company a notice in writing stating the intention of the Option holder to exercise a specified number of Options, accompanied by an Option certificate, if applicable, and a cheque made payable to the Company for the subscription monies due, subject to the funds being duly cleared funds. The exercise of only a portion of the Options does not affect the holders' right to exercise the balance of any Options remaining;

(f) All Shares issued upon exercise of the Options will rank pari passu in all respects with the Company's then existing fully paid ordinary shares. The Company will apply for admission to quotation by ASX of all Shares issued upon the exercise of Options within 3 business days after the date of the allotment of those Shares;

(g) There are no participating rights or entitlements inherent in the Options and holders will not be entitled to participate in new issues of securities to shareholders during the currency of the Options. However, the Company will ensure that, for the purpose of determining entitlements to any issue, Option holders will be notified of the proposed issue at least seven (7) business days before the record date of any proposed issue. This will given Option holders the opportunity to exercise the Options prior to the date for determining entitlements to participate in any such issue;

(h) In the event of any reorganisation (including consolidation, subdivision,, reduction or return of capital) of the issued capital of the Company on or prior to the expiry date of the Options, the rights of the Optionholder will be varied to the extent necessary to comply with the applicable Listing Rules at the time of the reorganisation;

(i) The number of Shares to be issued pursuant to the exercise of Options will be adjusted for bonus issues made prior to the exercise of the Options so that, upon exercise of the Options the number of Shares received by the Optionholder will include the number of bonus Shares that would have been issued if the Options have been exercised prior to the books closing date for the bonus issues. The exercise price of the Options shall not change as a result of any such bonus issues.

7.6 Valuation of the 60 cent Options

In accordance with a policy requirement of ASIC, the Company having taken appropriate advice, in light of that policy notes the Company attributes a total value of between $0.23 and $0.28 (with a "preferred value" of $0.26) in respect of the 1,000,000 60 cent Options to be issued pursuant to Resolutions 6, 7 and 8 on the basis of an hypothetical current share price value of 54 cents for each Share. The Current Directors will receive a financial benefit, based on this valuation, as follows:

Director	Number of Options	Range of Value ($)
Mr J Corr	600,000	138,000 to 168,000
Mr G Argyle	200,000	46,000 to 56,000
Mr J Shervington	200,000	46,000 to 56,000

This value has been derived using the "Black and Scholes" valuation method and is based upon the following inputs and assumptions:

(a) the hypothetical price of the Company's Shares is 54 cents, being the price of trading in the Company's Shares on ASX at 5 May 2005;

(b) an exercise price of $0.60 per Option;

(c) a risk free rate of 5.15% per annum;

(d) a volatility factor of 80%;

(e) an expected life of 2.5 years on the basis that for unlisted options the contracted life is rarely the effective life; and

(f) dividend yield of nil;

(g) all the other terms and conditions of the 60 cent Options as outlined in Section 7.5.

8. RESOLUTIONS 9 & 10

Messrs Corr and Shervington were appointed to the Board on 20 January 2005 and 18 February 2005 respectively. Pursuant to the Listing Rules Directors appointed to fill casual vacancies may hold office only until the next annual general meeting and then may be re-elected. The Company has elected to meet this requirement at the Meeting rather than at the next annual general meeting as the policy of the Listing Rules will thereby be met and greater certainty of continuity of Board composition post Completion is, subject to the passage of the relevant Resolutions, thereby assured.

9. DEFINITIONS

"Acquisition Agreements" means the Ed Harry Acquisition Agreement and the Physico Acquisition Agreement;

"Agreed Proportions" means:

Leantale – 33.25%

Invertex – 33.25%
Clothold – 28.5%
Rohald – 5%

"Alexandria Lease" means the lease of 7,000m^2 premises at 32 Ralph Street, Alexandria, New South Wales which Physico is the lessee of as described in Section 2.6;

"ASC" means the Australian Securities Commission;

"ASIC" means the Australian Securities & Investments Commission;

"ASX" means Australian Stock Exchange Limited (ACN 008 624 691);

"ASX Business Day" means a "business day" as defined in the Listing Rules;

"Balance Capital Raising Shares" means the Capital Raising Shares minus the Physico Cash Shares;

"Biron EBITDA" means the statutory audited and reported "earnings before interest, tax, depreciation and amortisation" of the Biron Group;

"Biron Group" means Biron and its Related Bodies Corporate;

"Board" means the Directors of the Company from time to time;

"Business Day" means a day that is not a Saturday, Sunday or any other day which is a public holiday or a bank holiday in the place where an act is to be performed or a payment is to be made;

"Capital Raising" means an issue of 15 million Shares at 60 cents each (in cash) to raise $9 million in cash and **"Capital Raising Shares"** and **"Capital Raising Funds"** each has a corresponding meaning;

"Cash Subscribers" means those entities that subscribe cash to the Capital Raising;

"Change of Control Event" means:

(a) the Company entering into a scheme of arrangement with its creditors or members or any class thereof pursuant to section 411 of the Corporations Act; or

(b) a Successful Takeover Offer; or

(c) a person or a group of associated persons having a relevant interest subsequent to Completion in sufficient Shares to give it or them the ability, in a general meeting, to replace all or a majority of the Board in circumstances where such ability was not already held at Completion by a person associated with such person or group of associated persons.;

"Clothold" means Clothold Pty Ltd ACN 083 113 455 a company which is a subsidiary of an Irish registered public company;

"Company" and **"Biron"** and **"Biron Capital"** means Biron Capital Limited ACN 009 087 469 and where the context requires includes its wholly owned subsidiary EDH which is the purchaser under the Ed Harry Acquisition Agreement and the lessee under the Property Lease;

"Completion" means completion of the Transaction under and contemplated by the Acquisition Agreements in accordance with the terms thereof;

"Completion Date" means the date Completion occurs which is intended to be on or before 31 August 2005;

"Conversion" means the automatic conversion of the Performance Shares to 11,333,333 Shares upon the Performance Hurdles being achieved;

"Conversion Date" means the earlier of:

(a) subject to paragraph (f) of the definition of "Performance Shares", the date which is 5 ASX Business Days after the earliest date on which the Biron EBITDA for any of the following periods is not less than $7,000,000:

 (i) the financial year ending 30 June 2007;

 (ii) the financial year ending 30 June 2008;

 (iii) the financial year ending 30 June 2009; or

 (iv) the financial year ending 30 June 2010; and

(b) the date a Change of Control Event occurs;

"Cost Sharing Arrangements" means arrangements agreed to between the Company and the Physico Vendors whereby subject to Completion the Company will reimburse up to $75,000 of the advisory costs incurred by the Physico Vendors in connection with the Physico Acquisition Agreement where a benefit has been derived by Biron against production of appropriate invoices;

"Current Directors" means Messrs J Corr, G Argyle and J Shervington;

"Deferred Purchase Price" means:

(a) the sum of $4 million in cash payable by the Company to Suregroup in accordance with the terms of the Ed Harry Acquisition Agreement on the First Deferred Purchase Price Payment Date in the event that the EBIT Hurdles are achieved; and

(b) the sum of $2 million in cash payable by the Company to Suregroup in accordance with the terms of the Ed Harry Acquisition Agreement on the Second Deferred Purchase Price Payment Date in the event that the EBITDA Hurdle is achieved;

"Directors" means each of the persons who acts as directors of the Company;

"EBIT" means the earnings before interest and tax of the Ed Harry Business calculated for the purpose of determining whether the EBIT Hurdles are achieved in accordance with the provisions of the Ed Harry Acquisition Agreement;

"EBITDA" means the earnings before interest, tax, depreciation and amortisation of the Biron Group calculated for the purpose of determining whether the EBITDA Hurdle is achieved in accordance with the provisions of the Ed Harry Acquisition Agreement;

"EBITDA Hurdle" means the EBITDA being no less than $7 million in the financial year ending 30 June 2007;

"EBIT Hurdles" means the EBIT being no less than $4 million in each of the financial years ended 30 June 2005 and ending 30 June 2006;

"EDH" means EDH Pty Ltd ABN 97 113 520 853;

"Ed Harry Acquisition Agreement" means an agreement dated 18 July 2005 between Suregroup, EDH, the Company and Mr Neil Brine and includes all variations thereto;

"Ed Harry Business" and **"Ed Harry"** means the mens clothing apparel business owned and operated by Suregroup and the assets and liabilities of that business acquired by EDH pursuant to the Ed Harry Acquisition Agreement;

"EDH" means EDH Pty Ltd ACN 113 520 853 a 100% owned subsidiary of the Company;

"Effective Date" means 1 July 2005;

"EH Consideration Shares" and **"EH Consideration Securities"** means the 3,333,333 Shares in paragraph(A)(a)(v) of Resolution 1 to be issued to Suregroup as part of the consideration for Ed Harry;

"Elterman Services Agreement" means an agreement between the Company and Mr Colin Elterman under which the Company agrees to employ Mr Elterman as "Business Development Manager" for an initial term of 1 year from the Completion Date for 30 hours per week in consideration of a remuneration package amounting to a total cost to the Company of $300,000 per annum;

"Enbee Deed of Priority" means a deed to be entered into between Enbee, the Company, the borrower under the Enbee Loan Facility, the Security Providers, the

Enbee Security Providers and the Senior Debt Provider in a form acceptable to Enbee Holdings which will include:

(a) confirmation of the Senior Debt Provider's consent to the Enbee Loan Facility and the Enbee Securities;
(b) provisions governing the order of ranking of security in favour of Enbee Holdings; and
(c) provisions governing the order or repayment of all amounts owing to Enbee Holdings;

"Enbee Documentation" means all the documentation that is required by Enbee Holdings to be entered into in connection with the Enbee Loan Facility including the Enbee Securities;

"Enbee Finance Documents" includes the following:

(a) loan agreement between Enbee Holdings and the borrower in respect of the Enbee Loan;

(b) Senior Debt Facility agreement;

(c) Enbee Deed of Priority;

(d) Senior Debt Securities;

(e) Enbee Securities;

"Enbee Holdings" means Enbee Holdings Pty Ltd ACN 092 822 690 and includes its nominee in respect of the Enbee Loan Facility;

"Enbee Loan" means the financial accommodation of $6 million to be made available under the Enbee Loan Facility;

"Enbee Loan Facility" means the term loan facility for the Enbee Loan to be made available to the Company by Enbee Holdings or its nominee on the following terms:

(a) The borrower is to be Biron or a wholly owned subsidiary of Biron and must be the same entity as the borrower under the Senior Debt Facility. If the borrower is not Biron, Biron will be required to guarantee the obligations of the borrower, and to be a party to the relevant loan agreement (and the Enbee Deed of Priority) in that capacity.

(b) The Senior Debt Facility is to be a secured term loan facility for an amount of not less than A$10,000,000 and not more than A$16,000,000 and on terms acceptable to Enbee Holdings.

(c) The Senior Debt Provider is to be Westpac Banking Corporation or Investec Bank (Australia) Limited or another lender approved by Enbee Holdings.

(d) The availability of the Enbee Loan Facility is to be conditional on the simultaneous entry into the Enbee Deed of Priority, on terms acceptable to Enbee Holdings.

(e) Facility proceeds are to be used only for the purpose of partially funding the acquisition of the Ed Harry Business and of funding the borrower's working capital requirements (including capital expenditure on the Ed Harry Business) in the ordinary course of its business. The Enbee Loan Facility must not be used to make any payment, prepayment or repayment under the Senior Debt Facility. The Enbee Loan Facility must not be used to fund any distributions (including dividends, share buy-backs, capital returns, payments on shareholder loans and management fees, payments of principal, interest and other amounts to any shareholder or director or officer of the borrower or any group member, deposits or redemptions of any redeemable preference shares) to shareholders or related bodies corporate of, or providers of subordinated debt to, the borrower or any group member.

(f) The term of the loan - Commencing on the Completion Date and terminating on 30 June 2008.

(g) No interest will accrue from the commencement of the term until and including 30 June 2006. On and from 1 July 2006, in each quarter interest will accrue on the then outstanding balance on a daily basis, on the basis of a 365 day year at the rate of interest equal to the Commonwealth Bank of Australia Business Overdraft Monthly Index Rate which applies on the first day of the relevant quarter. Interest will be compounded on the last day of each quarter.

(h) Default Interest - The interest rate stated above for the quarter in which a nonpayment or an under-payment occurs, plus 2%.

(i) Security for the Enbee Loan Facility will be a full fixed and floating charge over the whole of the assets of Biron, including the shares held in its wholly owned subsidiaries, ranking second to the Senior Debt Provider in respect of its full fixed and floating charge. If the Senior Debt Provider holds any direct security from any group members (other than Biron), Enbee Holdings will be entitled to the benefit of the same type of security, save that the security of Enbee Holdings will be second ranking.

(j) The Enbee Loan Facility will be available to be drawn down from Completion until 30 June 2006.

(k) Repayment terms will be - No repayments of interest or principal until 1 July 2006. After 1 July 2006, repayments of capitalised interest and principal are to be made quarterly in arrears on the last day of each quarter [September, December, March, June]. Repayments of principal are to be made in 8 equal instalments for the period 1 July 2006 to the end of the term of the Facility on 30 June 2008. On each date for repayment of principal, the capitalised interest accrued in the preceding quarter will also be payable in full.

(l) Financial Covenants - The borrower must comply with the financial covenants set out in the Senior Debt Facility Documentation.

(m) Default - The events of default and the potential events of default (howsoever described) set out in the Senior Debt Facility Documentation will apply.

(n) All Enbee Finance Documents must be to the satisfaction of Enbee Holdings.

(o)

"Enbee Securities" means the securities required by Enbee Holdings to be given by the Biron Group as set out in the above definition of "Enbee Loan Facility"'

"Enbee Security Providers" means Biron, EDH, the Physico Group and any other subsidiary of Biron;

"Existing Finwave Shares" means 10,000 ordinary fully paid shares in the capital of Finwave;

"Existing Options" means the 9,778 Options issued by the Company as at the date hereof each exercisable at a price of $2.40 prior to31 May 2006;

"Existing Physico Shares" means 10,000 ordinary shares and 10,000 "dividend (E) Shares" in the capital of Physico;

"Existing Shares" means the 9,560,837 ordinary fully paid shares in the capital of the Company issued as at the date hereof;

"Finwave" means Finwave Pty Ltd ACN 068 987 824;

"Finwave Shares" means 100 ordinary fully paid shares in the capital of Finwave;

"First Deferred Purchase Price Payment Date" means the later of 30 September 2006 and 3 Business Days after the final determination of the EBIT for the 2006 financial year in accordance with the Ed Harry Acquisition Agreement;

"Greenblo Services Agreement" means an agreement between the Company and Mr David Greenblo under which the Company agrees to appoint Mr Greenblo as Managing Director of Biron for an initial term of 3 years from the Completion Date with a remuneration package amounting to a total cost to the Company of $450,000 per annum;

"Invertex" means Invertex Pty Ltd ACN 003 187 184 a company controlled by Mr Colin Elterman;

"Investec" means Investec Bank (Australia) Limited ACN 071 292 594;

"Leantale" means Leantale Pty Ltd ACN 003 332 821 a company controlled by Mr David Greenblo;

"Lessor" means Endostar Pty Ltd ACN 006 964 192 an entity controlled by Mr Neil Brine, a Proposed Director in its capacity as lessor under the Property Lease;

"Listing Rules" means the official listing rules of ASX;

"Meeting" and **"Shareholders' Meeting"** means the meeting of Shareholders convened by the Notice;

"Notice" means the notice of meeting to which this Explanatory Memorandum is attached;

"Option" means an option to subscribe for and be issued a Share;

"PCC Loan" means a loan owed by PCC to Scottish Pacific;

"PCC Loan Sum" means the amount owing in respect of the PCC Loan as at the Completion Date estimated as being approximately $3 million as at the date of this Explanatory Memorandum and estimated by Physico as being approximately $2 million as at 30 June 2005;

"Performance Shares Conversion" means the automatic conversion of the Performance Shares into 11,333,333 Shares immediately upon the Performance Hurdles occurring;

"Performance Hurdles" means the occurrence of the "Conversion Date";

"Performance Shares" means 11,333,333 fixed shares in the capital of Biron with the following rights attached to them:

(a) **Repayment of capital**

Unless and until the Performance Shares are Converted into Shares, no Performance Share will entitle its holder to any repayment of capital made by the Company;

(b) **Participation in surplus assets and profits**

Unless and until the Performance Shares are Converted into Shares, no Performance Share will entitle its holder to any right to participate in surplus assets or profits of the Company;

(c) **Dividends and other distributions**

Unless and until Performance Shares are Converted into Shares, no Performance Share will entitle its holder to receive dividends or any other distributions of capital from the Company;

(d) **Voting**

Unless and until Performance Shares are Converted into Shares, no Performance Share will entitle its holder to any right to cast any vote at any meeting of the members of the Company, other than in respect of any question, proposal or resolution which relates to the rights attaching to that Performance Share in which event each Performance Share will entitle its holder to 1 vote;

(e) **Conversion**

On the Conversion Date, each Performance Share will Convert, subject to paragraph (f), to one Share, which Share will, at the time of Conversion and without any further act, have the same rights as, and rank equally with, other Shares on issue. The Company will apply for the quotation of each such Share within the time frame specified in the Listing Rules;

(f) **Changes in circumstances**

(i) **Reconstruction**

If any reorganisation of the issued capital of the Company takes place before the Conversion Date, the number of Shares into which the Performance Shares will Convert will be reorganised as follows:

(1) in a consolidation of capital - the number of Shares must be consolidated in the same ratio as all other Shares;

(2) in a sub-division of capital - the number of Shares must be sub-divided in the same ratio as all other Shares;

(3) in a return of capital – the number of Shares must remain the same;

(4) in a reduction of capital by a cancellation of paid up capital that is lost or not represented by available assets where Shares are cancelled – the number of Shares must remain unaltered;

(5) in a pro-rata cancellation of capital - the number of Shares must be reduced in the same ratio as all Shares;

(6) in any other case - the number of Shares must be reorganised so that the holders of Performance Shares will not receive a benefit that holders of Shares do not receive (this does not prevent a rounding up of the number of Shares to be received if the rounding up is approved at the Shareholders meeting which approves the reorganisation); and

in all other respects the terms relating to the Conversion of the Performance Shares will remain unchanged;

(ii) **Bonus issue**

If prior to the Conversion Date, there is a bonus issue to the holders of Shares, the number of Shares into which the Performance Shares will Convert will be increased by the number of Shares which the holders of Performance Shares would have received if they had been issued the Shares before the record date for the bonus issue;

(iii) **New issues**

Subject to the Listing Rules, the holders of Performance Shares may only participate in a new issue of Shares or other Securities if the Performance Shares have Converted to Shares on or before the date for determining entitlements to the issue. The Company must ensure that for the purposes of determining entitlements to any such issue, the record date in respect of that issue will be at least 10 ASX Business Days after the issue is announced;

"Physico" and **"PCC"** means Physico Clothing Company Pty Ltd ACN 003 279 543 and includes the wholesale clothing business conducted by Physico and Finwave;

"Physico Acquisition Agreement" means an agreement dated on or about 20 July 2005 between the Company and the Physico Vendors and includes all variations thereto;

"Physico Cash Shares" means between 5 million and 7.5 million of the Physico Underwritten Shares that are to be subscribed for by the Physico Vendors Group;

"Physico China" means Physico Clothing Company (China) Pty Limited ACN 091 861 451;

"Physico Consideration Shares" and **"Physico Consideration Securities"** means the 6 million Shares and the 8 million Performance Shares to be issued to the Physico Vendors and where the context allows includes either of those 6 million Shares or those 8 million Performance Shares;

"Physico Group" means each of :

(a) Physico;
(b) Finwave and each of its subsidiaries, Physico China, Physico Intima and Popstar;

"Physico Indemnifiers" means Leantale, Invertex and Clothold and excludes Rohald;

"Physico Intima" means Physico Intima Pty Limited ACN 068 494 226;

"Physico Shareholder Loans" means the following amounts owing by the Physico Group:

\$1,500,000 to Invertex;
\$1,653,000 to Clothold;

"Physico Shares" means the 100 ordinary fully paid shares in the capital of Physico;

"Physico Underwritten Shares" means the 8,333,333 Shares out of the Capital Raising Shares that the Physico Vendors are obliged to procure subscriptions for pursuant to the Physico Acquisition Agreement;

"Physico Vendors" means Leantale, Invertex, Clothold and Rohald;

"Physico Vendors Group" means Clothold and Invertex and those as yet unascertained entities within the Physico Vendors and certain as yet unascertained associates of the Physico Vendors who the Physico Vendors will procure to subscribe for between 5 million Shares ($3 million) and 7.5 million Shares ($4.5 million) out of the Physico Underwritten Shares;

"Popstar" means Popstar Pty Ltd ACN 076 005 733;

"Property Lease" means a lease between EDH and the Lessor for the lease of premises at 16 Nelson Street, Stepney, South Australia, comprising a total land area of approximately 2,200 m^2 and an office and warehouse building with a combined area of approximately 1,100m^2 for an initial term of 3 years commencing on the Completion Date at an initial rental of $92,610 p.a.;

"Proposed Director" means each of Messrs D Greenblo and Mr N Brine;

"Prospectus" means a prospectus to be issued by the Company under the Corporations Act in respect of, amongst other things, the Capital Raising;

"Related Body Corporate" has the meaning given to that term in Section 9 of the Corporations Act;

"Resolutions" means the resolutions set out in the Notice and the term includes special resolutions where applicable;

"Rohald" means Mr Sean Rohald;

"Rohald Services Agreement" means an agreement between the Company and Mr Sean Rohald for the appointment of Mr Rohald as "Chief Executive Officer" for an initial term of 3 years from the Completion Date with a remuneration package amounting to a total cost to the Company of $250,000 per annum;

"60 cent Option" means an Option exercisable at 60 cents on the terms set out in Section 7.5;

"72 cent Option" means an Option exercisable at 72 cents on the terms set out in Section 2.9.4;

"Second Deferred Purchase Price Payment Date" means the earlier of 30 September 2007 and 3 Business Days after the final determination of EBITDA for the 2007 financial year in accordance with the Ed Harry Acquisition Agreement;

"Security" has the meaning given in the Listing Rules;

"Security Providers" means Biron, EDH, each of the Physico Group and any other subsidiary of Biron;

"Senior Debt" means the financial accommodation of up to $22 million to be made available to the Company pursuant to the Senior Debt Facility;

"Senior Debt Documentation" means all of the documents that will be required by the Senior Debt Provider to be entered into by the Security Providers in connection with the Senior Debt Facility including, without limiting the generality of the foregoing, the Senior Debt Securities;;

"Senior Debt Facility" means the various components of the financial accommodation comprising the Senior Debt which it is expected will comprise the following:

- A revolving working capital amortising term debt facility of $8 million;
- An amortising term loan of $4 million for payment of $4 million of the Deferred Purchase Price payable on or around 30 September 2006
- An amortising term loan of $2 million for payment of $2 million of the Deferred Purchase Price payable on or around 30 September 2007
- A seasonal working capital facility of $4 million; and
- A$4 million leasing facility;

"Senior Debt Provider" means Westpac Banking Corporation or any other entity that the Company procures to provide the Senior Debt;

"Senior Debt Securities" means all securities which are required by the Senior Debt Provider to be entered into by the Security Providers in connection with the Senior Debt Facility which will include but not necessarily be limited to:

(a) Unlimited interlocking cross guarantees and indemnities between Biron and the other Security Providers;

(b) First ranking registered mortgages over all current real property assets (if any) of the Security Providers;

(c) First ranking fixed and floating charges over the current and future assets and undertakings of the Security Providers;

"Shares" means ordinary fully paid shares in the capital of the Company and **"Shareholders"** has a corresponding meaning;

"Successful Takeover Offer" means, as a result of a takeover bid to all Shareholders for their Shares:

(a) 50% of Biron's Shares being held by the bidder at the close of the takeover offer period; and

(b) there being a change of control of the Board;

"Suregroup" means Suregroup Pty Ltd ACN 050 020 981 a company controlled by Mr Neil Brine in its capacity as trustee of the Brine Family Trust;

"Suregroup Consultancy Agreement" means an agreement between EDH and Suregroup under which Suregroup agrees to procure that the services of Mr Neil Brine are provided to EDH from the Completion Date on the terms summarised in Section 2.6.1;

"Trading Entities" means Biron, the Physico Group and Ed Harry;

"Transaction" means the acquisition of Ed Harry and Physico under the Acquisition Agreements and all associated transactions;

"Transaction Agreements" means all instruments entered into by the Company in connection with the acquisition of Ed Harry and Physico prior to the date hereof;

"Transaction Fees" means an estimated total of $3 million comprising:

(i) acquisition costs (including stamp duty and professional fees) of approximately $1.6 million;

(ii) Capital Raising costs – approximately $1 million;

(iii) Borrowing costs – approximately $400,000,

payable in connection with the Transaction together with the 2 million Shares to be issued to Investec and the 3 million 72 cent Options to be issued to Investec;

"Tricom" means Tricom Equities Limited ABN 92 067 161 755;

"Underwriter" means Tricom or any other entity with which the Company enters into underwriting arrangements in connection with the Capital Raising.

References herein to Sections are to Sections of this Explanatory Memorandum.

To the extent that any of the Transaction Agreements are summarised or paraphrased in this Explanatory Memorandum the purpose is solely to assist Shareholders in gaining a succinct summary of the terms thereof and nothing will affect the full legal terms of the Transaction Agreements.

Biron Capital Limited

ABN 58 009 087 469

Proxy Form

All correspondence to:
Computershare Investor Services Pty Limited
GPO Box 1903 Adelaide
South Australia 5001 Australia
Enquiries (within Australia) 1300 556 161
(outside Australia) 61 3 9415 4000
Facsimile 61 8 8236 2305
www.computershare.com

Mark this box with an 'X' if you have made any changes to your address details (see reverse)

000001
000
BIC
MR JOHN SMITH 1
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

Securityholder Reference Number (SRN)

I 1234567890 IND

Appointment of Proxy

I/We being a member/s of Biron Capital Limited and entitled to attend and vote hereby appoint

the Chairman of the Meeting (mark with an 'X') **OR**

If you are not appointing the Chairman of the Meeting as your proxy please write here the full name of the individual or body corporate (excluding the registered Securityholder) you are appointing as your proxy.

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, as the proxy sees fit) at the General Meeting of Biron Capital Limited to be held at 48 Ord Street, West Perth, Western Australia on 8 September 2005 at 9.30am and at any adjournment of that meeting.

IMPORTANT: FOR ITEMS 1,6,7 AND 8 BELOW

If the Chairman of the Meeting is your nominated proxy or may be appointed by default and you have not directed your proxy how to vote on Items 1,6,7 and 8 below please place a mark in this box. By marking this box you acknowledge that the Chairman of the Meeting may exercise your proxy even if he has an interest in the outcome of those items and that votes cast by him other than as proxy holder would be disregarded because of that interest. If you do not mark this box and you have not directed your proxy how to vote the Chairman of the Meeting will not cast your votes on Items 1,6,7 and 8 and your votes will not be counted in computing the required majority if a poll is called on these items. The Chairman of the Meeting intends to vote undirected proxies in favour of Items 1,6,7 and 8.The

Voting directions to your proxy - please mark X to indicate your directions

		For	Against	Abstain*
1.	Acquisition of Ed Harry and Physico			
2.	Execution of Enbee Documentation			
3.	Entering into Senior Debt Documentation			
4.	Approve Financial Assistance			
5.	Change of Company name to Biron Apparel Limited			
6.	Issue of 600,000 Options to Mr John Corr			
7.	Issue of 200,000 Options to Mr Gavin Argyle			
8.	Issue of 200,000 Options to Panga Pty Ltd			
9.	Re-election of Mr John Corr as a director of the company			
10.	Re-election of Mr Jeremy Shervington as a director of the company			

The Chairman of the Meeting intends to vote in favour of all other resolutions.

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

PLEASE SIGN HERE

This section *must* be signed in accordance with the instructions overleaf to enable your directions to be implemented.

Individual or Securityholder 1	Securityholder 2	Securityholder 3
Sole Director and Sole Company Secretary	Director	Director/Company Secretary

In addition to signing the Proxy form in the above box(es) please provide the information below in case we need to contact you.

Contact Name ______ Contact Daytime Telephone ______ Date __ / __ /

B I C 19PR

BIC_WIP_154718/000001/000001/i

How to complete the Proxy Form

1 Your Address

This is your address as it appears on the company's share register. If this information is incorrect, please mark the box and make the correction on the form. Securityholders sponsored by a broker (in which case your reference number overleaf will commence with an 'x') should advise your broker of any changes. **Please note, you cannot change ownership of your securities using this form.**

2 Appointment of a Proxy

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

3 Votes on Items of Business

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

4 Appointment of a Second Proxy

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

To appoint a second proxy you must:

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

(b) return both forms together in the same envelope.

5 Signing Instructions

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

Individual:	where the holding is in one name, the holder must sign.
Joint Holding:	where the holding is in more than one name, all of the securityholders should sign.
Power of Attorney:	to sign under Power of Attorney, you must have already lodged this document with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.
Companies:	where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

If a representative of a corporate Securityholder or proxy is to attend the meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission. A form of the certificate may be obtained from the company's share registry or at **www.computershare.com**.

Lodgement of a Proxy

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below no later than 48 hours before the commencement of the meeting at 9.30am on 8 September 2005. Any Proxy Form received after that time will not be valid for the scheduled meeting.

Documents may be lodged:

IN PERSON	Share Registry - Computershare Investor Services Pty Limited, Level 5, 115 Grenfell Street, Adelaide SA 5000 Australia
BY MAIL	Share Registry - Computershare Investor Services Pty Limited, GPO Box 1326, Adelaide SA 5001 Australia
BY FAX	61 8 8236 2305

Biron Capital Limited

Independent Expert's Report

and Financial Services Guide

in relation to the proposed acquisition of

Physico Clothing Co.

and

Ed Harry

2005

Horwath

FINANCIAL SERVICES GUIDE

Horwath Investment Services Pty Limited ABN 63 003 320 189 ("**Horwath**") has been engaged to issue general financial product advice in the form of a report to be provided to you.

Financial Services Guide

The Corporations Act 2001 requires Horwath to provide this Financial Services Guide ("**FSG**") in connection with its provision of a report ("**Report**") that is included in a document ("**Disclosure Document**") provided to members of the company to whom this Report is addressed (the "**Company**") for which Horwath prepared the Report. The FSG is designed to help retail clients make a decision as to their use of the general financial product advice and to ensure that we comply with our obligations as a financial services licensee.

The matters covered by the FSG include:

- who Horwath is and how to contact Horwath;
- what services Horwath is authorised to provide;
- how Horwath, staff and associates are remunerated in relation to general financial product advice;
- any relevant associations or relationships; and
- Horwath's complaints handling procedures and how you may access them.

The financial services Horwath is licensed to provide

Horwath holds Australian Financial Services Licence No. 239588 authorising it to provide financial product advice to wholesale and retail clients on securities and interests in managed investments schemes.

Horwath provides general financial product advice by virtue of an engagement to issue the Report in connection with a financial product of another entity. The Report includes a description of the terms and circumstances of our engagement and identifies the entity that has engaged us. You have not engaged us directly but you will be provided with a copy of the Report as a security holder of the entity as a result of the circumstances surrounding Horwath's engagement to produce the Report.

Horwath provides the Report as a financial services licensee authorised to provide the financial product advice contained in the Report.

General financial product advice

Horwath's Report provides only general financial product advice. Horwath's Report does not provide personal financial product advice, because it has been prepared without taking into account your personal objectives, financial situation or needs.

Before you act on this general advice you should consider the appropriateness of the advice having regard to your own objectives, financial situation and needs. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain a product disclosure statement relating to the product and consider that statement before making any decision about whether to acquire the product.

Payments to Horwath for services provided

Horwath charges fees for providing reports. The fees are agreed on either a fixed fee or time cost basis with, the entity that engages us to provide a report and paid by that entity.

Except for the fees referred to above, neither Horwath, nor any of its directors, employees or related entities receive any pecuniary or other benefit, directly or indirectly, for or in connection with the provision of a report.

Remuneration or other benefits received by our employees

All Horwath employees and directors receive salaries, bonuses and other benefits from Horwath. Any bonuses paid by Horwath to employees are based on overall productivity and are not directly connected with any engagement for the provision of a report.

Referrals

Horwath does not pay commissions or provide any other benefits to any person for referring clients to us in relation to the reports that we are licensed to provide.

Associations and relationships

Horwath is wholly owned by, and operates as part of the professional advisory and accounting practice of, Horwath (NSW) Pty Limited. Horwath directors may be partners in the Horwath Sydney Partnership.

From time to time, Horwath and/or its related entities may provide professional services, including audit, taxation and financial advisory services, to financial product issuers in the ordinary course of business.

Independence

Horwath is independent of the entity that engages it to provide a report. The guidelines for independence in the preparation of reports are set out in Practice Note 42 issued by the Australian Securities Commission (the predecessor to the Australian Securities & Investments Commission) on 8 December 1993.

Horwath operates independently of the interstate members of Horwath International in Australia. Horwath's liability is limited by the Accountants' Scheme, approved under the Professional Standards Act 1994 (NSW).

Complaints resolution

As the holder of an Australian Financial Services Licence, Horwath is required to operate a system for handling complaints from persons to whom Horwath provides financial product advice. Any complaints can be made, in writing, addressed to The Human Resources Manager, Horwath (NSW) Pty Limited, P0 Box 1455, Sydney NSW 2000.

Upon receipt of a written complaint the matters raised will be investigated and as soon as practicable the complainant will be advised in writing of Horwath's determination.

A complainant not satisfied with the outcome of the above process, or Horwath's determination, has the right to refer the matter to the Financial Industry Complaints Service Limited (**"FICS"**). FICS is an independent company established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FICS are available at the FICS website *www.fics.asn.au* or by contacting FICS directly at the address set out below:

Financial Industry Complaints Service Limited

P0 Box 579

Collins Street West

Melbourne VIC 8007

Horwath contact details

Telephone:	9372 0777	Street address:	Level 10, 1 Market Street
Facsimile:	9372 0606		Sydney NSW 2000
E-mail:	sydney@horwath.com.au	Postal address:	P0 Box 1455 Sydney NSW 2000

CONTENTS

Paragraph		Page
1	Introduction	5
2	Overview of the Transaction	6
3	Regulatory requirements of the Transaction	12
4	Summary of opinion	15
5	Scope and limitations	19
6	General economic conditions	24
7	An overview of the retail and wholesale clothing industries	34
8	Background and overview of operations of Biron	50
9	ASX trading in Biron Shares	54
10	Valuation of Biron	57
11	Background and overview of operations of Ed Harry	60
12	Ed Harry financial information	66
13	Background and overview of operations of Physico	73
14	Physico financial information	78
15	Overview and financial information on the Merged Entity	84
16	Valuation of the Merged Entity	86
17	Assessment of the Transaction Value	92
18	Evaluation of the Proposal (including the Transaction)	101
19	Risks	104
20	Qualifications and consents	109
Appendix 1	Sources of information	111
Appendix 2	Overview of valuation methodologies	113
Appendix 3	Merger and acquisition activity in the retail clothing industry	114
Appendix 4	Merger and acquisition activity in the wholesale clothing industry	117
Appendix 5	Description of companies in the retail and wholesale clothing industries	120
Appendix 6	Valuation indicia of companies in the retail and wholesale clothing industries	122
Appendix 7	Determination of applicable discount rate to arrive at present value for the Vendor Finance and Deferred Consideration	124
Appendix 8	Summary Pro Forma Statement of Financial Position of Merged Entity	128

Horwath

Horwath Investment Services Pty Limited
ABN 63 003 320 189
Australian Financial Services Licence No: 239588
1 Market Street Sydney NSW 2000
GPO Box 1455 Sydney NSW 2001
DX 13004 Sydney Market Street
(02) 9372 0777 Main
(02) 9372 0606 Fax
sydney@horwath.com.au

19 July 2005

The Directors
Biron Capital Limited
52 Ord Street
WEST PERTH

Dear Sirs

INDEPENDENT EXPERT'S REPORT IN RELATION TO PROPOSED ACQUISITION OF PHYSICO CLOTHING CO AND ED HARRY

1 INTRODUCTION

1.1 Biron Capital Limited ("**Biron**") is a public company listed on the Australian Stock Exchange ("**ASX**"). Biron's principal activity was providing finance to property owners or developers that was secured by a second mortgage over commercial property. Horwath understands that Biron has now ceased this business and its assets comprise mainly cash on deposit.

1.2 On 7 March 2005, Biron announced that it had reached agreements to acquire the Ed Harry ("**Ed Harry**") men's apparel retail business; and Physico Clothing Company Pty Ltd ("**Physico**"), which operates a women's apparel wholesale business.

1.3 For the purposes of this report, the combination of Biron, the Ed Harry business and Physico is referred to as the "**Merged Entity**".

1.4 Horwath notes that acquisition agreements between Biron and Ed Harry and Physico have been entered into.

1.5 Horwath also notes that the acquisition of Physico ("**Physico Acquisition**"), including the issue of Biron shares to the existing Physico shareholders (refer to paragraph 2 below), together with the acquisition of Ed Harry ("**EH Acquisition**") and other transactions listed in paragraph 2 below, are interdependent. Accordingly, they need to be considered in their entirety (the "**Transaction**"). Subject to the Transaction being approved by the Biron shareholders not associated with the Transaction ("**Non Associated Shareholders**"), it is expected that the Transaction will be completed around mid August 2005 ("**Completion Date**").

1.6 Biron has engaged Horwath to prepare an Independent Expert's Report ("**IER**") in relation to the Physico Acquisition together with the proposed issue of Biron shares to Physico's shareholders (refer to paragraph 2 below) (the "**Proposal**").

2 OVERVIEW OF THE TRANSACTION

Physico Acquisition

2.1 Pursuant to the Physico Acquisition agreement ("**Physico Agreement**"), Biron is to acquire 100% of Physico for a consideration comprised as follows:

(i) the issue of 6 million Biron fully paid ordinary shares ("**Biron Shares**") to the vendors of Physico, being the existing Physico shareholders ("**Physico Vendors**") at a deemed issue price of 60 cents ($3.6 million) ("**Physico Consideration**") and these shares are to be issued on the Completion Date; and

(ii) the issue of 8 million Performance Shares to the Physico Vendors (refer to paragraph 2.11 below for further details of the terms of the Performance Shares). Horwath understands that the parties have for the purposes of assessing the Physico Acquisition, placed a value of up to $0.60 cents each on the Performance Shares.

2.2 The terms of the Physico Agreement provide for Physico having a minimum level of net tangible assets as at 30 June 2005 of $3.6 million. It is noted that the minimum level of net tangible assets is determined after deducting shareholder loans of $3.1 million and external loans of $2.0 million. Horwath notes that in the event that Physico has net tangible assets greater than $3.6 million, then that excess amount will be payable by Biron to the Physico Vendors.

EH Acquisition

2.3 Pursuant to the Ed Harry Acquisition agreement ("**EH Agreement**"), the consideration for the acquisition of 100% of Ed Harry is comprised as follows:

(i) a cash payment of $9 million, payable on the Completion Date;

(ii) $6 million cash is to be vendor financed ("**Vendor Finance**"), such that the amount is payable in equal quarterly instalments over three years, the first payment is due fifteen months from the Completion Date. The Vendor Finance loan will be interest free until 1 July 2006 and thereafter will incur interest at an annual rate equal to the Commonwealth Bank of Australia Limited "Business Overdraft Monthly Index Rate";

(iii) the issue of 3,333,333 Biron Shares to the vendors of Ed Harry ("**EH Vendors**") at a deemed issue price of 60 cents per share (or $2 million in total) ("**Consideration Shares**") on the Completion Date; and

(iv) an amount of $4 million, which is conditionally payable in cash fifteen months from the Completion Date ("**Deferred Consideration No.1**"). The Deferred Consideration No.1 is payable on the following terms:

  (a) in the event that the earnings before interest, taxes, depreciation and amortisation ("**EBITDA**") of Ed Harry in each of the financial years ending 30 June 2005 and 30 June 2006 is not less than $4,000,000, the Deferred Consideration No.1 is to be paid on the payment date, which is expected to be 30 September 2006;

  (b) in the event that the Ed Harry EBITDA for either or both of the years ending 30 June 2005 and 30 June 2006 is less than $4 million, then no part of the Deferred Consideration No.1 is payable; and

(c) once the Deferred Consideration No.1 has been confirmed as payable, it may be used to offset any amounts due and payable by the EH Vendors in respect of any claim against them; and

(v) a further payment of $2 million in cash ("**Deferred Consideration No.2**"), which is conditionally payable on 30 September 2007 upon Biron's EBITDA for the year ending 30 June 2007 exceeding $7 million. In the event that the Biron EBITDA for the year ending 30 June 2007 is less than $7 million, then no part of the Deferred Consideration No.2 is payable; and

(vi) the issue of 3,333,333 million Performance Shares to the EH Vendors ("**EH Performance Shares**") (refer to paragraph 2.11 below, for further details of the terms of the Performance Shares). Horwath understands that the parties have for the purposes of assessing the EH Acquisition, placed a value of up to $0.60 cents each on the Performance Shares.

2.4 The terms of the EH Agreement provide for Ed Harry having a minimum level of net tangible assets as at 30 June 2005 of $4.6 million. Horwath notes that in the event that Ed Harry has net tangible assets greater than $4.6 million, then that excess amount will **not** be payable by Biron to the EH Vendors.

2.5 In summary, the consideration payable for the Physico Acquisition and the EH Acquisition is as follows:

Acquisition	**Cash**	**Vendor Finance**	**Deferred Consideration No.1**	**Deferred Consideration No.2**	**Biron Shares**	**Performance Shares**
	$	**$**	**$**	**$**	**number**	**number**
Physico Acquisition					6,000,000	8,000,000
EH Acquisition	9,000,000	6,000,000	4,000,000	2,000,000	3,333,333	3,333,333
Total	**9,000,000**	**6,000,000**	**4,000,000**	**2,000,000**	**9,333,333**	**11,333,333**

Summary of cash amounts payable and funding

2.6 Horwath understands that at the completion of the Transaction, Biron will have an immediate requirement for approximately $18.145 million cash to finance the Transaction, which is comprised of:

(i) $9.0 million cash payment to the EH Vendors;

(ii) $3.095 million costs in relation to implementing the Transaction ("**Transaction Costs**"), comprised as follows:

(a) capital raising costs, including Tricom underwriting fee, legal and accounting fees relating to the prospectus to be issued - $1.030 million;

(b) Banking Facility - $400,000; and

(c) Ed Harry and Physico acquisition costs, including stamp duty, legal and accounting fees - $1.665 million;

(iii) refinancing Physico shareholder and third party loans (refer to paragraph 2.2 above - $5.1 million; and

(iv) re-imbursement of an estimated $950,000 of capital expenditure of Ed Harry incurred since the announcement of the acquisition of Ed Harry ("**Special Capex**").

2.7 In addition to the above, overall Transaction management fees of $1.2 million will be paid to advisers, which will be funded by the issue of 2 million Biron Shares, deemed to be fully paid to $0.60 each.

2.8 In summary, the cash required by Biron immediately upon the completion of the Transaction and its sources is estimated to be as follows:

Cash required immediately upon the completion of the Transaction	
Payment to EH Vendors	9,000,000
Transaction Costs	3,095,000
Repayment of shareholder and third party loans to Physico	5,100,000
Re-imbursement of estimated Ed Harry Special Capex	950,000
Cash required	18,145,000
Sources of cash	
Banking Facility	8,000,000
New issue Biron Shares (Physico Subscription and Public)	9,000,000
Biron's existing cash reserves	3,395,000
Cash sources	20,395,000
Cash balance - on hand/(deficiency) – (refer Appendix 8)	2,250,000

2.9 Horwath understands that the funding of the cash consideration and working capital requirements (refer paragraph 2.8 above) will be sourced as follows:

(i) $8 million by draw down under a facility ("**Banking Facility**") to be provided, or arranged, by Investec Bank (Australia) Limited ("**Investec**"). Horwath understands that in addition to the drawn amount of $8 million, the Banking Facility will also provide an additional amount of up to $3 million as a working capital facility to be drawn as required to fund working capital fluctuations;

(ii) $9 million by the issue of 15.0 million Biron Shares at 60 cents per share. Biron is currently in negotiations with Tricom, an Australian stock broking and investment banking house to underwrite the issue of 6,666,667 Biron Shares that are to be offered for subscription to the general public ("**Public**"), to raise $4 million. The terms of the underwriting agreement are expected to be finalised prior to or shortly after the release of the Notice of Meeting, Explanatory Memorandum and this report. In addition, the Physico Vendors have agreed to subscribe to and/or underwrite the balance of the 8,333,333 Biron Shares at 60 cents per share ("**Physico Subscription**"); and

(iii) utilisation of existing cash reserves of Biron.

2.10 Fees payable by Biron in relation to the Transaction include:

(i) Investec is an advisor to Biron regarding the Transaction. As part of the fee payable to Investec, Investec will be issued 3,000,000 options over unissued Biron shares at an exercise price of 72 cents each, ("**Investec Options**"). The Investec Options will be exercisable at any time between 18 months and 5 years after the Completion Date; and

(ii) Investec will receive 2,000,000 newly issued Biron Shares deemed to be fully paid to $0.60 each ("**Transaction Shares**") in relation to underwriting the Banking Facility.

2.11 As noted in paragraphs 2.1(ii) and 2.3(vi) above, part of the consideration payable to the Physico Vendors and EH Vendors is to be in the form of Performance Shares that will be "Class A Converting Shares" newly issued by Biron. The Performance Shares will be convertible into Biron Shares on the following basis:

(i) at anytime after any financial year ending 30 June 2007 to 30 June 2010 (both inclusive), in which Biron achieves an EBITDA of at least $7.0 million. In the event that Biron does not achieve the above EBITDA in any of the stipulated financial years, the Performance Shares will lapse; or

(ii) at anytime after a change of control of Biron occurs; and

(iii) upon conversion, no amount is payable by the Performance Shareholders.

2.12 Set out below is a summary of the rights of the Performance Shares:

(i) **repayment of capital** - they are not entitled to repayment of their capital and they are only convertible into Biron Shares;

(ii) **participation in dividends and surplus assets and profits** – they will not be entitled to dividends or to participate in surplus assets or profits of Biron; and

(iii) **voting** - they will not be entitled to cast any vote at any meeting of the members of Biron, other than in respect of any question, proposal or resolution, which relates to the rights attaching to that share.

2.13 Messrs J Corr, G Argyle and J Shervington (directors of Biron) are to receive a total of 1,000,000 options over unissued Biron Shares ("**Directors' Options**") that will have an exercise price of 60 cents each, and will be exercisable at any time between the date of the meeting to approve the Transaction and five years thereafter. For the purposes of this report, Horwath has assumed that the date of grant will be the Completion Date. Horwath notes that the granting of these options and the elements of the Transaction are not interdependent.

2.14 Implementing the Transaction and issuing the Directors' Options will result in the following Biron capital structure:

Biron shareholdings after implementing the Transaction		**Expanded capital**	**% of Total Expanded capital**	**% of Total shares - Fully diluted**	**Excluding Performance Shares**		**Excluding Performance Shares and Investec & Existing Options**	
Existing Biron Shareholders	#	9,560,837	19.82%	18.66%	9,560,837	24.0%	9,560,837	25.9%
EH Consideration	#	3,333,333	6.91%	6.51%	3,333,333	8.4%	3,333,333	9.0%
Physico Consideration	#	6,000,000	12.44%	11.71%	6,000,000	15.1%	8,000,000	16.3%
Public (ex capital raising)	#	6,666,667	13.82%	13.01%	6,666,667	16.7%	6,666,667	18.1%
Physico Subscription	#	8,333,333	17.28%	16.26%	8,333,333	29.9%	8,333,333	22.6%
Transaction Shares	#	2,000,000	4.15%	3.90%	2,000,000	5.0%	2,000,000	5.4%
Total ordinary shares		35,894,170	74.43%	70.05%	35,894,170	90.0%	35,894,170	97.3%
Directors' Options	#	1,000,000	2.07%	1.95%	1,000,000	2.5%	1,000,000	2.7%
EH Performance Shares		3,333,333	6.91%	6.51%	-	0.0%	-	0.0%
Physico Performance Shares		8,000,000	16.59%	15.61%	-	0.0%	-	0.0%
Total Expanded capital		**48,227,503**	**100.00%**	**94.13%**	**36,894,170**	**92.5%**	**36,894,170**	**100.0%**
Investec Options	#	3,000,000		5.86%	3,000,000	7.5%	-	0.0%
Existing Options		9,778		0.02%	9,778	0.02%	-	0.0%
Total shares - Fully diluted		**51,237,281**		**100.00%**	**39,903,948**	**100.0%**	**36,894,170**	**100.0%**
Physico Vendors - total potential shareholding:								
- all Performance Shares, Existing, Directors' and Investec Options exercised.				43.6%				
- Performance Shares **not** exercised; all Existing, Directors' and Investec Options exercised.						35.9%		
- Performance Shares not exercised; Directors' Options exercised, all Existing and Investec Options **not** exercised.								38.8%

Collectively referred to herein as **"Ordinary Shares"**: 39,894,170 Biron Shares (including Investec Options) (refer paragraph 3.11(ii)(e) below).

2.15 As will be noted from the above table, assuming that the criteria for the issue of the Performance Shares are met, which would also result in the Directors' Options and Investec Options being "in the money", the Physico Vendors would have approximately 44% of the fully diluted Biron Shares (comprising Physico Consideration, Physico Subscription and Physico Performance Shares divided by the total number of Biron Shares), assuming that the existing, Directors' and Investec Options will be exercised.

2.16 In the event that the criteria for the Performance Shares are not met, the Physico Vendors would own approximately 39% of the fully diluted Biron Shares (comprising Physico Consideration and Physico Subscription divided by the total number of Biron Shares, (including the Directors' Options, as at issue they will be "at the money") and excluding the Existing and Investec Options and Performance Shares).

2.17 Based on the above and given the fact that the Biron's remaining shareholdings will be fairly widely spread assuming that the Transaction is approved, in Horwath's opinion, the Physico Vendors will be in a position to control Biron.

3 REGULATORY REQUIREMENTS OF THE TRANSACTION

3.1 Horwath understands that the Proposal requires shareholder approval under the Corporations Act 2001 (Cth) ("**Act**") and may require approval under ASX Listing Rules and consequently, an IER is required in the circumstances discussed below.

3.2 As noted in paragraph 1.6 above, the directors of Biron have engaged Horwath to prepare an IER to report on the Proposal so as to deal with the matters set out in paragraphs 3.3 and 3.4 below.

Sections 606 and 611 of the Act

3.3 Section 606 of the Act provides a general prohibition to any person with a relevant voting interest in a company of 20% or below from increasing their interest to more than 20%, subject to certain exemptions. One exception operates under Section 611 Item 7 of the Act whereby such an acquisition is permitted if a majority of a company's non-associated shareholders pass an ordinary resolution at a general meeting to approve the acquisition.

3.4 Horwath understands that the Proposal involves taking advantage of the foregoing exception to Section 606 of the Act in relation to the issue of Biron Shares under the Physico Consideration and the Physico Subscription.

3.5 Horwath also understands that, if the Transaction is implemented, the conversion of all the Physico Performance Shares and EH Performance Shares into Biron Shares, (should the conversion conditions be satisfied (refer paragraph 2.11 above)), (but not the issue of the Physico Performance Shares, as they are "non voting shares" for the purposes of the takeover provisions of the Act) would result in a person (and associates) (ie the Physico Vendors and EH Vendors) with a relevant voting interest in a company (ie Biron) of over 20%, increasing their interest by more than 3% every 6 months. Accordingly, the Proposal also involves taking advantage of the foregoing exception to Section 606 of the Act in respect of the conversion of all the Physico Performance Shares and EH Performance Shares into Biron Shares.

Requirements of Horwath

3.6 Australian Securities and Investment Commission ("**ASIC**") Policy Statement 74 touches upon the concept of "fair and reasonable" but does not seek to define or explain the term or its component parts. ASIC Policy Statement 74 treats the term "fair and reasonable" as a single concept. According to ASIC Policy Statement 74, what is fair and reasonable for non-associated shareholders should be judged in terms of all the circumstances of a proposal. The analysis must compare the likely advantages and disadvantages for the non-associated shareholders if a proposal is agreed to, with the likely advantages and disadvantages to those shareholders if the proposal does not proceed. Comparing the value of the shares to be acquired under a proposal and the value of the consideration to be paid for them is only one element of this assessment.

3.7 In contrast to ASIC Policy Statement 74, ASIC Policy Statement 75, relating to the assessment of takeover offers, treats the term "fair and reasonable" as a two separate concepts. According to ASIC Policy Statement 75, an offer is "fair" if the value of the offer price or consideration is at least equal to the value of the securities the subject of the offer. ASIC Policy Statement 75 considers that an offer is "reasonable" if it is "fair" and it may also be "reasonable" if, despite not being "fair", security holders should, after considering other significant factors, accept the offer in the absence of a higher offer.

3.8 In Horwath's opinion, ASIC Policy Statement 74 applies to the Proposal. Accordingly, this report contains an opinion as to whether the relevant Proposal is "fair and reasonable to the non associated shareholders" in the sense described in paragraph 3.6 above.

3.9 Based on the conclusion reached in paragraph 3.8 above, in Horwath's opinion, a transaction will be "fair and reasonable" to the Non Associated Shareholders if they are more advantaged by implementing the Proposal, than if it is not implemented. The Proposal will be judged in terms of its overall effect on Non Associated Shareholders. It is not meaningful to base the opinion on the individual elements separately.

ASX Listing Rule Number 11

3.10 Horwath understands that the Transaction also may trigger ASX Listing Rule 11 that comes into operation where there is a proposed change of control or nature or scale of the business activity of a listed company. Under ASX Listing Rule 11, at its discretion the ASX may require shareholders to approve the Transaction and comply with any requirements of the ASX in relation to the notice of meeting. In regard to this Listing Rule, Horwath is unaware of the requirements of the ASX and assumes that nothing further is required of it.

Basis of evaluation

Fairness

3.11 In forming Horwath's opinion on whether or not the Proposal is fair and reasonable under Policy Statement 74, we have undertaken the following:

(i) an assessment by Horwath of the current fair value of each Biron Share on the basis of a pro-rata allocation of the assessed fair value of Biron determined on a stand-alone basis, prior to implementing the Transaction. It is understood that the Biron Shares, while listed on the ASX, may have been illiquid and market-trading prices may not fully reflect their fair value. Accordingly, Horwath has not relied on share market trading in order to value the Biron Shares.

As set out in paragraph 2.14 above, if the Transaction is implemented, the Physico Vendors will own between approximately 39% and 44% of Biron's issued capital, depending upon the scenario that unfolds. Given the difference in the size of the Biron shareholding of the Physico Vendors compared to the other Biron shareholders, in Horwath's opinion, for the purposes of assessing the Proposal, the value of Biron is to be assessed on a control basis.

This value is described herein as the **"Existing Value"**.

(ii) an assessment by Horwath of the fair value of each Biron Share assuming that the Transaction is approved, determined as follows:

(a) Horwath's assessment of the enterprise value of Physico, Ed Harry and Biron companies and businesses. In arriving at Horwath's value for each respective company/business, namely, Physico, Ed Harry and to a lesser extent Biron, regard will be had to forecasts and internal management budgets for the years ending 30 June 2005 and 2006. Horwath notes that the 30 June 2006 forecasts are for management purposes and have not been disclosed in this report or the EM. Moreover, Horwath has valued Physico and Ed Harry together with the required corporate structure of a combined entity;

(b) add to (a) above, the value of any surplus assets, such as cash remaining after all Transaction payments required at Completion Date;

(c) items (a) and (b) have then been added together, giving the gross value of assets;

(d) deduct from (c) above, the sum of the following:

- the Transaction Costs;
- the amount of the Banking Facility;
- the assessed market value of the Vendor Finance loan;
- the assessed market value of the Deferred Consideration No.1 and Deferred Consideration No.2; and
- the assessed market value of the Performance Shares, determined by reference to an appropriate method of option valuation;

(e) the difference between (c) and (d) would therefore become the assessed equity value of the Merged Entity and the equity value per Biron Share assuming the Transaction is implemented would then be determined after dividing the equity value of the Merged Entity by the Ordinary Shares (refer to the definition in the table in paragraph 2.14 above).

This value is described herein as the **"Transaction Value"**.

3.12 Horwath then compared the Existing Value with the Transaction Value. In the event that the Transaction Value exceeds the Existing Value, the Transaction, (which includes the Proposal) would be considered to be "fair" and vice versa.

Reasonableness

3.13 In addition to the comparison of the Existing Value per Biron Share with the Transaction Value per Biron Share assuming the Transaction is implemented, as set out in sub-paragraph 3.11 above, Horwath has also reviewed the reasonableness (ie the qualitative aspects) of the Proposal (which forms part of the Transaction) from the viewpoint of Biron Non Associated Shareholders. This includes, amongst other things, a consideration of the:

(i) liquidity of Biron's Shares;

(ii) likelihood of an alternative proposal;

(iii) the advantages and disadvantages of owning shares in the Merged Entity;

(iv) the consequences for Biron's Non Associated Shareholders of the Transaction not taking place; and

(v) any other factors that should be considered by Biron's Non Associated Shareholders in forming their opinion as to the reasonableness of the Proposal.

4 SUMMARY OF OPINION

Opinion

4.1 In Horwath's opinion, the Proposal is "fair and reasonable" to Non Associated Shareholders.

4.2 In forming its opinion, Horwath notes that all the elements of the Transaction, including the Proposal, are interdependent with each other. Whilst the primary scope of Horwath's report is to comment upon the Proposal, (being the acquisition of Physico, together with the Physico Subscription), given the relationship between all of the above transactions, Horwath's assessment takes into consideration all aspects of the Transaction.

Discussion

4.3 Non Associated Shareholders are in effect being presented with the choice of either voting for or against implementing the Transaction, or abstaining from voting. There is no other choice available, such as another set of proposals to acquire or sell assets or to wind up the company. Accordingly, it is important for the Non Associated Shareholders to become fully conversant with the terms of the Transaction and fully understand the impact of voting to approve it as compared to voting to not approve it and the consequences that may occur under either scenario.

4.4 In arriving at Biron's Existing Value, Horwath has had regard to its underlying assets, namely cash, as well as implying some value for its listed status. As noted in paragraph 9.1 below Horwath notes that prior to being suspended from the ASX, the Biron Share price was approximately 55 cents per share. In Horwath's opinion, this price takes into account the impact of the Transaction. As a consequence, Non Associated Shareholders will need to be aware that if the Transaction is not approved, in Horwath's opinion, this will likely result in the Biron Share price falling from such levels.

Summary of considerations

4.5 Set out below is a summary of the considerations underlying Horwath's opinion:

Value aspects

4.6 As all elements of the Proposal are summarised in paragraph 2 above are interdependent, Horwath has assessed the fairness aspect of the Proposal by comparing the respective values of the equity of each of Biron (as a stand alone entity) and the Merged Entity (otherwise referred to as the Transaction Value) as follows:

Security	Paragraph Reference	Low value	High value
Cents per share			
Existing Value	10.15	38.5	40.6
Transaction Value	17.3	56.5	63.3

4.7 Based on the above, it is clear that the Biron Non Associated Shareholders will be more advantaged by implementing the Transaction, of which the Proposal forms part.

4.8 In arriving at Horwath's opinion of the Transaction Value, Horwath has valued the Merged Entity (that is, Ed Harry and Physico businesses, less an allowance for corporate overheads), taking into account a premium for control for the acquisition of 100% of those businesses. Equally, as noted in paragraph 2.17 above, given that the Physico shareholders will achieve control of Biron assuming that the Transaction is approved, Horwath has valued Biron on a control basis, and as such, reflected a premium for control in the stand alone value of Biron.

4.9 Horwath notes that the Merged Entity will represent a vertically integrated business of retail and wholesale clothing products. Horwath notes that it has valued the Merged Entity using the capitalisation of maintainable earnings method of valuation. In arriving at the maintainable earnings of the Merged Entity, Horwath notes that there has been no allowance for synergy benefits that may arise from the consolidation of the businesses. Paragraph 15.4 below details the key potential merger synergies that may arise from the consolidation of the two businesses. Due to the insufficient level of information available to Horwath at the date of this report in relation to potential merger benefits, Horwath has reflected in its capitalisation rate a premium for control, which in part, reflects the potential synergy benefits that may arise. In Horwath's opinion, it is likely that its selected premium for control is appropriate for the purposes of valuing the Merged Entity. However, should this not be the case, the effect would be to increase the Transaction Value, resulting in the Proposal being considered more favourable to the Non Associated Shareholders.

4.10 Non Associated Shareholders should also be aware of the risk factors of achieving the merger benefits, together with other aspects of the Proposal/Transaction, as set out in paragraph 19 below.

Advantages and disadvantages

4.11 In addition to reviewing the fairness criteria, Horwath has also considered various identified advantages and disadvantages associated with implementing or not implementing the Proposal.

4.12 Set out below is a summary of Horwath's opinion as to the key advantages and disadvantages surrounding the Proposal:

Advantages

Impact on earnings per share ("**EPS**")

4.13 It is estimated that the Transaction will result in the EPS increasing from a negative amount to 8.2 cents per Ordinary Share.

Dividends

4.14 Horwath has been advised that no formal dividend policy has been implemented by Biron directors. However, it is expected that when such a policy is implemented, the dividend payout ratio is likely to be between 60% and 70% of after tax profits. Non Associated Shareholders will benefit from future dividends.

Avoid potential delisting

4.15 In the medium to longer term, Biron risks the ASX making a decision to suspend quotation of Biron in the event that it does not acquire a suitable active business. The acquisition of Ed Harry and Physico businesses avoids this issue.

Potential additional synergy benefits

4.16 As noted in paragraph 4.9 above, Horwath's valuation assessments may not take into account the full effects of the merger synergy benefits; that is, the selected level of maintainable earnings excludes any synergy benefits, whilst the capitalisation rate includes an allowance for the potential synergy benefits. Whilst there are risks that merger synergies are either overstated or not achieved, in Horwath's opinion, significant synergies are expected to arise from the merger of Ed Harry and Physico. As noted above, Horwath's valuation assessment via the selection of the capitalisation multiple takes into account some of the obvious synergies that are likely to arise from the merger of Physico and Ed Harry. However, there is no doubt that more benefits may in fact be available than that allowed for in the selected capitalisation multiple.

Improved liquidity

4.17 An enlarged Biron will improve the potential for improved liquidity of Biron's shares and assist in contributing to the long-term value of the Biron Shares.

Counter current cash burn

4.18 As the status of Biron is effectively one of a "cash box", it runs the risk that unless a worthwhile business can be developed or acquired, the cash reserves of Biron will be exhausted by overhead costs.

Potential ongoing costs

4.19 Horwath believes that the potential major disadvantages of not implementing the Proposal is that Biron will be:

(i) a small listed company, with likely little demand for its shares; and

(ii) exposed to ongoing costs of maintaining the corporate structure (such as premises rental and staffing) and listing (ASX listing fees and audit costs).

Disadvantages

Adverse impact on net tangible assets ("NTA") and gearing

4.20 Set out below is the estimated negative impact on gearing and net tangible assets per Ordinary Share. The estimated impact on net assets per Ordinary Share is positive.

Ratio	**Biron – at present**	**Proforma**
Net assets per share (cents)	35.4	56.6
Net tangible assets per share (cents)	35.4	(3.8)
Gearing		
- Interest-bearing Debt: Total assets (%)	0.0%	15.9%
- Interest-bearing Debt: Total tangible assets (%)	0.0%	30.7%
Working capital ratio (current assets: current liabilities)		
- including cash (times)	109.5	1.9
- excluding cash (times)	na	1.7

<u>Potential further dilution in ownership</u>

4.21 The Transaction will result in a substantial dilution of Non Associated Shareholders shareholding in Biron from 100% to between approximately 19.8% and 25.9%.

<u>Remain open to new business acquisition opportunities</u>

4.22 Biron is a listed vehicle with the majority of its assets in cash or near cash assets. Should the Transaction not proceed, there might be a more favourable business for Biron to acquire in the future. However, if Biron continues in its current form it will continue to face the risk of delisting and consuming its funds.

Other comments

4.23 As an alternative to the Transaction, Non Associated Shareholders could vote to wind up the company and return the assets, largely cash and deposits, to themselves. However, this alternative is not presently before shareholders to consider.

4.24 As noted in Appendix 8, the Transaction will result in a substantial amount of intangibles being capitalised in Biron's balance sheet. As discussed in this report, under the revised Australian Accounting Standards, goodwill no longer needs to be amortised on an annual basis, but rather, is subject to an annual review to ensure that it does not exceed its fair market value. The depreciable amount of an intangible asset (other than goodwill) with a finite useful life shall be allocated on a systematic basis over its useful life. An intangible asset (other than goodwill) with an indefinite useful life shall not be amortised. Accordingly, on the basis that most of the intangibles relate to indefinite life assets, there should be no adverse affect on Biron's reported profits and ability to pay dividends arising from amortisation of such assets. Neither Horwath nor Biron has reviewed the allocation of the intangibles and it is possible that upon examination of this item there will be certain assets such as intellectual property, copyright and brandnames, which would require amortisation. Non Associated Shareholders should be aware that accounting standards are constantly under review and that any reversal of the new standard will have an adverse affect on Biron's profitability and consequently, may impact upon future dividends payable.

4.25 This summary should be read in conjunction with the balance of this report.

5 SCOPE AND LIMITATIONS

Use of report

5.1 This report is to be used only for the purpose set out in paragraph 3.2 above and may not be published or used for any other purpose without Horwath's written consent.

Assumptions

5.2 Set out below are various assumptions made by Horwath in forming its conclusions:

(i) the Banking Facility will be provided on normal commercial terms;

(ii) there are no material adverse foreign currency issues;

(iii) in relation to the Ed Harry business, where there are store leases requiring landlord consent to transfer to Biron, that such consent will be provided;

(iv) the capital raising arising from the Public and the Physico Subscription will be fully subscribed;

(v) the Physico Subscription will be subscribed to by parties who are associates with the Physico Vendors, giving rise to the Physico Vendors having control over Biron;

(vi) the Australian economy will continue to operate as per paragraph 6 below;

(vii) all key staff of Biron, Ed Harry and Physico will be retained;

(viii) there will be no loss of key Physico customers, as a result of the merger of Ed Harry and Physico;

(ix) Ed Harry's planned new store openings programme will continue;

(x) key suppliers are retained;

(xi) there will be no material movement in interest rates; and

(xii) any options that are "in the money" will not be exercised until they reach their exercise date.

Sources of information

5.3 **Appendix 1** identifies information referred to, and relied upon, by Horwath during the course of preparing this report.

Reliance on information and opinion date

5.4 Horwath has considered and relied upon the information identified in paragraph 5.3 above and does not accept responsibility or liability to any party for the consequences of mistakes, omissions or errors contained therein. The information was evaluated through analysis, inquiry and review for the purpose of forming an opinion as to whether or not the Proposal is "fair and reasonable".

5.5 Horwath believes the non-public information provided by Biron, Physico and Ed Harry upon which it has relied to be reliable, complete and not misleading, and has no reason to believe that any material facts have been withheld. An important part of the information base used in forming an opinion of the kind required is the opinions and judgement of management. To the extent practical, Horwath has evaluated information provided by Biron, Physico and Ed Harry through analysis, inquiry and review. However, certain aspects of the information provided are incapable of external verification or validation. Estimates of future events in relation to the Transaction are inherently uncertain, being based on predictions of future events, and we accept no responsibility for their eventual outcome.

5.6 This report is based upon market, economic, financial and other conditions prevailing, and on information provided by the parties or obtained by Horwath from various sources as indicated in Appendix 1 up to Friday 8 July 2005 and Horwath's opinion is given as at Friday 8 July 2005. However, Horwath has reviewed relevant market information up to the date of this report and is satisfied the conclusions reached using the market information as at 8 July 2005 are still appropriate. Other than as required by law, Horwath accepts no responsibility for any changes in any information that may occur after the date of this report.

5.7 Biron has agreed to indemnify Horwath, its affiliated companies and their respective officers, employees, associates and agents against any losses or claims arising out of the preparation of this report and which arise from:

(i) reliance on information provided by Biron, Physico and Ed Harry or their advisers which Biron should have known was incomplete, false or misleading; or

(ii) the failure to provide material information within the possession of Biron, Physico and Ed Harry or their advisers which Biron or its advisers should have known to be material.

5.8 The directors of Biron have advised that the accounting information relating to Biron provided to Horwath is accurate, complete, free of material omissions and not misleading and was prepared in accordance with generally accepted accounting principles and, except where noted, prepared in a manner consistent with the method of accounting used by the company in previous accounting periods.

5.9 In relation to information relating to Physico and Ed Harry, the directors of Biron have advised that, to the best of the Directors' knowledge and belief and after making due enquiry with Physico and Ed Harry, the historical financial, accounting and other information relating to Physico and Ed Harry made available to Horwath, is accurate, complete, free of material omissions and not misleading and was prepared in accordance with generally accepted accounting principles and, except where noted, prepared in a manner consistent with the method of accounting used by each company in previous accounting periods.

5.10 In preparing this report, Horwath has assumed that all existing documents are enforceable according to their terms and that any agreements entered into to implement the Transaction (if it is implemented) will be enforceable and act to bring into effect the terms of the Transaction as set out herein. Horwath provides no warranty or guarantee as to the adequacy, effectiveness and/or completeness of any such documentation and agreements.

5.11 It was not Horwath's role to undertake, and Horwath has not undertaken, any commercial, technical, financial, legal, taxation or other due diligence or other similar investigative activities of the Transaction. However, refer to paragraph 20.4 below for an explanation of the role undertaken by associates of Horwath. Horwath provides no warranty or guarantee as to the existence, extent, adequacy, effectiveness and/or completeness of any due diligence or other similar investigative activities by Biron and/or its advisers.

5.12 Horwath does not warrant that its enquiries have identified or verified all of the matters which an audit, extensive examination or "due diligence" investigation might disclose. In any event, an opinion as to whether a transaction is "fair and reasonable" is in the nature of an overall opinion rather than an audit or detailed investigation. Preparation of this report does not imply that Horwath has in any way audited the financial accounts or other records of Biron, Physico and Ed Harry or any investment held by either.

5.13 It should be noted that Horwath's engagement was to review the Proposal to be presented to Non Associated Shareholders. It is outside of Horwath's scope to canvass potential alternative proposals and/or analyse whether or not the structure of the Transaction is the best arrangement that might be achieved by Biron and/or Non Associated Shareholders. Horwath is not aware of any proposals involving Biron alternative to the Transaction discussed in this report.

Investor circumstances

5.14 This report only provides general information. It does not take into account a Non Associated Shareholder's individual situation, objectives and needs. It is not intended to replace professional advice obtained by Non Associated Shareholders. Non Associated Shareholders should consider whether this report is appropriate for the Non Associated Shareholder's circumstances, having regard to the Non Associated Shareholder's situation, objectives and needs before relying on or taking action based on this report. This report does not consider the taxation position of Non Associated Shareholders, which depends upon their own individual circumstances. Non Associated Shareholders should seek their own professional advice.

5.15 Whether or not individual Non Associated Shareholders should vote to implement or not implement the Proposal depends upon an investor's situation, objectives and needs, as well as each investor's views as to the advantages and disadvantages associated with either implementing or not implementing the Proposal.

Use of prospective information

5.16 In preparing this report, Horwath has had regard to:

(i) forecasts for the year ended 30 June 2005 ("**FY2005 Forecast**") prepared by each of Ed Harry and Physico approved by the board of directors of the respective companies. The FY2005 Forecast estimate is based on actual results to 31 May 2005, plus an estimate for the month of June 2005;

(ii) internal budgets for the year ending 30 June 2006 ("**FY2006 Budget**") prepared by the management teams of each of Ed Harry and Physico. The FY2006 Budgets have been prepared for internal management purposes and do not include any synergy benefits that may arise from the Transaction; and

(iii) historical financial information prepared by Ed Harry and Physico that has been subject to due diligence review by Horwath's parent entity, Horwath (NSW) Pty Limited.

5.17 Horwath understands that the respective prospective information takes account of the respective operating businesses' current earnings and market position, assessments of revenue growth in each sector in which the respective businesses operate and estimates of operating costs, based on both historical costs and assessed future needs. Accordingly, Horwath understands that the prospective information has been based on "best estimates" assumptions at the time it was prepared. However, due to the difficulties in assessing the extent of synergies that may arise from the Transaction, Horwath has not disclosed the internal management FY2006 Budget for either Ed Harry, Physico or the Merged Entity.

5.18 Horwath has had regard to various ASIC Policy Statements relating to the use of prospective financial information, including Policy Statement 170 ("**PS 170**"). Horwath notes that PS 170 relates to the use of prospective financial information in disclosure documents and Product Disclosure Statements and is not relevant in the present circumstances. Horwath notes ASIC's policy that any use of prospective financial information in reports to shareholders prepared by independent experts should clearly set out the scope of the work undertaken by the expert in reviewing that information and the expert's opinion on the prospective financial information, based on the review undertaken.

5.19 Australian Auditing Standard AUS 804 ("**AUS 804**") classifies prospective financial information[1] as either forecasts[2] or projections[3]. According to AUS 804, a forecast is based solely on best-estimate assumptions, that is, assumptions as to future events that management expects to take place and actions management expects to take as of the date the information is prepared.

5.20 On the other hand, according to AUS 804, projections are based partly or wholly on hypothetical assumptions, that is, assumptions about future events and management actions which are not necessarily expected to take place, such as when an entity is in a start-up phase or is considering a major change in the nature of operations.

5.21 While each of Biron, Physico and Ed Harry management have experience in the operation of their respective businesses, the prospective financial information provided to Horwath has been prepared using a mixture of assumptions that the various managements expect to take place ("best-estimate assumptions") and hypothetical assumptions, based on past operations and expected future operations, at the time that the prospective financial information was prepared.

5.22 Horwath has not been engaged to undertake, and has not undertaken, an independent review of any prospective financial information. In particular, Horwath has not been engaged to review the prospective financial information in accordance with AUS 804. Accordingly, Horwath does not express an opinion on the reasonableness of the assumptions underlying the prospective financial information, or its achievability.

5.23 However, Horwath has considered, as far as is possible in the circumstances, the prospects of each of Biron, Physico and Ed Harry, for the purpose of undertaking the valuation of each of Biron, and Physico/Ed Harry, in the context of assessing the value aspect of the Proposal.

5.24 During the course of considering its opinion, Horwath has undertaken a limited review of the prospective financial information. The scope of Horwath's work in this regard comprised of the following:

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1 "prospective financial information" for the purposes of the standard means financial information of a predictive character based on assumptions about events that may occur in the future and on possible actions by an entity.

2 "forecast" for the purposes of the standard means prospective financial information prepared on the basis of assumptions as to future events which management expects to take place and the actions management expects to take as of the date the information is prepared ("best-estimate assumptions").

3 "projection" for the purposes of the standard means prospective financial information prepared on the basis of:

(a) hypothetical assumptions about future events and management actions which are not necessarily expected to take place; or

(b) a mixture of assumptions management expects to take place and hypothetical assumptions.

(i) obtaining details of the prospective financial information;

(ii) discussions with management regarding the basis on which the prospective financial information has been formulated and where possible, undertaking some form of evaluation of such information, by reference to either past trading performance and/or other documentation and/or explanations provided by Physico and/or Ed Harry; and

(iii) consideration of economic and industry analysis.

5.25 Based on the limited scope of work undertaken by Horwath, as outlined in paragraph 5.24 above, and in particular, the fact that Horwath has not been engaged to undertake an independent review of the prospective financial information, Horwath expresses no opinion as to the overall accuracy and reliability of the prospective financial information and does not warrant or guarantee the achievability of the outcomes indicated in the prospective financial information. Horwath assumes that the prospective financial information, as provided by each of Biron, Physico and Ed Harry management has been prepared on a reasonable basis and is based on the information available to the respective management at the time, and within the practical constraints and limitations of preparing such prospective financial information. Horwath assumes that the prospective financial information does not reflect any material bias or "management stretch" target.

5.26 Horwath notes that based on the review carried out, as described at paragraph 5.24 above, Horwath has been able to reach a degree of comfort in relation to the level of the expected earnings of Physico and Ed Harry for the year ended 30 June 2005.

6 GENERAL ECONOMIC CONDITIONS

6.1 In arriving at its opinion, Horwath has had regard to the outlook for the international and domestic economy as well as the relevant industry in which Ed Harry and Physico operates. A summary of our understanding of the position of the international and domestic economy is set out below.

The international economy

6.2 The global economic upswing experienced in the 2004 calendar year (**"CY"**) has continued in 2005. Growth in the world economy for CY2004 was 4.9%, which was close to the strongest figure for the last 30 years. The expansion remains geographically uneven with disappointing growth in the Euro area and Japan being offset by strength elsewhere, particularly in major economic regions such as the USA, China, India and the smaller east Asian countries. A notable feature is that Latin America, India, the Middle East, Eastern Europe, and the former Soviet Union have grown strongly. Overall, despite these regional divergences, the world economy has expanded at above-average rates over the past few years providing a very favorable backdrop to the Australian economy. Consensus forecasts for 2005 and 2006 are also for above-trend growth, although somewhat lower than last year.

6.3 The recent performance and outlook for world regions is indicated in the table below:

GDP growth rates (CY)	2004 Estimate	2005 Consensus Forecast	2006 Consensus Forecast
	%	%	%
United States	4	4	4
Euro area	2	2	2
Japan	3	1	2
China	10	9	8
Other east Asia	6	5	5
Australia's trading partners	5	4	4
World	5	4	4

Source: RBA.

6.4 Some of the key drivers for the continued growth of the world economy appear to be:

(i) the continued growth of the USA economy. Real GDP increased by 0.8% in the March quarter to be 3.6% higher over the year to March. Employment is growing at a solid pace and weekly figures on new jobless claims, retail sales and manufacturing production have been strong in the early part of 2005;

(ii) the high levels of growth in the Chinese economy, which have previously accounted for approximately a quarter of the overall growth in the world economy and in global trade. In order to combat the potential overheating of the domestic economy, various measures such as credit controls have been implemented since late 2003. Despite the authorities' continuing efforts to moderate and rebalance growth, real GDP grew by 9.5% over the year to the March quarter, the seventh consecutive quarter of above 9% growth; and

(iii) expansionary monetary policy and, to a lesser extent, fiscal policy in a number of countries. Despite increases in some countries, policy interest rates remain very low, and long-term interest rates have also been at historically low levels. The combination of healthy economic outcomes and low interest rates has had a significant effect on financial markets and borrowing decisions. Investment risk has been regarded as low and/or priced fairly (as indicated in global bond and equity prices).

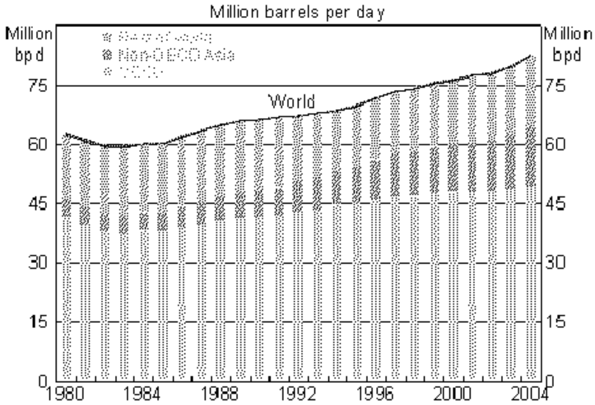
6.5 Some of the key risks to the continued recovery in the world economy appear to be:

(i) the upward pressure on commodity prices, particularly crude oil prices that have recently escalated to their highest level in more than two decades. The surge in oil prices has been driven by the biggest yearly (2004) increase in demand since 1976 and a significant slowdown in oil supply growth from non-OPEC[4] countries where the growth has been relatively flat since 2000. Much of the additional demand is coming from the Asian region (particularly from China and India), resulting in traditional big users of oil in developed countries having to compete for resources in a way in which they have not typically been accustomed.

Set out below is a graphical representation in the growth in oil demand since in 1980:

Oil Demand

Million barrels per day



Source: International Energy Agency

As a result of continual supply issues and demand pressures from Asia, analysts have forecast that oil prices are likely to remain at high levels for at least another two years. This is expected to have a negative effect on global growth based on the recent estimation by The International Monetary Fund (**"IMF"**) that for every $5/barrel increase in oil prices that persist for a year, global growth will decrease by 0.3%;'

(ii) the continued decline in the USA dollar (**"USD"**) (which is around its lowest levels against the Euro (**"EUR"**) and Yen (**"Yen"**) in the past decade). In relation to the USD, the USA Federal Reserve has continued the tightening path it commenced in June 2004, raising the federal funds rate by 25 basis points at both its March 2005 and May 2005 meetings. However, recently, markets have scaled back their tightening expectations due to concerns that the USA economy may be slowing;

(iii) continued geopolitical tensions such as the "war on terrorism"; and

[4] OPEC is an acronym for "The Organization of the Petroleum Exporting Countries" which, according to OPEC, is a permanent, intergovernmental organization seeking to co-ordinate and unify petroleum policies among Member Countries; create an efficient, economic and regular supply of petroleum to consuming nations; and provide a fair return on capital to those investing in the industry.

(iv) as a result of the Asian tsunami disaster, short-term growth is expected to be reduced in tourism intensive countries such as Indonesia and Thailand as well as in some smaller economies on the Indian Ocean rim. However, on aggregate, the impact on GDP from the tsunami disaster in the Asian region is expected to be limited as the major population and industrial centres were largely undamaged.

6.6 One of the key global economic forces in CY2006 is expected to be the slowdown in spending by the USA consumer, as rising bond rates also affect the current boom in housing activity and prices. A slowing USA consumer will weigh heavily on China's export industries that are already facing problems of over-capacity. That externally driven slowdown in Chinese demand is expected to herald the turning point in commodity demand and this could result in a sharp reversal in commodity prices.

6.7 Notwithstanding the key risks mentioned above, most analysts forecast the growth in the world economy, though not as strong as last year, to continue in CY2005 and CY2006 at an above-average pace.

The Australian economy

Outlook

6.8 National accounts released recently have indicated a continuation of the recent pattern of slower GDP growth and continued strength in domestic demand. This seems at odds with general perceptions as most economic indicators suggest ongoing momentum in economic growth for the Australian economy.

6.9 Some of the key factors expected to attribute to positive growth in CY2005 are:

(i) the continued improvement of terms of trade, which increased by approximately 10% during CY2004, and a boost in the real purchasing power of domestic income as a result of:

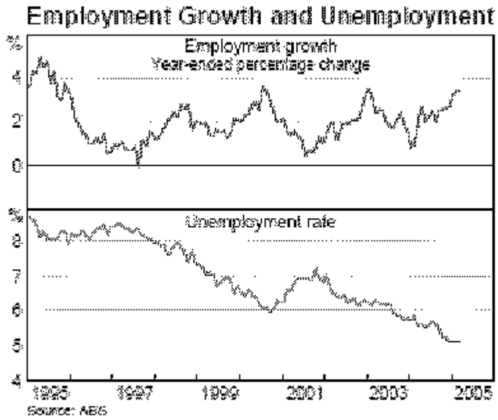
(a) strong growth in commodity prices, particularly for mineral resources. World prices of Australia's base metals exports are currently up by more than 40% over the past two years. For iron ore and coal, substantial increases in contract prices are set to take effect after the sharp rises negotiated in 2004; and

(b) falls in import prices.

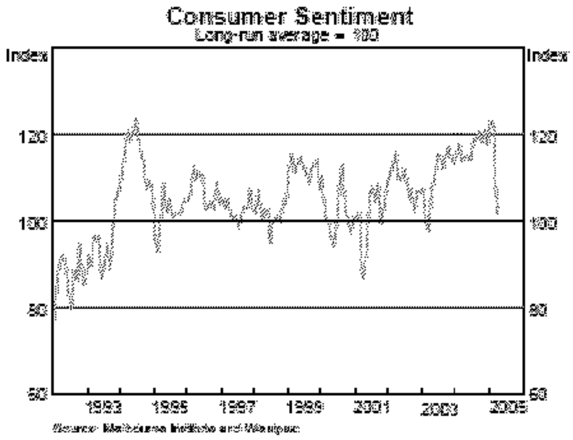
The rising terms of trade will boost demand and activity through a number of channels, including by providing ongoing encouragement to investment activity in the resources sector;

(ii) the continued boom in the domestic labour market with employment posting further large increases well above the trend growth, growing by 3.4% in the year to March 2005. As illustrated below, unemployment has fallen to its lowest level since the 1970's remaining stable at 5.1% between December 2004 and March 2005. Solid employment demand is expect to continue based on reports indicating the ongoing issues such as unsatisfied demand due to labour shortages and the difficulty in finding suitable labour.

Set out below is an overview of the historical trend of labour demand:



(iii) as illustrated below, consumer sentiment according to the Westpac-Melbourne Institute survey declined sharply in March 2005 and showed only a slight pick-up in April 2005. However, the RBA states that consumer sentiment is still above average as a result of increases in households' net wealth, Australian share prices and incomes. Set out below is an overview of the historical trend in consumer sentiment:



(iv) the continued rapid rise in the Australian share market in the early part of CY2005. By 21 March 2005, when the market reached its recent peak, the market was up 25% from a year earlier and almost 60% from its low point in early 2003. However, more recently, a change in sentiment has been evident, with the market falling by around 7%. This is broadly in line with international equity markets, which in turn have been particularly sensitive to economic news from the USA;

(v) the positive outlook for investment given there was good growth in investment in the December 2004 quarter, favourable financing conditions and high corporate profitability. This should further contribute to increases in capital spending;

(vi) household credit growth has recently been steady at around 1% per month, or an annual rate of around 13%. This rate of growth is strong by historical standards although, down from the peak reached in CY2003. Business credit growth has also been gradually strengthening in recent times;

(vii) retail sales showed a recovery in the recent March quarter and other indicators of consumer demand such as motor vehicle sales and imports of consumer goods were up strongly in the quarter. However, in the June 2005 quarter there were indications of slowing retail demand with a number of ASX-listed non-food retailers announcing downwards revisions to profit expectations;

(viii) the continued adjustment in the Australian housing market should assist prospects for sustainable economic growth. The recent decline in house prices and new lending has alleviated the overheating which had previously been apparent; and

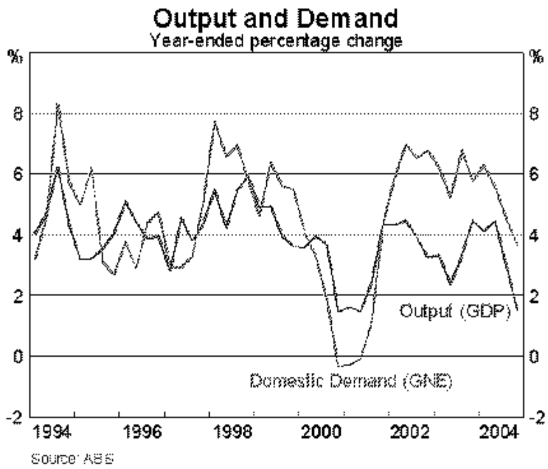
(ix) robust business investment as a result of recent strong domestic spending and improving global economic conditions. Indicators of investment intentions suggest that business investment will continue to contribute strongly to the overall growth in demand in the short-term future.

6.10 As a result of the influences of slowing in consumption and the fall in house-building domestic demand growth has fallen from just over 6 per cent to about 3½ per cent so far in FY2005. In response to the recent reports indicating slower GDP growth and continued strength in domestic demand, the RBA has made the following observations:

(i) business investment continues to grow strongly, which is important given the need to increase capacity, particularly in the exporting sector;

(ii) strong employment growth is also underpinning the economic expansion;

(iii) as illustrated below, domestic demand is growing significantly faster than GDP. The RBA believes that the growth in demand is being met not by commensurate growth in production, but largely, by growth in imports, running at 13 % over the year, and by a run down in inventories. Set out below is an overview of the historical trend of output and demand:



(iv) although solid household and business spending continues to positively affect the demand for local imports, exports continue to be disappointing resulting in an imbalance of supply and demand in the economy. Net exports have detracted from growth for almost three years running by an average of 2.5% per annum clearly indicating the pressures on the economy's supply capacity. The RBA and other commentators have recently remarked on emerging productive capacity, and current infrastructure constraints. Indicators of economic conditions suggest that the combination of firm demand conditions and high capacity utilisation has continued in the early months of CY2005;

(v) with domestic demand in Australia growing at over 5 per cent in FY2003 and FY2004, which is well above long-term potential, and with the economy approaching full capacity in a number of sectors, the extra domestic demand generated by the exceptional rises in the terms of trade could well have had serious inflationary consequences if it had continued. In any event, the economic situation has evolved quite favourably, with domestic demand continuing to slow to what appears to be a sustainable pace. Output, as measured by GDP, has also slowed and some people are disappointed that GDP growth is now running at a below-average rate, but the RBA Governor views recent events as a healthy correction, and certainly a much better outcome than several other potential outcomes. There are also indications that inflationary pressures are not building as quickly as might have been expected earlier in CY2005;

(vi) the world business cycle is still at an early stage of expansion, so continued economic growth can be expected over the next few years. This, together with Australia's higher terms of trade and strong investment growth in the presence of some capacity constraints, is exerting an expansionary influence on domestic activity and upward pressure on inflation, mainly at the producer price level, although the RBA also expects consumer price inflation to increase somewhat from its present rate; and

(vii) at the same time, the economy is at present being affected by some countervailing forces. Consumption has slowed and house building and farm output are falling; these have exerted a moderating influence and may continue to do so. The recent moderation in growth is more likely to prolong the expansion than bring it to an end.

6.11 Supporting the reported slowing in GDP growth, the Westpac-Melbourne Institute leading index of economic activity has continued to fall in recent months. This index indicates the likely pace of economic activity six to nine months into the future and is a key indicator of future economic growth. Whilst the growth rate in the leading index for December 2004 was 4.8% per annum, the February 2005 leading index suggests annualised economic growth of around 1.2% in the second half of CY2005, well below the long-term average of 3.5% pa. The Westpac/ Melbourne Institute Index of economic activity - which indicates the likely pace of economic activity six to nine months into the future - fell to flat in March from 0.2 per cent in February. The result reinforced consistent signals by the index for the past six months that Australian economic growth will be below par in 2005. Australia's economic growth is expected to remain subdued in 2005, with a reacceleration of domestic demand unlikely in the next six months. Westpac expects growth of 2.75 per cent in CY2005.

6.12 Although the risks associated with the index's growth forecasts are on the downside, particularly with respect to the consumer, business investment and exports, analysts remain optimistic for economic growth for the second half of CY2005.

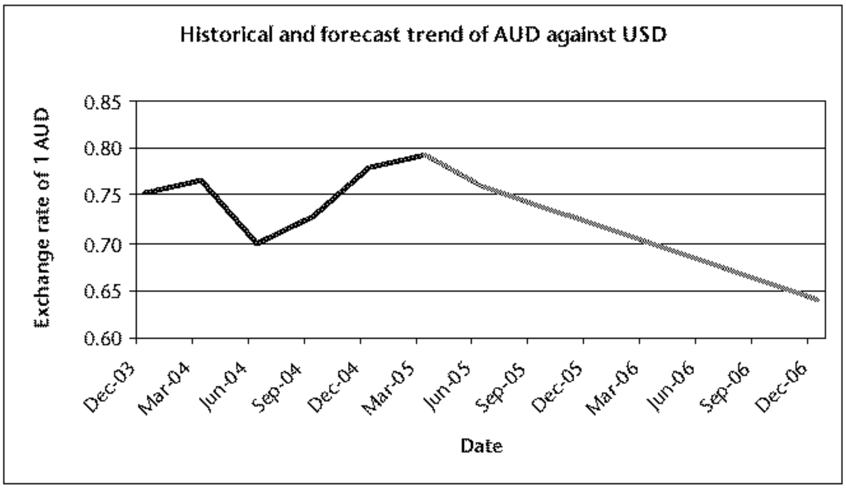
Interest rates

6.13 Due to the current expansion and growth of the domestic economy and the resultant stronger inflationary pressures, in March 2005 the RBA increased the cash rate by 25 basis points, to 5.5%. The RBA's decision to increase the cash rate was taken against the background of strong demand pressures combined with a significant pick-up in upstream prices during the second half of CY2004. There have been some signs that this increase is starting to have a dampening influence on demand, and could have a greater short-term impact on spending and sentiment than has typically been the case in the past. At its recent meeting on 5 July 2005, the RBA decided to leave the cash rate target unchanged.

6.14 The RBA has indicated that it will continue to monitor developments and adjust the policy setting as required to ensure that Australia's economic expansion is not jeopardised by rising inflation. Factors such as business and consumer confidence, employment growth, housing credit growth, the producer price index and consumer price index "(**CPI**") have been indicated as the driving factors for future rate rises.

The AUD

6.15 Set out below is the historical and forecast trend in the AUD as measured against the USD over the period December 2003 to December 2006:



Source: Westpac and Bloomberg

6.16 As illustrated above, the AUD has been in a stable range between approximately 77 cents and 79 cents over the past six months and currently sits around 74 cents[5]. The recent appreciation in the AUD, as measured against the USD, has been attributed to:

(i) strong domestic profit results;

(ii) speculation of foreign takeovers;

(iii) the surging global commodity prices (supported by rising demand for commodities from China and the world in general) continuing to offset concerns about Australia's current account deficit; and

(iv) the continued structural depreciation of the USD.

6.17 At the current level, analysts believe the exchange rate may be constraining activity for some exporting and import-competing firms, particularly in manufacturing and services. On the other hand, for resource producers, production will be highly profitable at current exchange rates, given developments in resource prices.

6.18 While market sentiment towards the Australian dollar remains positive, analysts have forecasted the AUD will depreciate over the medium term, with the second half of CY2005 the likely turning point based on the following factors:

(i) the consistent view that US interest rates will reach the 4% mark by the end of CY2005 and a continual flattening of the US yield curve; and

[5] Source: RBA 4pm AEST 8 July 2005.

(ii) the recent slowing of the domestic economy and the indications made by the RBA of further slowing demand through CY2005.

6.19 The CPI increased by 0.7% in the March 2005 quarter to be 2.4% higher over the year to March. The most significant contributions to the quarterly increase were made by seasonal price increases for educational and pharmaceuticals and ongoing strength in house purchase costs.

6.20 Offsetting these rises was a fall in petrol prices resulting from a temporary easing in world crude oil prices, and a fall in motor vehicle prices related to tariff cuts in January 2005.

6.21 Historically, underlying CPI inflation has been held down by the lagged effects of the exchange rate appreciation that took place during 2002 and 2003, while domestically sourced inflationary pressures have remained firm. Analysts are of the opinion that the economy has passed the low point for underlying inflation in the current cycle and that it will start rising during CY2005 to be around 3% by the end of CY2006.

Federal Budget 2005/06

6.22 Some of the key issues and economic features discussed in the Federal Budget 2005/06 (**"Budget"**) recently released by the Australian Government include:

(i) personal income tax cuts worth $21.7 billion over the next four years;

(ii) the government expects the Australian economy to grow by 3% in 2005/06 compared with an expected growth rate of 2% for 2004/2005. The lower 2004/2005 growth rate is attributed to a slowdown in household consumption and dwelling investment;

(iii) the modest downturn in housing is expected to continue with dwelling investment forecast to fall around 2% following three years of growth of almost 50%;

(iv) business investment is expected to grow strongly again in 2005/06. The Budget notes the continuing favourable environment for investment including:

(a) strong corporate balance sheets;

(b) high capacity utilisation; and

(c) low cost of capital;

(v) inflation is expected to remain within the policy band, with a forecast CPI increase of 2.75% in 2005/06, moderating in later years. Many analysts believe that the Budget forecasts are not likely to cause the RBA to consider a change in interest rates;

(vi) Australia's current account deficit remains a significant imbalance, estimated at 6.5% of GDP for 2004/05. Treasury is forecasting an improvement in the deficit in 2005/06 to 5.25% of GDP;

(vii) the Budget forecasts assume continuing strong growth in the world economy of 4.25% in 2005 and 4.0% in 2006, with global inflation "contained". However, there are some risks to this positive outlook. The forecast is reliant on strong growth from the US and China, both of which are expected to face challenges in achieving these growth rates. A rising oil price currently is not seen as a major inflation threat, but a threat to future growth.

6.23 Set out below is an overview of the key economic indicators, used to measure the performance of the Australian economy:

6.24

The 2005/06 Federal Budget Economic Forecasts

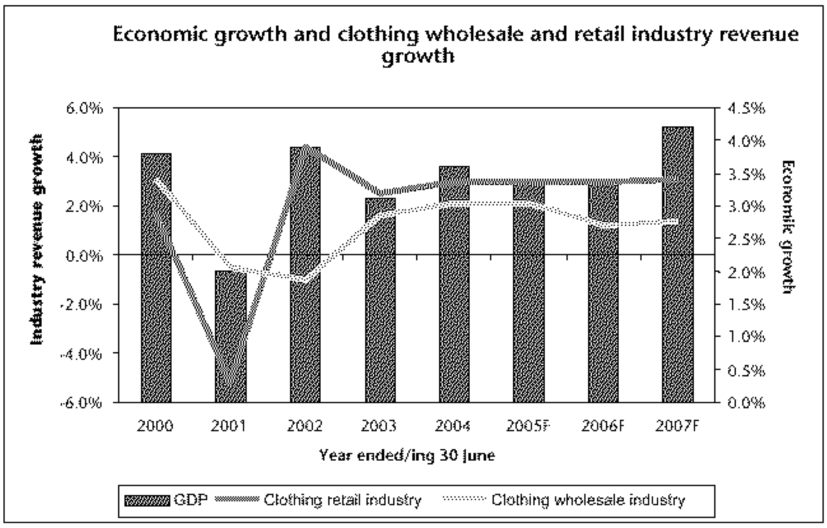
Indicator	Actual 2003/2004	Estimate 2004/2005	Forecast 2005/2006
	%	%	%
GPD (average)	4.1	2.0	3.0
Employment growth	1.8	2.75	1.75
Unemployment growth	5.8	5.15	5.0
Inflation	2.4	2.5	2.75
Wage price index	3.6	3.75	4
Current account deficit (as % of GDP)	(5.8)	(6.5)	(5.25)

Conclusions on general economic conditions

6.25 Overall, despite the slowing GDP growth and growing concerns relating to constraints on supply capacity, factors such as continual strength in demand, a favourable world economy, rising commodity prices, high employment levels and high consumer confidence appear to support a continued level of economic growth, albeit at a reduced level to that experienced over the last year.

6.26 Horwath's understanding of the above is that the Australian economy has enjoyed strong growth, which recently has moderated, but growth at reasonable levels (but less then historically) is expected to continue into the foreseeable future.

6.27 Set out below is a graph comparing the historical and forecast economic growth to the corresponding wholesale and retail industry revenue growth:



Source: IBIS.

6.28 Horwath notes the following from the above graph:

(i) a strong overall correlation appears to be present between economic growth, as measured by real GDP, and the wholesale and retail clothing industries;

(ii) the retail clothing industry appears to have a stronger correlation with real GDP than the wholesale clothing industry; and

(iii) the retail clothing industry is expected to grow at similar rates to that of the economy and at greater rates compared to the wholesale clothing industry.

6.29 Based on the above, and the expectations regarding the international and domestic economy, and despite the recent slowing in the non-food retail industry, the general outlook for the wholesale and retail clothing industries appears positive.

6.30 In short, while there is increased risk to growth outcomes and a risk of future moderate rises in inflation and interest rates, overall, in Horwath's opinion, there does not appear to exist any material risk that economic fundamentals would materially adversely impact on Ed Harry's or Physico's earnings over the short to medium term.

7 AN OVERVIEW OF THE RETAIL AND WHOLESALE CLOTHING INDUSTRIES

7.1 In arriving at an assessment of the Transaction, Horwath has had regard to the outlook for the relevant industries in which Physico and Ed Harry (the "**Merged Entity**") operate. In this regard, Horwath has relied upon the following IBISWorld Industry Publications ("**IBIS**"):

(i) Clothing Retailing in Australia; and

(ii) Clothing Wholesaling in Australia.

7.2 Set out below is a summary of our understanding of the above industries.

Clothing Retailing in Australia

7.3 The Clothes Retailing industry in Australia ("**Clothes Retail**") is the industry in which Ed Harry operates. IBIS defines this industry as:

> *'... units mainly engaged in retailing clothing or clothing accessories. A business in this industry is involved in purchasing a variety of products (such as clothing, gloves, hosiery, etc) from wholesalers and selling these products directly to consumers, generally without developing or changing the products further. Most retailers in this industry undertake sales and administrative activities such as customer service; product merchandising; advertising; inventory control; and cash handling'.*

Market size

7.4 According to IBIS, Clothes Retail in the year ended to 30 June 2004 is estimated to have:

(i) generated $8,283 million in revenue;

(ii) contributed $1,736 million to the gross domestic economy;

(iii) employed approximately 55,800 people within around 10,100 establishments; and

(iv) paid approximately $1,100 million in wages.

7.5 Horwath notes that department stores are not included under Clothes Retail. Rather, IBIS classifies department stores under the industry classification 'Department Stores in Australia'.

Demand Determinants

7.6 Demand for clothing is driven by the following:

(i) level and movement of real household disposable income;

(ii) consumer confidence and attitudes;

(iii) brand recognition;

(iv) changes in fashion/trends;

(v) relative price of clothing; and

(vi) season/weather changes.

Competition

7.7 Competition in Clothes Retail is strong due to the large number if retail stores in operation, and is fought on:

(i) price versus quality;

(ii) range and style of clothing;

(iii) brands and labels; and

(iv) service and location.

7.8 Low and high-end department stores, for example Target and David Jones, are major competitors of participants in the Clothes Retail industry. According to IBIS, department stores account for 35 to 40% of total Australian women's and men's clothing sales.

Life Cycle

7.9 IBIS has identified Clothes Retail as of a being a mature life cycle stage due to the following:

(i) major players have engaged in merger and acquisition activity to increase market share and profit margins. Examples include:

(a) Sussan's acquisition of Sportsgirl in 1999;

(b) Millers acquisition of Katies in 2000; and

(c) Just Group's acquisition of Dotti in 2004;

(ii) there are clearly segmented product groups which are expected to remain fairly stable, for example women's clothing, men's clothing;

(iii) there has been a moderate level of technological change over the last few years, mainly in relation to:

(a) electronic scanning;

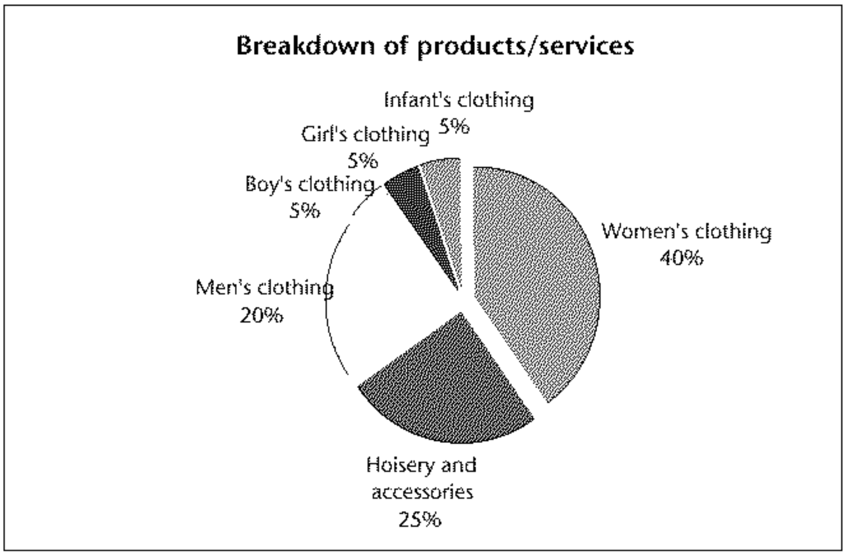
(b) inventory management; and

(c) logistics; and

(iv) although sales are increasing, online retail is not expected overtake traditional retailing.

Segmentation

7.10 Set out below is a chart showing the segmentation of products and services within Clothes Retail:



Source: IBIS.

7.11 Clothes Retail is split into three market segments. Set out below is a table with the estimated market share for each segment:

Market Segment	Share
Generation X	39%
Baby Boomers	35%
Generation Y	26%
Total	**100%**

Source: IBIS

7.12 A brief description and analysis of each market segment is as follows:

(i) "Generation X" – includes people born between 1965 and 1975, representing those born after the baby boom. However, many people generally refer to Generation X as those born in the years 1961-1981. Generation X has the largest market share because it generates high demand for both casual and formal clothing;

(ii) "Baby boomers" – includes people born between 1946 and 1964. Previously this was the largest segment. However, as many Baby Boomers have retired and exited the market, demand for formal clothing has declined and will continue to do so; and

(iii) "Generation Y"– includes those born between 1975 and 1994. Due to their age increase in recent years, the spending power of Generation Y has increased. Generation Y's highest demand is for casual clothing.

Industry Concentration

7.13 The level of concentration within the industry in Australia is low. Clothes Retail is regarded as being fragmented, due to the following:

(i) high number of small independent retailers; and

(ii) the three largest participants accounting for approximately 20% of revenue (as discussed in paragraph 7.21 below).

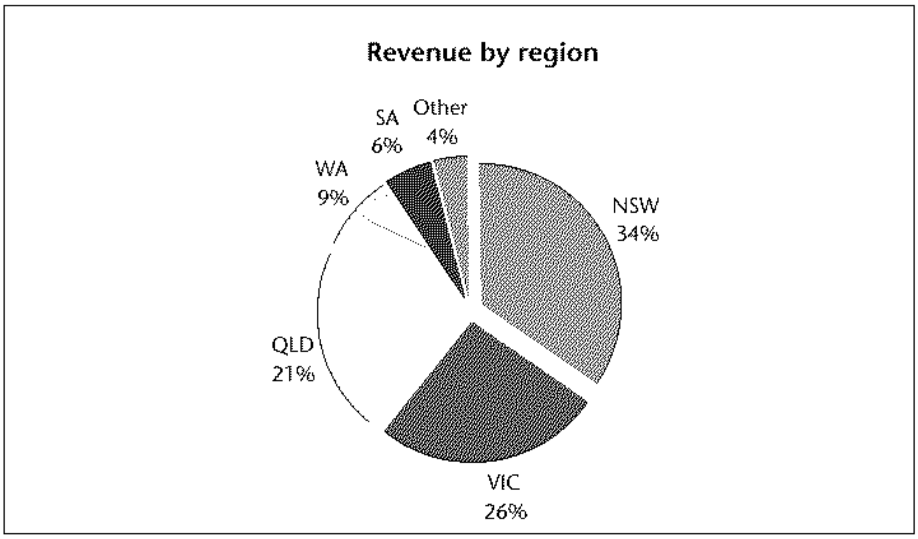
7.14 Within Clothes Retail the following trends have been identified:

(i) the trend towards franchising; and

(ii) small operators being acquired to increase market share and profit.

Geographic Spread

7.15 Set out below is a graph showing 2004 Clothes Retail revenue by State:



Source: IBIS

7.16 The distribution of revenue within this industry is closely related to the distribution of the population. However, factors such as employment rate, consumer confidence and propensity to spend are also related.

Barriers to Entry

7.17 The barriers to entry for Clothes Retail are determined by:

(i) relatively low capital costs associated with establishing new outlets/stores;

(ii) relatively low levels of concentration (discussed in paragraph 7.56 below). However, due to the rise in acquisition activity, concentration is expected to increase;

(iii) dominant market position of existing industry participants restricting new entrants; and

(iv) consumer familiarity with established brands.

Industry Assistance

7.18 Set out below is a table slowing the level of domestic industry assistance granted to Clothes Retail, by way of tariffs:

Goods	Low rate	High rate
Apparel and clothing accessories (gloves)	7.5%	7.5%
Furskin clothing and apparel	5%	7.5%
Clothing	17.5%	17.5%
Leather apparel and accessories	10%	17.5%

Source: IBIS

7.19 The level of assistance within Clothes Retail is currently low, and decreasing. Horwath notes that prior to 1 January 2005, the tariff for:

(i) clothing and leather apparel and accessories was as high as 25%; and

(ii) apparel and clothing accessories (gloves) and furskin clothing was as high as 10%.

Industry Volatility

7.20 Clothes Retail experiences a medium level of volatility. Volatility is determined by:

(i) changes in the level of household income; and

(ii) consumer confidence and attitude towards the state of the economy.

Major Players

7.21 The three major players, who together accounted for around 20% of the total industry in the year ended 30 June 2004, are as follows:

(i) Miller's Retail Limited ("**Miller's**");

(ii) Sussan Corporation (Australia) Proprietary Limited ("**Sussan**"); and

(iii) Just Group Limited ("**Just Group**").

Major player	Market share (%)
Miller's	8 - 10
Just Group	6 - 8
Sussan	5 - 7
Total	**19 - 25**

Source: IBIS.

7.22 A brief description of the major players has been included below:

<u>Miller's</u>

7.23 Miller's, a retailer of women's low priced clothing throughout Australia and New Zealand, and listed on the ASX on 28 May 1998.

7.24 In addition to Millers own brand, the company's portfolio of brands includes the following:

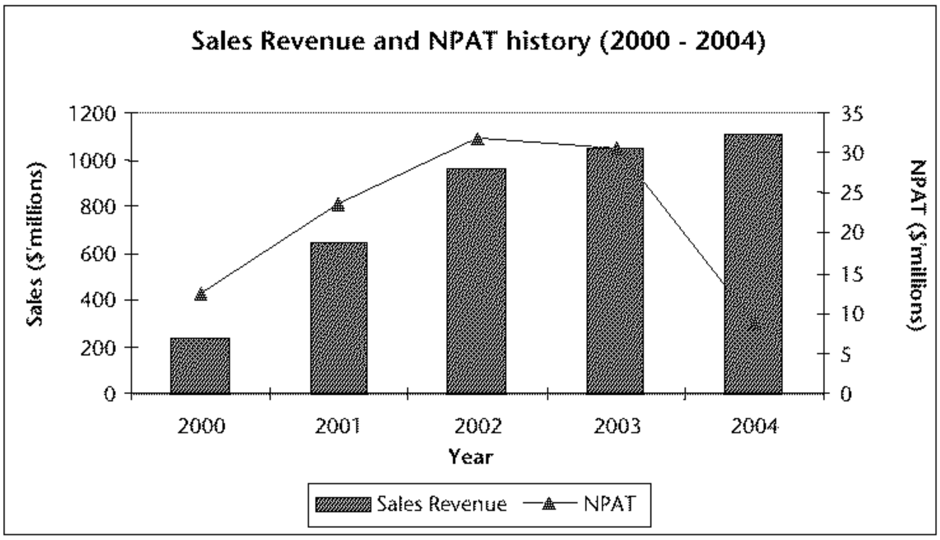
(i) Go-Lo, acquired in May 2000;

(ii) Crazy Clarks, acquired in May 2000;

(iii) GI Fashion, acquired in July 2000; and

(iv) Katies and 1626, acquired in November 2000.

7.25 Set out below is a chart of Miller's sales revenue and net profit after tax ("**NPAT**") history, from the years ended 30 June 2000 to 2004:



Source: IBIS.

7.26 Horwath notes from the above chart that:

(i) from the year ended 30 June 2000 to the year ended 30 June 2004, Miller's sales revenue increased by approximately 4.7 times;

(ii) Miller's NPAT, from the year ended 30 June 2000 to the year ended 30 June 2003, increased by approximately 2.5 times; and

(iii) despite sales revenue increasing by 6% over the year ended 30 June 2004, compared with the year ended 30 June 2003, Miller's NPAT decreased by 72% over the period. This decrease is due to the write-down in the carrying value of Miller's discount stores.

Just Group

7.27 Just Group, founded by the Kimberly Family in December 1970, was established under the name Just Jeans. In 1993, the company acquired Jay Jays and listed on the ASX. In 2004, in recognition of the addition of new retail concepts outside of jeans, the company changed its name to Just Group.

7.28 From one store in 1970, the company has grown to 690 stores (as at 30 June 2004) throughout Australia and New Zealand.

7.29 In addition to Just Jeans stores, the Just Group's portfolio of brands includes:

(i) "Jay Jays", acquired in late 1993;

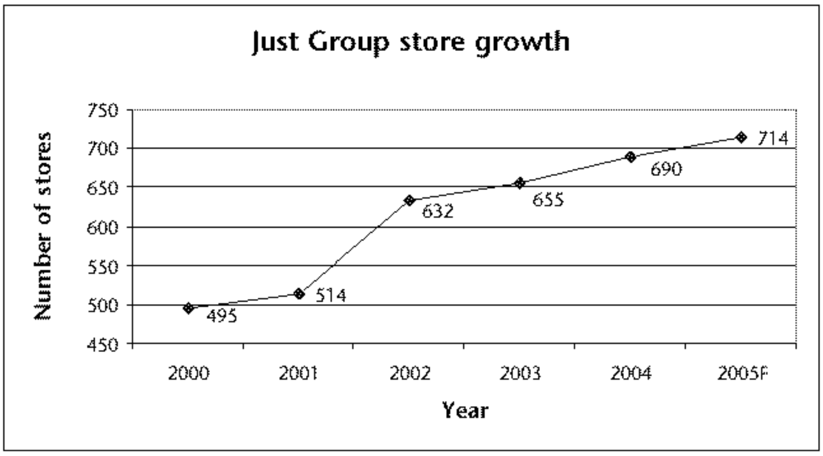
(ii) "Jacqui E", acquired in September 1994;

(iii) "Peter Alexander", acquired in early 2000;

(iv) "Portmans", acquired in 2002; and

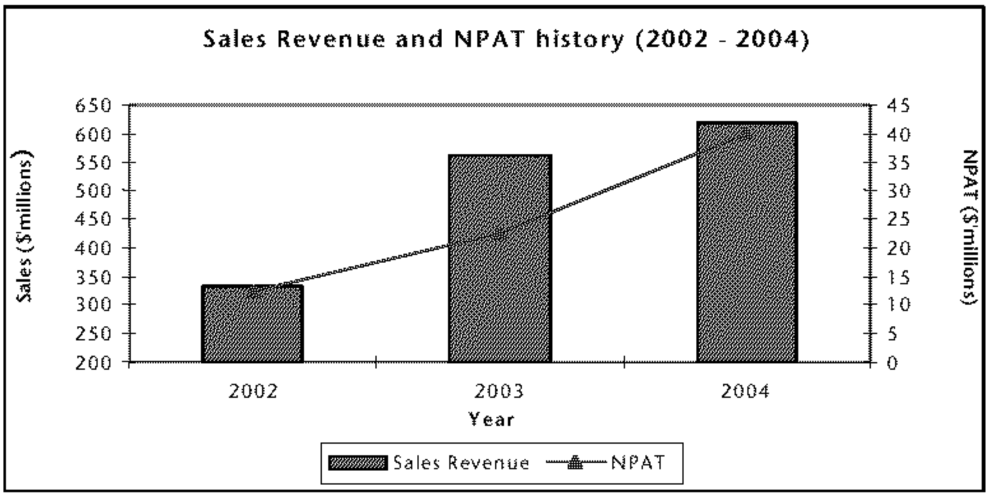
(v) "Dotti", acquired in August 2004.

7.30 Set out below is a chart showing the combined store growth of Just Group from the year ended 31 July 2000 to the forecast for the year ending 31 July 2005:



Source: Just Group website (http://www.justgroup.com.au/Profile)

7.31 Set out below is a chart of Just Group's sales revenue and NPAT history, from the year ended 30 June 2002 to 2004:



Source: IBIS

7.32 In relation to the above chart, Horwath notes that over the period from the year ended 30 June 2002 to 2004, Just Group's:

(i) sales revenue has increased by an average of approximately 40%;

(ii) NPAT has increased by an average of approximately 80%; and

(iii) NPAT from the year ended 30 June 2002 to the year ended 30 June 2004 has more than tripled.

<u>Sussan</u>

7.33 In 1939, Fay Gandel opened the first Sussan store in Melbourne. Over the decade from 1959, when Fay Gandel's son and son-in-law assumed joint control of the company, Sussan's expanded into New South Wales and Queensland. This was followed in 1995 by the expansion into New Zealand.

7.34 In 1979, Sussan launched the successful 'this goes with that' campaign, which is still in existence today.

7.35 In addition to Sussan's own stores, the company owns the following retail chains:

(i) Suzanne Grae, which was acquired in 1991; and

(ii) Sportsgirl, which was acquired in 1999.

7.36 According to IBIS, Sussan's sales revenue increased by 7% to $428 million in the year ended 30 June 2002, compared to the previous corresponding period. Sussan's sales revenue increased by a further 2.8% to $440 million, over the year ended 30 June 2003.

7.37 Horwath notes that as Sussan is a private company, publicly available information regarding Sussan's trading performance is limited.

Clothes Retail Merger and Acquisition Analysis

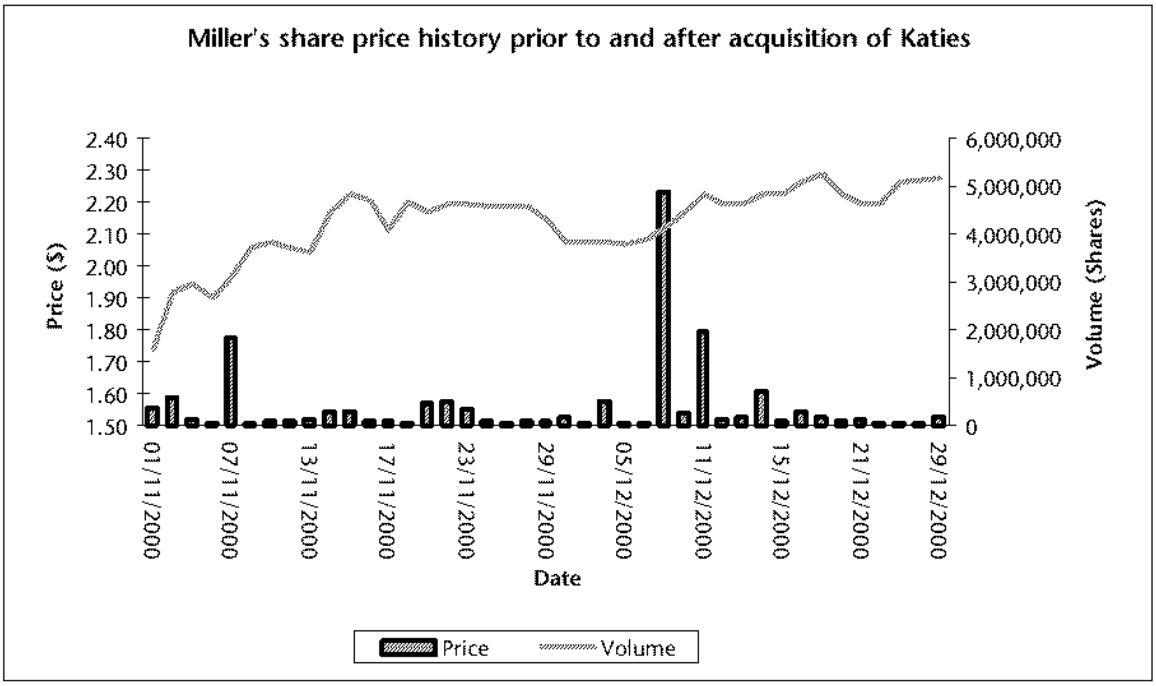
7.38 Set out in paragraphs 7.39 to 7.45 below is a discussion of the mergers and acquisitions that have been listed in paragraph 7.9(i) above.

Millers' acquisition of Katies

7.39 On 2 November 2000, Miller's entered into an agreement with Coles Myer Ltd ("**Coles**") to purchase women's apparel chain Katies, for 6.52 million Miller's shares, representing approximately 6.1% of Miller's issued capital. Based on the closing price of Miller's shares on 1 November 2000, this agreement valued Katies at approximately $20.4 million.

7.40 The sale, which took effect on 27 November 2000, included all Katies and 1626 stores throughout Australia and New Zealand, as well associated stock, fixtures, fittings and store creditors. Miller's purchase of the 208 stores gave rise to a number of synergistic benefits from the transaction. The initial synergies were generated from the Katies and 1626 stores being operated from the existing Miller's warehouse and head office facilities. This enabled the new stores to be leveraged off Miller's already low cost base and infrastructure, resulting in very limited additional costs to Miller's.

7.41 Set out below is a graph of Millers daily share trading on the ASX from 1 November 2000 to 29 December 2000, representing a one year period extending pre and post the acquisition of Katies by Miller's:



Source: Bloomberg.

7.42 Horwath notes the following from the above graph:

(i) on 1 November 2000, Miller's share price was $1.74;

(ii) on 2 November 2000, when the acquisition was announced, Miller's shares were $1.92, representing an increase of 10% compared with the previous close; and

(iii) over the period from the 1 November 2000 to the 29 December 2000, Miller's share price increased by 30%.

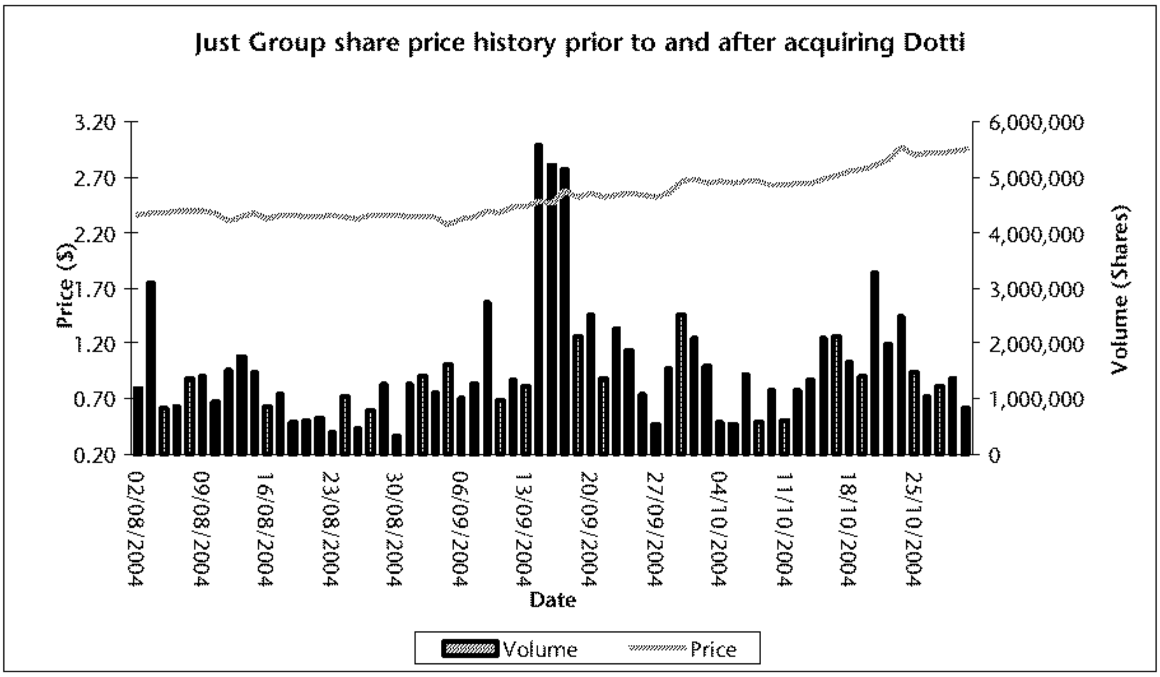
Just Group's acquisition of Dotti

7.43 As noted in paragraph 7.29(v), Just Group acquired women's retailer Dotti (having ten stores) between August 2004 and October 2004. The total consideration of the acquisition was approximately $5 million, and it was funded out of operating cash flow.

7.44 In the media release which announced the acquisition, Just Group's Managing Director, Howard McDonald, said of the transaction:

> *"Dotti represents a complimentary fit to the rest of our high quality portfolio of retail brands and will integrate well with our existing infrastructure".*

7.45 Set out below is a Just Group's daily share trading on the ASX from 1 August 2004 to 30 October 2004, representing a one year period extending pre and post the acquisition of Dotti by Just Group:



Source: Bloomberg

7.46 Horwath notes the following from the above chart:

(i) on 11 August 2004, Just Group's share price was $2.31;

(ii) on 12 August, when the acquisition was announced, Just Group's share price was $2.34; and

(iii) over the period from the 1 August 2004 to the 30 October, Millers share price increased by 25%.

Clothes Wholesaling in Australia

7.47 The Clothes Wholesaling industry in Australia ("**Clothes Wholesale**") is the industry in which Physico operates. IBIS defines this industry as:

> *"...units engaged in wholesaling clothing. A business in this industry is involved in purchasing clothing and selling the garments to retailers (e.g. clothing retailers, department stores etc), generally with minimum or no further development of the items. Most wholesalers in this industry undertake sales and administrative activities, such as establishing relationships with manufacturers and retailers to ensure the reliable supply and demand of stock, marketing and advertising of their products, and storage and transportation of stock."*

Market Size

7.48 According to IBIS, Clothes Wholesale in the year ended 30 June 2004 is estimated to have:

(i) recorded revenues of $4.56 billion;

(ii) contributed $728.9 million towards GDP;

(iii) employed approximately 13,395 people within 1,936 establishments; and

(iv) paid $440.7 million in wages.

7.49 IBIS forecasts Clothes Wholesale revenue will increase to $4.61 billion in the year ending 30 June 2005, representing an increase of 1.2% over the previous corresponding period.

Demand Determinants

7.50 Demand within this industry is derived by the demand for clothing, the determinants for which are set out in paragraph 7.6 above.

Competition

7.51 Competition within Clothes Wholesale is based on:

(i) product - ownership of licences to distribute well recognised brands;

(ii) place – strong retailer relationships at all distribution levels give Wholesalers the opportunity to maximise product dedicated selling space;

(iii) price – wholesalers operate in a very price sensitive market; and

(iv) promotion – the greater the promotional support offered by wholesalers, the greater the floor space offered.

7.52 According to IBIS, potential threats to Clothes Wholesale are:

(i) vertically-integrated specialty stores; and

(ii) mass merchants (diversified volume buyers).

Life cycle

7.53 Clothes Wholesale is in the mature to declining stage of its life cycle due to the following:

(i) growth rates for the last five years have been below that of the overall economy;

(ii) the products and services of the Clothes Wholesale industry have already been accepted by a large proportion of the industry's customers;

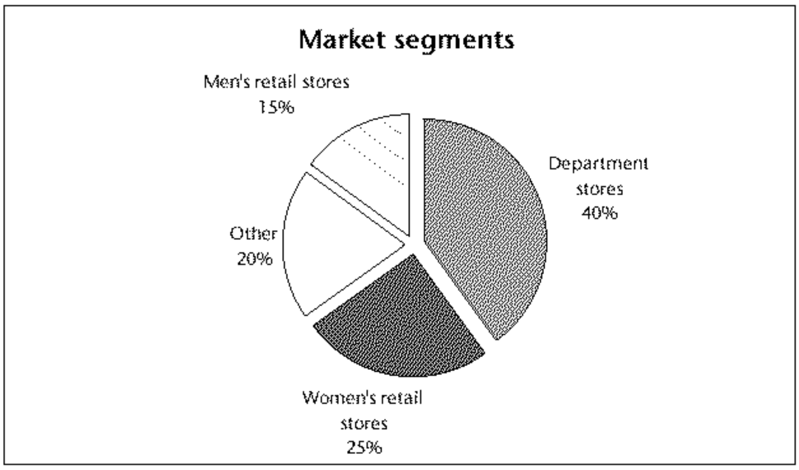
(iii) vertical integration;

(iv) recent technology and system changes such as e-commerce have been utilised to Clothes Wholesale's advantage; and

(v) apart from surfwear, there have not been any significant introductions of new brands or products in the market for the last few years.

Major market segments

7.54 Set out below is a chart showing the major market segments for Wholesalers:



Source: IBIS

7.55 Other retail stores include specialty retail stores such as sports and surf wear.

Industry Concentration

7.56 The level of concentration within Clothes Wholesale is low, with no one player having a greater than 10% share of the market. The top four players, estimated to have a combined market share of around 7% in 2004, are as follows:

(i) Gazal Corporation Limited ("**Gazal**");

(ii) SL Family Enterprises Pty Ltd ("**SL Family**");

(iii) Levi Strauss (Australia) Pty Ltd ("**Levi**"); and

(iv) Frontline Stores Australia Limited ("**Frontline**").

Barriers to Entry

7.57 Clothes Wholesale barriers to entry are medium and unlikely to change. Factors determining the entry barriers are:

(i) the high costs associated with establishing a warehouse and distribution system;

(ii) marketing costs involved with establishing a customer base are generally high;

(iii) existing established links manufacturers have with wholesalers, which are usually:

(a) contractually binding; and

(b) exclude manufacturers and retailers from dealing with new wholesalers; and

(iv) large existing Wholesalers that have achieved economies of scale prevent new entrants.

Labour and Capital Intensity

7.58 Traditionally Clothes Wholesale has been labour intensive. However, advances in computer technology have been able to automate an increasing number of traditionally labour oriented tasks such as:

(i) selling stock; and

(ii) handling and moving stock.

7.59 As Clothes Wholesale continues to adopt new technology to improve operating efficiencies, the level of capital intensity will increase at the expense of labour requirements.

Technology and Systems

7.60 The introduction of new computer technology has enabled both Clothes Wholesale and Clothes Retail to increase their stock turns. New systems include:

(i) point-of-sale systems which have made stock ordering simpler, more timely and efficient;

(ii) computer systems that allow wholesalers to pre-code and pre-price stock that is to be delivered to retailers;

(iii) barcode scanning has reduced time and price keying mistakes; and

(iv) radio frequency identification ("**RFA**") that is being introduced to improve existing supply chain processes. RFA enables products to be 'tagged' with chips that 'introduce' their identity when scanned with an electromagnetic field. According to IBIS, RFA is expected to assist with:

(a) forecasting demand; and

(b) managing inventory levels.

Major Players

7.61 Set out below is a table showing the market shares of the major players in 2004:

Major player	**Market share (%)**
Gazal	3.0
SL Family	2.0
Levi	1.0
Frontline	1.0
Total	**7.0**

Source: IBIS

7.62 A brief description of the four major players is set out below.

Gazal

7.63 Joe Gazal established the Gazal group of companies in 1958. In 1973, Gazal became public, and was incorporated under the name Gazal Industries Limited.

7.64 Major brands that Gazal manufacturers, distributes and services includes:

(i) Yves Saint Laurent;

(ii) Nautica;

(iii) Mambo; and

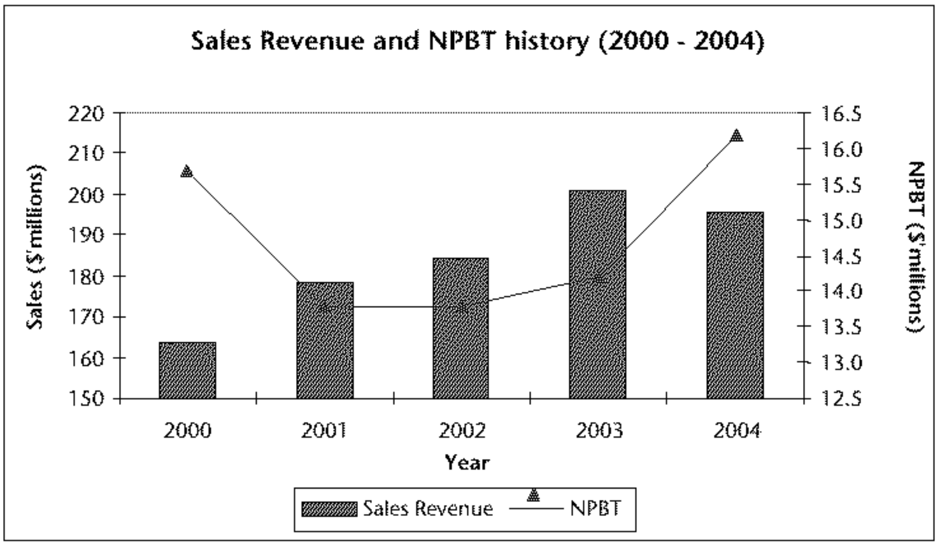
(iv) Van Heusen.

7.65 In addition to the above brands, Gazal manufacturers and services selected house-brand merchandise for major retailers.

7.66 Gazal's head office and distribution is located in Sydney, as is the company's manufacturing premises. The company has also recently established two joint venture companies with manufacturers in China and Hong Kong.

7.67 In 1993, Gazal underwent a restructuring, closing a number of loss making divisions that sold non-branded products. In 2000, Gazal moved away from being a 'brand renter' to becoming a 'brand owner', where it identified better opportunities. In March 2000, Gazal purchased the Mambo brand, which is an Australian brand registered in 35 countries.

7.68 Set out below is a chart of Gazal's sales revenue and net profit before tax ("**NPBT**") history, from the year ended 30 June 2000 to 2004:



Source: IBIS

7.69 In relation to the above chart, Horwath notes that over the years ended 30 June 2000 to 2004, Gazal's:

(i) sales revenue has, on average, increased by approximately 5%, including the negative 3% growth recorded for the year ended 30 June 2004; and

(ii) NPBT has grown by a modest 3% over the five years from 30 June 2000 to the year ended 30 June 2004.

SL Family

7.70 Previously known as Voyager Distributing, SL Family is a wholesaler of ladies clothing and clothing fabrics. SL Family imports clothing items from Hong Kong, the UK, the US and Europe. The company trades under names such as:

(i) Club Prive;

(ii) Jump for Solo;

(iii) New Wave; and

(iv) Prime Time by EG and Solo.

7.71 Associated interests of SL Family own the following Australian chains:

(i) Witchery clothing; and

(ii) Nine-West footwear.

7.72 The company also has a minority shareholding in Country Road.

7.73 Horwath notes that SL Family is a private company. As such, there is limited publicly available information on SL Family's financial performance to date. However, IBIS has estimated sales revenue for the year ended 30 June 2001 at $118 million and at $121 million for the year ended 30 June 2002.

7.74 Sales revenues in the years ended 30 June 2003 and 2004 have been estimated to be similar to those recorded in years ended 30 June 2001 and 2002 due to strong demand for the company's branded clothing items.

Levi

7.75 Levi is the Australian manufacturer and importer of the famous American Levi jeans and the Dockers chino style pants.

7.76 In 1997, the first "Original Levi" store opened in Melbourne, followed by a second store in Sydney in 1998. Since then, the number of "Original Levi" stores has grown to 6 in Australia.

7.77 In early 2000, Levi launched a new range of clothing that is a mixture of denim, cotton and Tencel, which has a metallic appearance. This is the first time since the original Levi jean was created that the design has been substantially redesigned.

7.78 In addition to designer jeans, Levi also has a discount department store brand called Signature. The Signature range is distributed through stores:

(i) Target;
(ii) Kmart; and
(iii) menswear retailer Lowes.

7.79 Horwath notes that because Levi is a private company, there minimal publicly available information on its financial performance. However, IBIS has estimated Levi's sales revenue in the year ended 30 November 1995 at approximately $89 million. Since then, Levis' sales revenue has been consistently declining, with sales revenue for the year ended 30 November 2003 estimated to be only at $64 million.

Frontline

7.80 Frontline is a retail buying group that provides services to approximately 650 member groups that include:

(i) marketing;
(ii) financial; and
(iii) retail.

7.81 Frontline members benefit from preferential discount arrangements that Frontline has in place with over 500 suppliers including the majority of national brands in all categories.

7.82 The suppliers benefit from the opportunity to showcase their products in associated member retail outlets. This allows the suppliers to raise awareness for their brands in country and regional areas.

7.83 As is the case with SL Family and Levi, Frontline is a private company. As such, Horwath has only had regard to IBIS estimates regarding financial performance to date.

7.84 Similar to Levi, Frontline has been experiencing declining sales revenues. Sales revenue in the year ended 30 June 1996 has been estimated at approximately $134.5 million. This compares with a sales revenue estimate of $90 million for the year ended 30 June 2004, representing a decrease of 33%.

8 BACKGROUND AND OVERVIEW OF OPERATIONS OF BIRON

8.1 Biron is an ASX listed company which, prior to the proposed Transaction, provided financing on commercial real estate property, with a primary focus on mezzanine loans on property that were already subject to first mortgage.

Financial Aspects

8.2 Horwath notes that, if the Transaction is implemented, the operations of the Merged Entity will be completely different to Biron's historical operations. As such, Horwath has only included a brief discussion on Biron's historical financial performance.

Financial performance

8.3 Set out below is a summary of Biron's statement of financial performance for the years ended 30 June 2003 and 2004 and the 6 months ended 31 December 2004:

Biron statement of financial performance	Historical		
for the year ended 30 June	**2003**	**2004**	
for the six months ended 31 December			**2004**
	$'000	$'000	$'000
Property finance and associated revenue	2,481	1,365	441
Revenue from outside operating activities	217	4,894	202
Total Revenue	2,698	6,259	643
Expenses from operating activities	1,306	3,726	972
Earnings before interest, tax, depreciation and amortization	1,392	2,533	(329)
Less: Depreciation (including writedown on disposal of plant & equipment	21	26	103
Earnings before interest and tax ("**EBIT**")	1,371	2,507	(432)
Interest expense	-	245	-
Net profit before tax	1,371	2,262	(432)
Income tax	-	-	-
Net profit after tax	1,371	2,262	(432)

Source: Biron's audited financial statements.

Financial position

8.4 Set out below is a summary of Biron's statement of financial position as at 31 December 2004 and as at 28 February 2005:

Biron Statement of Financial Position as at	31-Dec-04	28-Feb-05
	$'000	$'000
Current assets		
Cash	3,417	3,395
Receivables	148	-
Total Current Assets	**3,565**	**3,395**
Non-current assets		
Receivables	-	-
Property, plant & equipment ("**PPE**")	18	18
Total non-current assets	**18**	**18**
Total assets	**3,583**	**3,412**
Current liabilities		
Payables	91	16
Tax Liabilities	-	16
Total current liabilities	**91**	**32**
Total liabilities	**91**	**32**
Net assets	**3,492**	**3,381**
Equity		
Contributed equity	8,584	8,584
Accumulated losses	(5,092)	(5,203)
Total equity	**3,492**	**3,381**

Source: Biron's audited financial statements and unaudited February 2005 management accounts.

Shareholders

8.5 Biron's share capital consists of 9,560,837 ordinary shares and 9,778 unlisted options (**"Existing Options"**). Horwath notes that the 9,778 Existing Options have an exercise price of $2.40 and an expiry date of 31 May 2006.

8.6 Biron's top 20 shareholders of Biron as at 23 May 2005 were as follows:

BIRON CAPITAL LIMITED
ABN 58009087469

Top Holders Daily Grouped
as at 23 May 2005

Top 20 holders of ORDINARY FULLY PAID SHARES

ORD / ORDINARY FULLY PAID SHARES

Rank	Name	Units	% of Issued Capital
1	NOBLE INVESTMENTS PTY LTD	921,613	9.64
2	MIKADO CORPORATION PTY LTD JFC SUPERANNUATION FUND 63 RIDGE STREET SOUTH PERTH WA	600,000	6.28
3	LASER HOLDINGS PTY LTD C/- GRANGE RESOURCES PO BOX 7025 CLOISTERS SQUARE PERTH WA	500,000	5.23
4	LEADENHALL AUSTRALIA LIMITED LEVEL 1 121 GREENHILL ROAD UNLEY SA	481,103	5.03
5	DR SALIM CASSIM 6 JOHNSON PARADE MOSMAN PARK WA	470,000	4.92
6	LARCHMONT SERVICES LIMITED C/- JDV PO BOX 5555 PERTH BC WA	413,000	4.32
7	FIRST DISTRIBUTION SERVICES LIMITED C/- JDV PO BOX 5555 PERTH BC WA	344,000	3.60
8	BAYONET INVESTMENT PTY LTD MUTUAL A/C C/- GRANGE RESOURCES NL PO BOX 7025 CLOISTERS SQUARE WA	321,838	3.37
9	PRIME CITY INTERNATIONAL LIMITED 408 NORTH BRIDGE ROAD #03-01 LUBRITRADE BUILDING SINGAPORE 188725 SINGAPORE	279,000	2.92
10	SJA PTY LTD C/- DAKOTA CORPORATION LIMITED LEVEL 40 50 BRIDGE STREET SYDNEY NSW	274,000	2.87
11	MR AZIZ HUSSAIN C/- GRANGE RESOURCES LTD PO BOX 7025 CLOISTERS SQUARE WA	269,061	2.81
12	ARREDO PTY LTD PO BOX 1397 WEST PERTH WA	200,000	2.09
13	PIAT CORP PTY LTD PO BOX 375 WEST PERTH WA	180,000	1.88
14	CITY INVESTOR GROUP PTY LTD GPO BOX 1550 BRISBANE QLD	176,250	1.84
15	TRICOM NOMINEES PTY LTD LPG A/C LEVEL 31 360 COLLINS STREET MELBOURNE VIC	165,637	1.73
16	STAMFORD CORPORATION PTY LTD 1 ST GILES AVENUE GREENWICH NSW	160,000	1.67
17	CHI INVESTMENTS PTY LTD LEVEL 1 121 GREENHILL ROAD UNLEY SA	132,210	1.38
18	ACP INVESTMENTS PTY LTD PO BOX 250 CLAREMONT WA	120,000	1.26
19	SAVOY MANAGEMENT PTY LTD PO BOX 7197 CLOISTERS SQUARE WA	120,000	1.26
20	MRS KATHLEEN ROSSLYN DONOHUE 42 PORTLAND STREET NEDLANDS WA	100,000	1.05
Total		6,227,712	65.15

Page 1 of 1

Horwath has been advised that there has no material change in the above shareholding as at the date of this report.

8.7 According to the EM, the directors had the following interests in Biron:

Name	Shares	Options
Mr John Corr	600,000	0
Mr Gavin Argyle	30,000	0
Mr Jeremy Shervington	0	0

8.8 Biron has undergone many changes during the period 1 May 2004 to 30 June 2005. Horwath notes the following significant events over the review period:

(i) on 5 October 2004, shareholders approved a capital return of 28 cents per share and a 4 for 1 consolidation of share capital

(ii) during the 6 months to 31 December 2004, the company did not write any new real estate loans;

(iii) on 17 December 2004 executive chairman Mr George Snow, through related entities, sold 3,351,024 shares on market. On 20 January 2005, Mr Snow became a non-executive director, and on 18 February 2005, he resigned from the board;

(iv) director Mr Geoffrey Hill sold 250,001 shares on market. Mr Hill resigned from the board on 20 January 2005. At the same time, Messrs Gavin Argle and Jeremy Shervington were appointed to the board; and

(v) Mr John Corr, through related entities, became a substantial holder, acquiring 600,000 shares. On 21 December 2004, it was announced that Mr Corr had became a director;

(vi) on 23 December 2004, Mr Gavin Solomon sold 69,469 shares on market. Mr Solomon resigned from the board on 20 January 2005;

(vii) on 7 March 2005, the company announced the proposal to acquire Ed Harry and Physico; and

(viii) Biron's Shares underwent a voluntary trading halt on 3 May 2005 and were suspended from quotation on the ASX on 5 May 2005 and remain suspended to the date at which Horwath's opinion is given as at Friday 8 July 2005.

9 ASX TRADING IN BIRON SHARES

9.1 Set out below is a graph of the daily trading prices of Biron Shares on the ASX over the period from 1 May 2004 to 30 April 2005 (note Biron was suspended on 8 May 2005 and any movement from 1 May 2005 to 8 May is not considered be material to this report):

NB: a 4 for 1 share consolidation occurred on 12 October 2004. Horwath has adjusted the pre-consolidation prices.

Source: Bloomberg

9.2 Average daily trading volume over the year to 30 April 2005 was approximately 60,000 shares. However, excluding the abnormally large 4.5 million shares traded on 17 December 2004 (refer to paragraph 8.8 above), the average daily volume was approximately 30,000 shares.

9.3 Horwath notes the following in respect of Biron's share trading history over the year from 1 May 2004 to 30 April 2005 (refer to the chart in paragraph 9.1):

(i) **5 August 2004**: Biron announced a proposed capital return of $0.28 per share;

(ii) **31 August 2004**: Cancellation of executive options. 800,000 options granted to General Manager Cosmas Raco were cancelled following his decision to cease employment on 2 July 2004;

(iii) **30 September 2004**: Proposed 4:1 consolidation of shares and return of capital. Pending shareholder approval, Biron announced a time table for the consolidation and capital return;

(iv) **5 October 2004**: Biron Annual General Meeting ("**AGM**"). Apart from the usual adoption of the financial report and re-election of a director, the following matters were approved:

(a) reduction of share capital; and

(b) consolidation of shares on a 4:1 basis. Following consolidation, 9,560,837 ordinary shares and 9,778 unlisted options were on issue;

(v) **12 November 2004**: update on the loan book and net tangible assets ("**NTA**"). Following a review of the outstanding loan book, Biron announced that the Directors of Biron had resolved to write-off a non-recoverable loan, resulting in a net charge to the current half year profit of approximately $280,000;

(vi) **14 December 2005**: update on the loan book and NTA. Biron announced that the sale of land at Belrose was successfully settled on 8 December 2004, realising a net cash recovery of $3,147,306 after the payment of agent fees. In addition, Biron announced that it had successfully recovered all non-performing loans and expected to recover an additional $250,000 under a legal settlement offered by a previous defaulting borrower;

(vii) Biron's Share price closed at $0.35 on 13 December 2004. On the next active trading day following this announcement, Biron's share price increased by 20% to close at $0.42. The next active trading day was 17 December 2004, which was the day two Directors sold on market combined interests of 3.6 million shares, receiving $0.42 per share;

(viii) **17 December 2004**: Adam Rankine-Wilson became a substantial holder on 17 December 2004, acquiring 721,838 shares for a consideration of $303,513. On 17 December, Director George Snow, through related entities, sold 3,351024 shares on-market. Director Geoffrey Hill also sold shares on 17 December 2004, selling 250,001 ordinary shares on market;

(ix) **21 December 2004**: The Board of Directors appointed Mr. John Francis Corr a Director. On 17 December 2004, through his superannuation Fund, Mikado Corporation Pty Limited, Mr. Corr became a substantial holder in Biron, acquiring 600,000 shares for $252,000;

(x) **24 December 2004**: Mr. Gavin Solomon sold 69,469 shares on 23 December for $29,177;

(xi) **20 January 2005**: Biron announced the following changes to the Board of Directors:

(a) the appointment of Mr Gavin Argyle as a Director;

(b) the resignation of Directors Mr Geoffrey Hill and Mr Gavin Solomon;

(c) Mr George Snow to step down as Executive Chairman but remain as a Non-Executive Director; and

(d) the appointment of Mr John Corr as Executive Chairman;

(xii) **18 February 2005**: Biron announced the following changes to its Board of Directors and senior management:

(a) appointment of Mr Jeremy Shervington as a Non-Executive Director;

(b) resignation of Mr Snow as Non-Executive Director;

(c) resignation of Mr John de Gouveia as Company Secretary; and

(d) appointment of Mr Gabriel Chiappini as Company Secretary.

In addition, subject to shareholder approval, the granting of 1 million options to the Directors at an exercise price of $0.60 each with a five-year term was proposed,

(xiii) Biron's share price closed at $0.50 each on 17 February 2005. Although the volume on 18 February 2005 was low, at approximately 12,000 shares, Biron's share price increased by 8% to close at $0.54 each, indicating that shareholders approved of the Board changes; and

(xiv) **3rd March 2005**: trading halt in Biron's shares at the request of the company, pending the release of an announcement. Biron's shares remained suspended until 7 March 2005, when the announcement of the Transaction was released;

9.4 Over the period from 1 March 2005 to 15 March 2005, Biron's Share price increased by 27%. This price increase corresponds to the announcement of the proposed Transaction, suggesting that the market favourably viewed the proposed Transaction.

9.5 Set out below is a table that summarises the monthly trading volume of Biron Shares over the period from 1 May 2004 to 30 April 2005. Horwath notes the largest monthly volume was recorded in December 2004. However, of the 5.3 million shares traded in December 2004, 68% was the result of two director's selling combined interests of 3.6 million ordinary shares on 17 December 2004 (refer to paragraph 8.8):

Month	Volume of shares traded
May – 2004	35,046
June	133,191
July	248,412
August	126,817
September	133,316
October	320,950
November	138,790
December	5,285,607
January – 2005	448,264
February	637,180
March	927,878
April	710,302
Total	**9,145,753**

9.6 Horwath notes that over the period from 1 May 2004 to 30 April 2005 Biron's Shares were thinly traded when compared to trading in the ASX All Ordinaries Index (**"All Ords Index"**). Horwath notes the following:

(i) the number of active trading days over the period for shares within the All Ords Index was 252 days; whereas

(ii) the number of active trading days for Biron shares over the period was 150 days, or 60% of active trading for the All Ords Index.

10 VALUATION OF BIRON

10.1 Set out in **Appendix 2** is a summary of the various valuation methodologies considered by Horwath in order to arrive at its valuation opinion of Biron.

Valuation approach

10.2 As noted in paragraph 1.1 above, Biron no longer trades and its assets comprise mainly of cash on deposit.

10.3 Based on the above, Horwath has valued Biron using the net asset value on a going concern basis ("**NAGC**") as the most appropriate basis to value Biron. In applying this methodology, Horwath had regard to the value of the net assets of Biron as stated in its unaudited unconsolidated statement of financial position as at 28 February 2005, making certain adjustments to reflect assessed fair values.

10.4 As a crosscheck of the value produced by the above method, Horwath has reviewed recent market trading prices of Biron's Shares.

Review of statement of financial position

10.5 Set out below is a dissection of Biron's assets and liabilities based on its unaudited unconsolidated statement of financial position as at 28 February 2005, together with Horwath's opinion of the fair market value of each asset and liability:

Statement of financial position	Para. Ref.	Proforma	Market Value Low	Market Value High
		$	$	$
Current assets				
Cash	10.8 & 10.9	3,394,754	3,394,754	3,394,754
Receivables		240	240	240
Total Current Assets		3,394,994	3,394,994	3,394,994
Non current assets				
Property, plant & equipment	10.10	17,656	17,656	17,656
Total non current assets		17,656	17,656	17,656
Total assets		3,412,649	3,412,649	3,412,649
Current liabilities				
Payables	10.11	15,530	15,530	15,530
Current tax liabilities	10.12	16,286	16,286	16,286
Total current liabilities		31,817	31,817	31,817
Total liabilities		31,817	31,817	31,817
Net assets		**3,380,832**	**3,380,832**	**3,380,832**
Add: allowance for value of listed status	10.13	0	300,000	500,000
Adjusted Net assets		**3,380,832**	**3,680,832**	**3,880,832**

10.6 Horwath notes that the above values are at 100% and therefore reflect a value based on control.

Adjustments to Biron's assets and liabilities

10.7 Set out below are the adjustments made by Horwath for the purposes of arriving at Biron's NAGC:

Cash

10.8 Cash is valued at book value.

10.9 Horwath notes that it is proposed that the Directors' Options as described in paragraph 2.13 above are to be issued irrespective of whether or not the Transaction is implemented. Horwath also notes that the ASX trading price of Biron's Shares in the days immediately preceding and including 29 April 2005 (of between $0.54 and $0.60 per share) (refer paragraph 9.1 above) takes into account the market's assessment of the effects of the Transaction. Prior to the announcement of the Transaction, Biron's shares had not traded above 60 cents each in the period analysed in paragraph 9.1 above. Should the Transaction not be implemented then, in Horwath's opinion, it is likely that, in the absence of an alternative proposal, Biron's Share price will fall to a value more reflective of its net assets. Accordingly, in those circumstances, it is unlikely that the Directors' Options will be exercised and we have excluded them from consideration in assessing the Existing Value.

Property, plant and equipment ("PPE")

10.10 For the purposes of valuing the Existing Value of Biron, Horwath has adopted as representative of the market value of PPE, the net book value of PPE, which is comprised mainly of office furniture and fittings.

Payables

10.11 Payables are mainly comprised of trade creditors. For the purposes of valuing Biron, Horwath has adopted the book value of payables as representative of their market value.

Current tax liabilities

10.12 Current tax liabilities comprise of payroll and other taxes. For the purposes of valuing Biron, Horwath has assumed that the calculation of payroll tax payable and GST refund are correct.

Listing status

10.13 Horwath notes that the statement of financial position as set out in paragraph 10.5 above does not reflect any allowance for the value of Biron's listed status. In Horwath's opinion, value arising from the listed status is likely to be limited due to the limited savings that could be achieved in terms of listing a business on the ASX using Biron as the vehicle. However, Horwath has attributed a value of $300,000 to $500,000 towards Biron's publicly listed status. This value reflects the estimated range of compliance costs savings of achieving publicly listed status.

Value of existing Biron Shares

10.14 For the reasons noted in paragraph 2.17 above, Horwath considers that it is appropriate to value Biron on a "control" basis.

10.15 Based on the comments made in paragraphs 10.8 to 10.13 above, Horwath has valued Biron at between approximately \$3.68 million to \$3.88 million, or approximately 38.5 cents per share to 40.6 cents per share. Set out below is Horwath's valuation:

	Para. Ref.	Low value	High value
Adjusted Net assets (\$'000)	10.5	3,681	3,881
Number of shares on issue ('000)	8.5	9,561	9,561
Value of an existing Biron Share (cents)		**38.5**	**40.6**

Market trading in existing Biron Shares

10.16 Paragraph 9 sets out Horwath's review of market trading in existing Biron Shares. Horwath notes that trading in existing Biron Shares is usually based on minority parcels of shares.

10.17 For the purposes of assessing the Transaction, it would be appropriate to add a "control premium" to a minority share price. However, Horwath notes that the market trading range for the six (6) weeks period prior to the date of the announcement of the Transaction was approximately 50 cents per share and in the period immediately prior to the announcement of the Transaction was approximately 55 cents per share (see paragraph 9.1 above).

10.18 In Horwath's opinion, the trading in existing Biron Shares leading up to, and following, the announcement of the Transaction reflects speculative trading in relation to the Transaction and is not reflective of the fair value of Biron's existing underlying net assets. Nonetheless, comparing the market price of 55 cents per share immediately before the announcement to Horwath's assessed fair value of between 38.5 cents per share to 40.6 cents per share, results in a premium above the assessed value of approximately 42.9% to 35.5%, respectively. Clearly, this premium takes into account a premium for control, together with the estimate of the impact of the Transaction of market participants.

10.19 Based on the above, Horwath is satisfied that its assessed value of an existing Biron Share is appropriate for the purposes of assessing the Transaction.

11 BACKGROUND AND OVERVIEW OF OPERATIONS OF ED HARRY

Background

11.1 Mr Ed Harry first established the business in 1986 by opening a small store in Victoria Square, Adelaide. In 1990, a discretionary trust, whose trustee is Suregroup Pty Ltd ("**Suregroup**"), acquired a stake in Ed Harry, before taking full control in 1993. Ed Harry's Managing Director, Neil Brine, is the ultimate owner of the trust.

11.2 Since 1986, the business has grown to become one of Australia's largest independently owned retailers of men's apparel, with over 170 stores located throughout Australia.

Location

11.3 Ed Harry's head office is located in the suburb of Stepney, in Adelaide, South Australia. Ed Harry's head office facilitates the following operations:

(i) purchasing;

(ii) accounts;

(iii) human resources; and

(iv) other operational support.

11.4 In addition to the above activities, Ed Harry's head office includes a 500sqm warehousing facility.

11.5 Ed Harry's business has operated out of this location since 1996 and despite the aggressive store rollout plans (refer to paragraph 11.28) Ed Harry expects to remain located in Adelaide, at least in the short-term.

Clientele

11.6 Ed Harry's defined target market is men aged between 25 and 45 years. The company has positioned its brands and products within four discreet lifestyle categories:

(i) classic daywear;

(ii) fashion daywear;

(iii) classic dresswear; and

(iv) fashion dresswear.

Product Range and Brand

11.7 Set out below is a table summarising Ed Harry's most popular apparel, determined by percentage of sales in the year ended 30 June 2004:

Product	Regular price range (inc GST)	% of sales in the year ended 30 June 2004
Shirts - short sleeve	$12.00 - $79.95	15.8
Knitted tops - short sleeve	$6.95 - $54.95	13.8
Shorts	$15.00 - $59.95	11.7
Shirts - long sleeve	$12.00 - $89.95	11.3
Jackets	$29.95 - $299.00	8.7
Casual pants	$10.00 - $49.95	8.6
Jeans	$25.00 - $119.95	7.5
Total		77.4

Source: Information Memorandum dated October 2004.

11.8 As has been identified by the above table, Ed Harry's products are focused towards casual wear, and to a lesser extent, relaxed formal wear.

11.9 Ed Harry's product range contains a mixture of own and third party brands, with:

(i) own brands accounting for approximately 70% of sales; and

(ii) third party brands accounting for approximately 30% of sales.

11.10 Brands owned by Ed Harry include:

(i) "Easy street";

(ii) "Jonathan Adams";

(iii) "Mogul"; and

(iv) "Easy surf".

11.11 Third party brands include:

(i) "Quarterback";

(ii) "Essential";

(iii) "Mod Culture"; and

(iv) "Aussie Male".

11.12 A number of Ed Harry's third party brands are either supplied exclusively to Ed Harry, or on an exclusive line basis.

Product Sourcing and Distribution

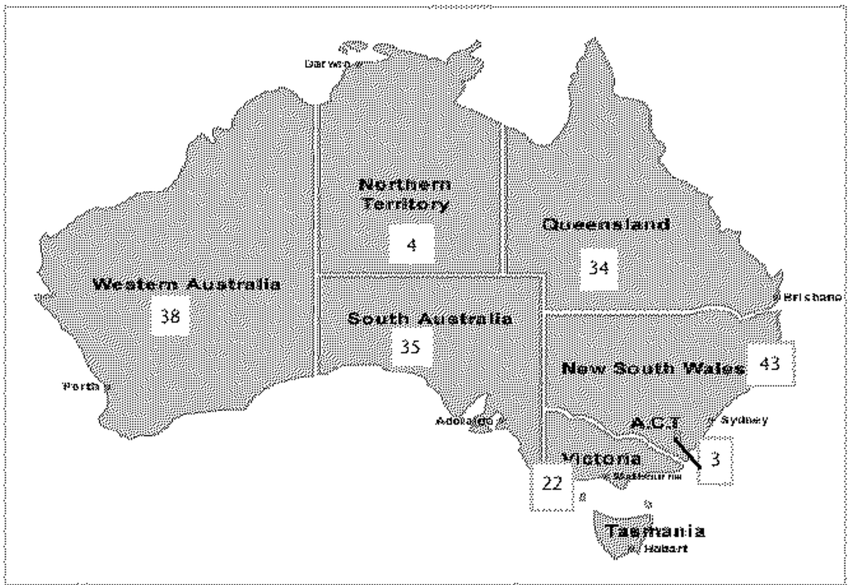
11.13 Ed Harry purchases more than 80% of its stock from 10 suppliers.

11.14 Ed Harry has no ongoing contracts with any importers and/or suppliers. Rather, all products are sourced on a season-by-season basis from Australian based importers and/or suppliers. As such, none of Ed Harry's suppliers are paid in foreign currency. Horwath notes that the majority of Ed Harry's products are sourced in China.

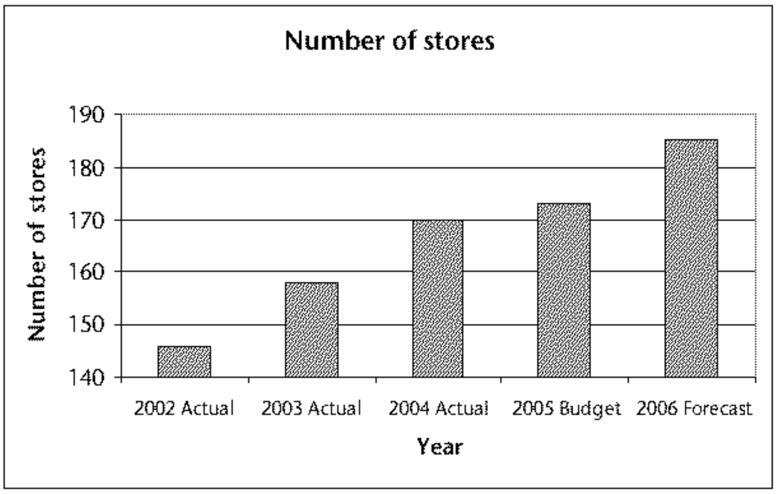
11.15 Approximately 90% of Ed Harry's stock by volume is delivered direct into store, with the remaining 10% delivered into store from Ed Harry's head office warehouse.

Store Numbers

11.16 Ed Harry currently has over 170 stores, including 3 factory outlets, located throughout Australia. Set out below is a map showing the general location and number of stores by State:



11.17 Set out below is a graph showing the growth in the company's number of stores, from the year ended 30 June 2002, to the number of stores forecast for the year ending 30 June 2006:



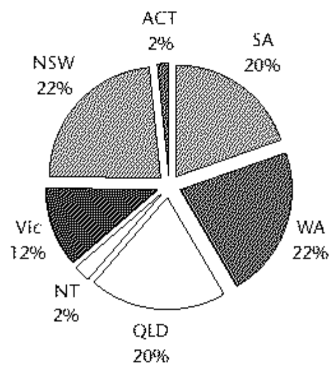
11.18 As can be seen in the above graph, Ed Harry's management plan to increase number of stores by 3 over the year ending 30 June 2005 and by 12 over the year ending 30 June 2006.

11.19 The ultimate, but not time specified goal of management is to increase the number of stores to over 300 in Australia and New Zealand. New Zealand is a market which has, to date, been unexplored by the company.

Number of Stores by State

11.20 Set out below is a chart with the number of stores by state as at 28 February 2005:

Number of stores by state



Source: Ed Harry management.

11.21 Regions that have been identified for further store growth are:

(i) New South Wales ("**NSW**") and Victoria ("**Vic**"), where, on a pro-rata basis, the company is under represented; and

(ii) Tasmania ("**TAS**"), where Ed Harry has no representation.

Ed Harry Management and Personnel

11.22 Ed Harry currently has approximately 660 employees, of which:

(i) 220 are full time;

(ii) 416 are casual; and

(iii) 24 work in head office.

11.23 Provided the Transaction is approved, to ensure smooth transition to new ownership, Mr Neil Brine has indicated a willingness to continue working for Ed Harry following completion, the terms of which have been negotiated.

11.24 Mr Brine has had over 40 years in the clothing industry and has been the key executive in the development of the Ed Harry business since 1990. Prior to this, his career involved 18 years with Sportscraft Group in roles including Sales, Marketing, Product Development, leading to a directorship in the listed entity and the role as Managing Director for Sportscraft's menswear operations.

11.25 Mr Mark Slattery has recently been appointed as chief executive officer ("**CEO**") of Ed Harry. Horwath has been advised that Mr Slattery has a great depth of experienced within the fashion retail industry working in key management positions of three major Australian fashion businesses over the past 16 years. The experience most relevant to his current position was his 13 years with the Sussan Group, where Mr Slattery worked in a variety of roles, which allowed him to develop a complete understanding of successful retailing. Mr Slattery gained experience at both a detailed operational level and a high-level senior management level. In the past 3 and one half years, this experience has been complemented with 18 months at Gazal, working on the international expansion of the Mambo division. Most recently, Mr Slattery spent two years with the Oroton Group, heading the group's Finance Department. Mr Slattery has developed a broad understanding of finance, accounting, supply chain, IT, merchandise planning, retail operations, and to a lesser extent buying and marketing and sourcing.

Competitive Position and Prospects

Strengths and weaknesses

11.26 The key strengths of Ed Harry may be summarised as follows:

(i) reputation of the Ed Harry brand name;

(ii) having four distinct lifestyle categories enabling the company to promote its brands and products clearly within each of the categories;

(iii) national representation of the company including stores in:

- (a) small catchment areas allowing Ed Harry to secure sole coverage of menswear in these regions; and
- (b) prime locations within major regional or rural shopping centres, shopping strips and malls;

(iv) experienced staff;

(v) efficient supply chain, characterised by:

- (a) majority of its products sourced from 6 key suppliers with whom the company has strategic alliances with; and
- (b) approximately 90% of stock delivered directly to each store; and

(vi) a demonstrated record of financial performance and growth, measured by:

- (a) historical compound sales growth of 37% per annum ("**pa**") since the year ended 30 June 1991; and
- (b) compound sales growth of 18% pa over the last five years.

11.27 The assessed key significant weaknesses in the business are as follows:

(i) reliance on third party brands, which currently contributes approximately 30% of sales (refer to paragraph 11.9(ii));

(ii) the seasonal nature of Ed Harry's sales which typically peak in December as a result of Christmas spending; and

(iii) the similarity in designs of Ed Harry's branded products to the designs of other designers and retailers.

Opportunities and threats

11.28 Set out below are Ed Harry's growth opportunities that have been identified in the acquisition announcement made to the ASX on 7 March 2005:

(i) continued store growth with plans to:

(a) roll out an additional 130 stores nationally in the next 6 years; and

(b) expand into new geographical areas, such as New Zealand;

(ii) expansion and further refinement of its product range, including:

(a) introduction of new brands; and

(b) development of new accessory ranges;

(iii) brand development through enhanced advertising and promotion; and

(iv) lower cost structures and economies of scale as new stores are rolled out.

11.29 The key assessed threats facing Ed Harry include the following:

(i) reliance on the experience of the previous Managing Director, Mr Neil Brine, in running the company;

(ii) the highly competitive nature of the Australian specialty apparel retail market, with large numbers of market participants and few barriers to entry. Ed Harry's concepts compete for both target customers and store locations with a wide range of retail formats including local, national and international specialty apparel retail chains, full service national department stores, discount department stores and single store operations;

(iii) the rapid and occasionally unpredictable changes in customer preferences within the retail apparel industry;

(iv) significant changes to the political and economic domestic environments, given that Ed Harry sources its product from wholesalers locally; and

(v) any adverse changes in Ed Harry's relationships with its landlords, influencing the ability to negotiate new leases on acceptable terms, potentially increases the company's costs, or adversely impacts on the ability of the company to operate stores in preferred locations. This in turn may affect the growth plans of the company.

12 ED HARRY FINANCIAL INFORMATION

Financial performance

12.1 Set out below is a summary of the normalised historical and prospective financial performance of Ed Harry over the years ended 30 June 2002 to 2004 and the FY2005 Forecast:

Ed Harry statement of financial performance	Actual	Actual	Actual	FY2005 Forecast
For the year ended 30 June	2002	2003	2004	
For the year ending 30 June				2005
	$'000	$'000	$'000	$'000
Revenue from ordinary activities	56,288	62,629	74,759	76,772
EBITDA	**1,122**	**1,064**	**4,291**	**5,720**
Less: Depreciation and amortisation expenses	546	730	500	600
EBIT	**576**	**334**	**3,791**	**5,120**
Revenue growth %	n/a	11.3%	19.4%	2.7%
EBITDA margin %	2.0%	1.7%	5.7%	7.5%
EBIT margin %	1.0%	0.5%	5.1%	6.7%

Source: Ed Harry management.

12.2 Horwath notes the following:

(i) revenue in the years ended 30 June 2003 and 2004 increased by approximately 11% and 19%, respectively;

(ii) FY2005 Forecast revenue represents an increase of only approximately 3%, as compared to prior years. This increase takes into account slowing retail conditions and year on year sales growth for all stores; and

(iii) EBITDA margins in the years ended 30 June 2002 to 2004 were stable. However, the EBITDA margin in FY2004 grew strongly to 5.7% and FY2005 Forecast gross margin is expected to increase to 7. 5%. This improvement in gross margin reflects actual results achieved to 30 June 2005 and results from improved price points, range planning, product ranges and fewer markdown/discounted items.

12.3 Set out below are some other comments on Ed Harry's results for the years ended 30 June 2003 and 30 June 2004, and the FY2005 Forecast:

Year ended 30 June 2003

Revenue from ordinary activities

12.4 The number of stores increased by 12 (or 8.2%) (net) during the year ended 30 June 2003, resulting in 158 stores being on hand as at the end of that year.

Gross margins

12.5 Ed Harry's gross profit margin in the year ended 30 June 2003 increased by 1% on that recorded in the year ended 30 June 2002.

Overheads

12.6 Ed Harry's overheads represented 46% of sales revenue in the year ended 30 June 2003, which is 1% higher than that recorded in the year ended 30 June 2002.

EBIT and EBITDA margin

12.7 Ed Harry's EBIT margin fell from 1% in the year ended 30 June 2002 to 0.5% in the year ended 30 June 2003.

Year ended 30 June 2004

Revenue from ordinary activities

12.8 Over the 12 months ended 30 June 2004, Ed Harry's store numbers increased by 12 (net).

Gross margins

12.9 Gross margins remained unchanged in the year ended 30 June 2004, when compared with the year ended 30 June 2003.

Overheads

12.10 Ed Harry's overheads as a percentage of sales declined by 4% to 42% in the year ended 30 June 2004, compared with 46% for the year ended 30 June 2003. Reasons for the decline in overhead costs include:

(i) reduced advertising expenditure; and

(ii) higher sales and the resultant improved spreading of overhead costs.

EBIT and EBITDA margin

12.11 In the year ended 30 June 2004, Ed Harry recorded an EBIT margin of 5.1%, and an EBITDA margin of 5.7%. This compares with an EBIT and EBITDA margin of 0.5% and 1.7%, respectively, in the year ending 30 June 2003. The improvement in the margins is attributed to the decline in overheads, as explained in paragraph 12.10 above.

FY 2005 Forecast

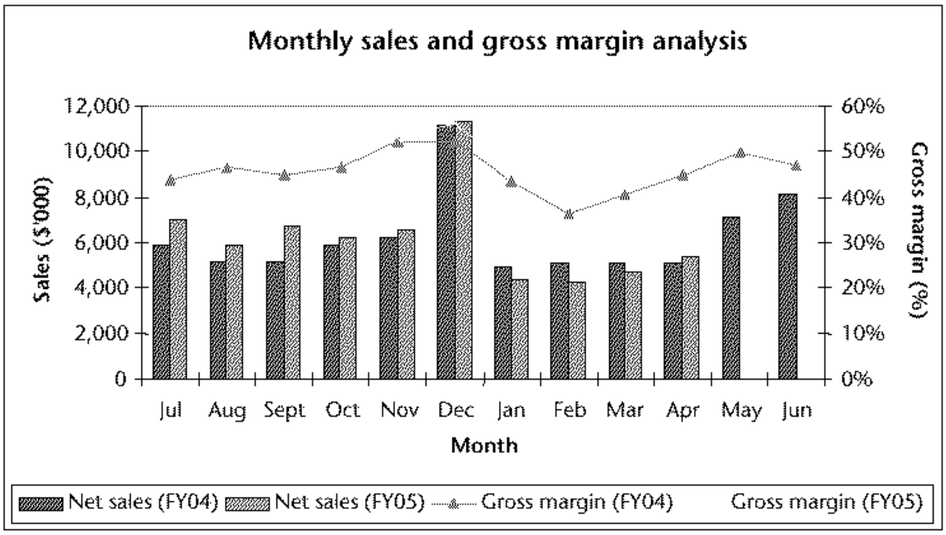
12.12 Horwath notes that he FY 2005 Forecast is based on the following:

(i) Actual sales and cost of sales for the period ending 31 May 2005 and estimates for June 2005; and

(ii) expenses, as sourced from internal management accounts to 31 May 2005, plus estimated level of expenses to be incurred for the month of June 2005.

Revenue and gross margin analysis

12.13 Set out below is a graph which summarises the monthly sales and gross margins from July 2004 to June 2005:



Source: Ed Harry management.

12.14 Horwath notes the following from the above graph:

(i) average monthly sales over the 12 months ended 30 June 2005 were $6.243 million, which was in consistent with the average monthly sales of $6.23 million during the year ended 30 June 2004; and

(ii) the average monthly gross profit margin over the 12 months to 30 June 2005 was 10% higher than the average monthly gross margin recorded over the year ended 30 June 2004.

12.15 Ed Harry's sales revenue in the FY2005 Forecast is approximately $76.8 million, representing an increase of approximately 3% on the sales revenue recorded in the year ended 30 June 2004. The overall increase takes into account softening retail trading conditions and the number of new stores opened in the period.

12.16 Despite Ed Harry's sales revenue having increased marginally (by approximately 3%) over FY2004, gross margins improved by 4%. The reasons for the increase in gross margin have been explained at paragraph 12.2(iii) above. The EBITDA and EBIT improved by approximately 32% and 20%, respectively over FY2004.

FY2006 Budget

12.17 As discussed in paragraphs 5.16(i) and 5.17 above, Horwath has not disclosed the internal management FY2006 Budget for either Ed Harry, Physico or the Merged Entity in this IER. However, for the purposes of providing a guide on Ed Harry's future maintainable earnings, Horwath has provided a discussion of the major assumptions that underlie the Ed Harry FY2006 Budget in paragraphs 12.20 to 12.23 below.

12.18 As Horwath noted in paragraph 5.16(i) above, the earnings forecast in the FY2006 Budget excludes any synergy benefits expected to be gained from implementing the Transaction.

12.19 Horwath notes that in arriving at the FY2006 Budget, regard was had to the FY2005 Forecast, which is largely based on the actual results for the year ended 31 May 2005.

Revenue from ordinary activities

12.20 The following assumptions have been made in relation to Ed Harry's sales budget for the year ending 30 June 2006:

(i) seasonality and sales have been based on the monthly sales trends for the 12 months ended 30 June 2005 (refer to the graph in paragraph 12.13 above); and

(ii) an allowance has been made for a net increase of 12 stores.

Gross Margins

12.21 Budgeted gross margin in the FY2006 Budget has been based on the actual monthly margins that were achieved over the year ended 30 June 2005 (refer to the graph in paragraph 12.13 above).

Overheads

12.22 Assumptions that have been made with regard to overheads are as follows:

(i) rent, outgoings and promotional expenses:

- (a) store rental based on the actual rent for the 12 months ended 30 June 2005 with CPI increases; and
- (b) rent on new stores has been based on estimated sales revenue;

(ii) wages (including superannuation, payroll tax and workers compensation):

- (a) determined as a percentage of sales, and as such have increased in line with sales;
- (b) bonuses for store managers have been allowed for, and allocated monthly; and
- (c) an allowance has been made for the costs of the new CEO; and

(iii) overheads (excluding (i) and (ii)) have either been:

- (a) budgeted on a case by case basis; or
- (b) based on forecast overheads for the 12 months ended 30 June 2005, adjusted for inflation, as determined by the consumer price index ("**CPI**").

Other

12.23 In addition to sales, cost of sales and overhead assumptions, regard has been had to the following:

(i) other income, which has been based on a percentage of sales;

(ii) capital expenditure:

(a) 16 new store openings and 4 store closures, resulting in a net increase of 12 stores, to be rolled out over various months;

(b) capital expenditure for new stores has been assumed on a per store basis;

(c) a certain capital expenditure allowance has been made per store for refurbishment/fittings; and

(d) 20% of existing leases are to be renewed; and

(iii) working capital:

(a) stock holding of 3 months; and

(b) trade creditors of 30 to 60 days.

Overall summary

12.24 The FY2006 Budget for the Ed Harry business demonstrates that despite the expected slowing in the domestic economy and despite the recent slowing in the general non-food retail industry, a continued upward trend in sales and profitability is expected by Ed Harry management.

Horwath's review of the Forecast and Budget

12.25 In preparing this report, Horwath has relied on the FY2005 Forecast and FY2006 Budget prepared by Ed Harry. Horwath understands that the FY2005 Forecast and FY2006 Budget have been reviewed by the Ed Harry board of directors but not formally adopted at this time. However, the Ed Harry board has indicated that in their opinion, the FY2005 Forecast and FY2006 Budget adequately reflect the performance and prospects of the business.

12.26 Horwath understands that the FY2005 Forecast and FY2006 Budget take account of Ed Harry's operating businesses, current earnings and market position, assessments of revenue growth in each sector in which Ed Harry operates, and estimates of operating costs, based on both historical costs and assessed future needs. Accordingly, Horwath understands that the FY2005 Forecast and FY2006 Budget have been based on "best estimate" assumptions at the time that they were prepared.

12.27 Horwath has not been engaged to undertake an independent review of the FY2005 Forecast and FY2006 Budget and has not undertaken such a review. Accordingly, Horwath does not express an opinion on the reasonableness of the assumptions underlying them, or their achievability. However, Horwath has considered the underlying assumptions of the FY2005 Forecast and FY2006 Budget for the purpose of forming its valuation opinion on Ed Harry. The scope of Horwath's work in this regard comprised of the following:

(i) obtaining details of the key underlying assumptions and ensuring that they are consistently applied in the FY2005 Forecast and FY2006 Budget;

(ii) discussions with management regarding the basis on which the assumptions have been formulated;

(iii) comparison of the key underlying assumptions (regarding such matters as sales, gross profit margins, and overhead costs) to past results, as well as considering existing trends being experienced by the business;

(iv) consideration of key assumptions in the light of various economic and industry analysis;

(v) discussions with management on likely prospects for Ed Harry; and

(vi) checking the overall clerical accuracy of the FY2005 Forecast and FY2006 Budget.

12.28 Based on the limited scope of work undertaken by Horwath outlined in paragraph 12.27 above and in particular, the fact that Horwath has not been engaged to undertake an independent review of the FY2005 Forecast and FY2006 Budget, Horwath expresses no opinion as to their overall accuracy and reliability and does not warrant their achievability.

12.29 However, nothing has come to Horwath's attention to indicate that the FY2005 Forecast and FY2006 Budget are not based on reasonable "best estimate" assumptions, taking into account the level of current and expected operations.

Financial position

12.30 The following table summarises the statement of financial position of Ed Harry as at 30 June 2004, 31 December 2004, and 28 February 2005, together with the estimated pro forma position as at Completion Date:

Statement of financial position as at	30-Jun-04	31-Dec-04	28-Feb-05	Pro forma	Notes
	$'000	$'000	$'000	$'000	
Current assets					
Cash (at bank and cash floats)	1,027	2,778	475	0	1
Debtors	80	37	1	1	2
Inventory	7,113	7,842	8,007	8,007	2
Lay-by deposits	80	(115)	(91)	(91)	2
Other	207	111	0	0	2
Total current assets	8,507	10,653	8,392	7,917	
Non-current assets					
Property, plant and equipment ("PP&E")	2,668	3,362	3,797	3,547	3
Intangible assets	182	164	155	0	1
Total non-current assets	2,850	3,526	3,952	3,547	
Total assets	11,357	14,179	12,344	11,464	

Statement of financial position as at	30-Jun-04	31-Dec-04	28-Feb-05	Pro forma	Notes
	$'000	$'000	$'000	$'000	
Current liabilities					
Trade creditors	5,271	5,572	3,355	5,487	2 & 4
Sundry creditors	390	510	376	376	2
Beneficiary loans	3,981	3,683	2,243	0	1
H.P/lease liabilities	1,001	814	962	0	1
Outstanding vouchers	169	101	191	191	2
Employee entitlements	8	284	413	413	
GST payable	217	324	152	0	1
Supplier suspense	320	(101)	397	397	2
Total current liabilities	11,357	11,187	8,089	6,864	
Net assets	0	2,992	4,255	4,600	

Notes

1: This asset in vendor vehicle will be retained by vendor.

2: Will be transferred as part of business.

3: All PP&E will be transferred except 2 motor vehicles with a combined book value of approximately $250,000.

4: Trade creditors are assumed to increase as a result of the EH Vendors deferring payment thereof, pending completion of the Transaction. The deferral relates to the management of the financial position to achieve the obligation to deliver $4.6 million of NTA upon completion.

Source: Ed Harry management.

12.31 Horwath notes that the pro forma balance sheet represents the trading assets of the Ed Harry business to be acquired by Biron and if the value of the trading assets less liabilities exceeds the minimum amount of net tangible assets to be delivered to Biron under the EH Acquisition Agreement ($4.6 million) then any excess will not become repayable by Biron to the EH Vendor (refer paragraph 2.4 above).

12.32 Horwath notes the following from the table in paragraph 12.30 above:

(i) Ed Harry's current ratio has continually improved, with Ed Harry reporting a current ratio of 104% as at 28 February 2005, compared with 95% and 75% as at 31 December 2004 and 30 June 2004, respectively; and

(ii) Ed Harry's inventory turnover was 42 days as at 30 June 2003 and 39 days as at 30 June 2004; representing an improvement of 3 days.

13 BACKGROUND AND OVERVIEW OF OPERATIONS OF PHYSICO

Background

13.1 Messrs Colin Elterman and David Greenblo established Physico branded products in 1990 and the Physico company in 1993. Since then, Physico has been supplying apparel to national specialty chains, department and discount department stores.

13.2 Physico's main focus is on:

(i) efficient supply chain management; and

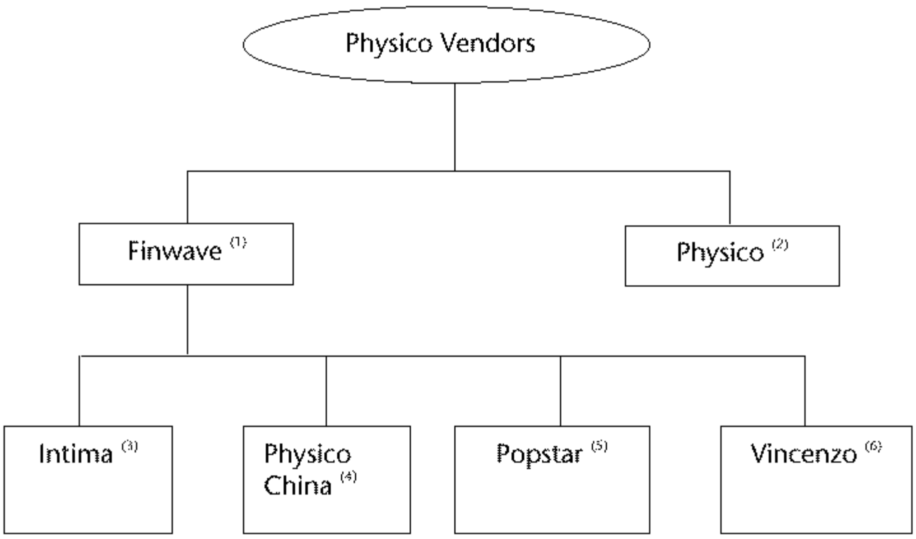
(ii) timely delivery of quality product to its target market.

13.3 Physico operates two business units:

(i) Physico Australia; and

(ii) Physico China.

13.4 The Group's current corporate structure is as follows:



(1) Investment holding company.

(2) Trading company. Attends to all administration and finance functions of the Group.

(3) Dormant.

(4) Operates the Group's representative office in China.

(5) Operates the Popstar business.

(6) Distributor of Benetton clothing. No longer active.

Ownership

13.5 Set out below is a table summarising Physico's current ownership structure:

Physico ownership structure	Shareholding
Interests associated with:	
Colin Elterman	35%
David Greenblo	35%
Clothhold Pty Ltd ("**Clothhold**")	30%
Total	**100%**

Source: Information Memorandum dated October 2004.

Location

13.6 Physico's head office operations, showroom and distribution centre is located in an 8,000 square metre ("**sqm**") building in Alexandria, Sydney. In addition to Alexandria, Physico has a:

(i) sourcing office and showroom in Nanjing, China; and

(ii) sales office in Cape Town, South Africa.

Business divisions

13.7 Physico trades in two distinct business units:

(i) Physico Australia – primarily focuses on importing, marketing and distributing ladies apparel and sleepwear throughout Australia and New Zealand; and

(ii) Physico China – sources product and undertakes quality control and administration. In addition to Australia, the Physico China exports to locations around the world.

13.8 Physico's sales functions are further split into the following separate divisions:

(i) Physico Australia:

(a) outerwear (discussed in paragraph 13.9 below);

(b) sleepwear (Intima) (discussed in paragraph 13.9 below);

(c) Popstar (discussed in paragraph 13.10 below); and

(d) South Africa (discussed in paragraphs 13.11 below to 13.12 below); and

(ii) Physico China:

(a) China (discussed in paragraphs 13.13 to 13.15); and

(b) exports (discussed in paragraphs 13.14 to 13.15 below).

13.9 Outerwear is managed by 5 sales teams and the sleepwear division is managed by 2 sales teams. Physico supplies most major department, discount department and speciality stores in Australia.

13.10 The Popstar division is a single division that sells its product under the "Popstar" label.

13.11 Physico has a representative office in Cape Town, South Africa. The office is comprised of a sales team, which currently employs 4 staff.

13.12 Product is sent from the China office directly to the South African office. The China suppliers send the invoice to Physico Australia, which in turn, invoices customers in South Africa. The reason for this is that Australia is the centralised head office and as such, design of product and final negotiations of prices with suppliers is controlled out of Australia.

13.13 Physico China was established 4 years ago to secure supply networks in China. To achieve this, Physico set up its own sourcing and export office in Nanjing, China (refer to paragraph 13.6).

13.14 Physico's operations in China currently export men's, ladies and children's apparel to large volume retailers in:

(i) Europe;

(ii) Canada; and

(iii) South Africa.

13.15 Physico's export division, as part of Physico China, acquires product on behalf of wholesale and retail customers in Canada and Europe. The Group does not have any representative offices in these regions. Physico China currently employs 55 people.

13.16 Physico currently employs over 150 full time staff in Australia, New Zealand, China and South Africa.

Customer Analysis

13.17 Horwath is advised that Physico's top 6 customers represent approximately 60% of Physico's total sales.

13.18 Horwath notes that total sales by major customers for the 9 months ended 31 March 2005 represents 72% of the total sales by major customers for the 12 months ended 30 June 2004.

Physico management and personnel

13.19 Key management personnel of Physico are as follows:

Name	Title	Years of service
Colin Elterman	Director – Finance and Operations	15
David Greenblo	Director – Marketing and Production	15
Sean Rohald	General Manager – Operations	3
Andrea Socratous	Financial Controller	10

Competitive Position and Prospects

Strengths and weaknesses

13.20 Horwath has identified the following core strengths of Physico:

(i) efficient supply chain management;

(ii) timely delivery of quality product to its market segment;

(iii) substantial product development capabilities;

(iv) strong service commitment; and

(v) flexible approach to responding to ever changing trends.

13.21 The assessed weaknesses of Physico are set out below:

(i) reliance on key individuals; and

(ii) the relatively high customer concentration within the wholesale businesses, whereby key buyer relationships are dependent upon retention of key people. The loss of any one of Physico's largest customers may result in an adverse impact on the company's revenues and profitability.

Opportunities and threats

13.22 Opportunities that have been identified for Physico include:

(i) expanding into new export markets;

(ii) the merger with Ed Harry's business and the potential to supply new product;

(iii) opening offices in Canada and Europe. Physico has been successful in establishing supply relationships with both retail and wholesale customers in Canada, the United Kingdom as well as other European countries; and

(iv) traditionally, South Africa has manufactured most of its own clothing requirements but with the reduction in tariffs and the globalization of the apparel industry, retailers have only recently started seriously focusing on China as a source of apparel. As a result, imports are rising and Physico has an opportunity to become a significant player in the South African market, particularly as it has already established relationships with two major South African retailers.

13.23 Key assessed threats Physico faces includes the following:

(i) the recent trend in Australia towards vertical integration - vertical integration occurs where a retail business and a wholesale business combine, usually through a retail business acquiring a wholesale business. Should any of Physico's current wholesale customers decide to vertically integrate, or source some or all of their product direct from offshore sources, Physico's revenue and profitability attributable to those customers may be adversely impacted;

(ii) given the rapid and occasionally unpredictable changes in customer preferences occurring within the apparel retail industry, the threat of customers' perceptions that one or more of Physico's formats is no longer able to offer fashionable products and reasonable prices;

(iii) the potential claims alleging Physico's products infringe on intellectual property rights of other companies whereby the designs used in Physico's branded products are viewed to be similar to the designs of other designers and retailers. In the event that Physico is unable to satisfy or defend any such claim, the financial position of the company may be adversely affected; and

(iv) significant political and economic changes in the Chinese environment given that all of the products purchased by Physico are presently sourced from China from a number of different suppliers located in different regions throughout China. The company is also vulnerable to movements in the Chinese Yuan / USD exchange rate, which may adversely affect the company's ability to source products at competitive prices.

14 PHYSICO FINANCIAL INFORMATION

Financial performance

14.1 Set out below is a summary of the normalized historical and prospective financial performance of Physico for the years ended 30 June 2003 to 2004 and FY2005 Forecast:

Physico statement of financial performance			**Forecast**
For the year ended 30 June	**2003**	**2004**	
For the year ending 30 June			**2005**
	$'000	$'000	$'000
Revenue from ordinary activities	62,417	44,880	44,363
EBITDA	742	1,777	1,223
Less: Depreciation and amortisation expenses	280	346	343
EBIT	462	1,432	880
Revenue growth %	na	(28.1%)	(1.2%)
EBITDA margin %	1.2%	4.0%	2.8%
EBIT margin %	0.7%	3.2%	2.0%

Source: Physico management.

14.2 Set out below is an analysis of Physico's results for the years ended 30 June 2003 and 2004 as well as the FY2005 Forecast:

Year ended 30 June 2004

Revenue from ordinary activities

14.3 Physico's revenue from ordinary activities fell by 28% over the year ended 30 June 2004, when compared with the year ended 30 June 2003. Horwath is advised that this largely resulted from a management decision not to accept unprofitable orders and Horwath notes the improvement in gross profit margin from 29% (FY2003) to 36% (FY2004).

14.4 Other reasons for the decrease in turnover are:

(i) the loss of one large customer that commenced sourcing product for themselves;

(ii) a general decrease in sales volumes as many customers moved to source more product themselves from overseas supplies; and

(iii) a decline in sleepwear business due to loss of key personnel.

Gross margins

14.5 Physico's gross margins increased substantially in the year ended 30 June 2004, as compared with the previous year. The improvement in gross margins was achieved by sourcing more products from China.

Overheads

14.6 Overheads as a percentage of revenue in the year ended 30 June 2004 increased to 35%, compared with 28% in the year ended 30 June 2003. The FY2005 Forecast overheads are consistent with those of the year ended 30 June 2004, although slightly lower.

14.7 The dollar amount of overheads reduced during the year ended 30 June 2004 following the reduction in sales and the restructuring of the business.

EBIT and EBITDA margin

14.8 Despite Physico's EBITDA margin increasing from 1.2% in the year ended 30 June 2003, to 4% in the year ended 30 June 2004, the FY2005 Forecast EBITDA margin is expected to fall back to 2.8%. This decline is in-line with actual results achieved to February 2005 and takes into account the reduced gross margin, offset in part by the reduced level of overheads. Similarly, Physico's EBIT margin increased from 0.7% in the year ended 30 June 2003, to 3.2% in the year ended 30 June 2004 and the FY2005 Forecast EBIT margin is expected to fall back to 2.0%.

Overview to the FY2005 Forecast

14.9 Horwath notes that the FY2005 Forecast has been based on the following assumptions:

(i) actual results for the 8 months ended 28 February 2005; and

(ii) directors' forecasts for March to June 2005.

Revenue from ordinary activities

14.10 Physico's sales revenue from ordinary activities over the 8 months ended 28 February 2005 was approximately $32.0 million. This represents 71.3% of the total sales revenue generated over the 12 months to 30 June 2004 of $44.88 million (refer to the table in paragraph 14.1 above).

14.11 The sales revenue budget is based on orders at hand as at 28 February 2005.

Gross margins

14.12 Physico's FY2005 Forecast gross margin is expected to decline slightly from the year ended 30 June 2004. The reason for the decline is due to competitive pressure.

Overheads

14.13 The FY2005 Forecast is that Physico's overheads will be 33% of total revenue, which is a slight improvement on the 35% recorded in the year ended 30 June 2004. The reason for the improvement is the restructure of various business units.

EBIT and EBITDA margin

14.14 The effect of the decline in gross margin has resulted in a substantial decline in FY2005 Forecast EBIT and EBITDA margin to 2% and 2.8%, respectively, from 3.2 and 4.0 %, respectively, in FY2004.

FY2006 Budget

14.15 As discussed in paragraph 5.17 above, Horwath has not disclosed the FY2006 Budget in this IER. However, a discussion of the major assumptions that underlie the budget is set out in paragraphs 14.16 below to 14.20 below.

14.16 Horwath notes that the FY2006 Budget excludes any synergistic benefits gained from the Transaction and as such, no synergies resulting from the vertical integration of Physico and Ed Harry have been included.

14.17 Horwath also notes that the FY2006 Budget has been largely based on the 12 months ending 30 June 2005, which includes 8 months of actual results to 28 February 2005, and directors' forecasts for March to June 2005 (refer to paragraph 14.9 above).

Revenue from ordinary activities

14.18 The following assumptions have been made in relation to Physico's sales forecast in the FY2006 Budget:

(i) sales revenue has been based on the budgeted sales for the 12 months ending 30 June 2005, on a customer by customer basis;

(ii) to the extent necessary, appropriate reductions have been made for the slowing economic conditions; and

(iii) an increased level of sales to South Africa and Europe has been assumed.

Gross Margins

14.19 The FY2006 Budget gross margin has been calculated on a customer-by-customer basis and is based on the actual gross margins achieved over the 8 months ended 28 February 2005. Management does not expect any decline in gross margins.

Overheads

14.20 FY2006 Budget overheads are largely in line with the normalised overheads forecast for FY2005.

Financial position

14.21 The following table summarises the statement of financial position of Physico as at 30 June 2004 and 28 February 2005, together with the estimated pro forma position as at Completion Date:

Physico				
Statement of financial position as at	**30-Jun-04**	**28-Feb-05**	**Pro forma**	**Notes**
	$'000	$'000	$'000	
Current assets				
Cash assets	568	1,380	0	
Receivables	7,045	6,920	6,320	
Inventory	2,055	2,028	2,028	
Other financial assets	5	106	106	
Other	474	486	486	
Total current assets	10,147	10,920	8,940	
Non-current assets				
Property, plant and equipment	1,644	1,829	1,829	
Intangible assets	35	37	37	
Other	0	128	128	
Total non-current assets	1,679	1,994	1,994	
Total assets	11,826	12,914	10,934	
Current liabilities				
Payables	2,706	2,271	1,640	
Interest-bearing liabilities	960	5,763	5,100	
Current tax liabilities		(94)	(94)	
Provisions	491	435	435	
Total current liabilities	4,157	8,374	7,081	
Non-current liabilities				
Payables	825	506	0	1
Interest-bearing liabilities	3,099	48	48	
Provisions	181	205	205	
Total non-current liabilities	4,105	759	253	
Total liabilities	8,262	9,134	7,334	
Net assets	3,564	3,780	3,600	
Equity				
Contributed Equity	3,519	3,519	4,025	
Retained profits	44	261	(425)	
Total Equity	3,564	3,780	3,600	
Adjusted Net Tangible Assets			**3,600**	

Notes

1: Will be capitalised as part of the purchase transaction.

Source: Physico.

14.22 Horwath notes that the pro forma balance sheet represents the trading assets of Physico to be acquired by Biron and that if the value of the trading assets less liabilities will exceed the minimum amount of net tangible assets to be delivered to Biron under the Physico Acquisition Agreement ($3.6 million) then the excess will become payable by Biron to the Physico Vendor.

14.23 Horwath notes the following from the above table:

(i) Physico's NTA increased by approximately $216,000 between 30 June 2004 and 28 February 2005;

(ii) Physico's current ratio, expressed as current assets divided by current liabilities, has declined to 1.30 times as at 28 February 2005, compared with over 2.4 times as at 30 June 2004; and

(iii) interest bearing liabilities have increased by approximately $1.75 million between 30 June 2004 and 28 February 2005, resulting in an increased interested bearing debt to total assets ratio of 45.1% as at 28 February 2005, compared to 47.1% as at 30 June 2004.

Horwath's review of the Budget

14.24 In preparing this report, Horwath has relied on the FY2005 Forecast and FY2006 Budget prepared by Physico. Horwath understands that the Forecast and Budget have been reviewed by Physico's board of directors but not formally adopted at this time. However, the Physico board has indicated that in their opinion, the FY2005 Forecast and FY2006 Budget adequately reflect the history and prospects of the business.

14.25 Horwath understands that the FY2005 Forecast and FY2006 Budget take account of Physico's operating businesses, current earnings and market position, assessments of revenue growth in each sector in which Physico operates, and estimates of operating costs, based on both historical costs and assessed future needs. Accordingly, Horwath understands that the FY2005 Forecast and FY2006 Budget have been based on "best estimate" assumptions at the time that they were prepared.

14.26 Horwath has not been engaged to undertake an independent review of Physico's FY2005 Forecast and the FY2006 Budget and has not undertaken such a review. Accordingly, Horwath does not express an opinion on the reasonableness of the assumptions underlying the FY2005 Forecast and the FY2006 Budget, or their achievability. However, Horwath has considered the underlying assumptions of the FY2005 Forecast and the FY2006 Budget for the purpose of forming its valuation opinion on Physico. The scope of Horwath's work in this regard comprised of the following:

(i) obtaining details of the key underlying assumptions and ensuring that they are consistently applied in the FY2005 Forecast and the FY2006 Budget;

(ii) discussions with management regarding the basis on which the assumptions have been formulated;

(iii) comparison of the key underlying assumptions (regarding such matters as sales, gross profit margins, and overhead costs) to past results, as well as considering existing trends being experienced by the business;

(iv) consideration of key assumptions in the light of various economic and industry analysis;

(v) discussions with management on likely prospects for Physico; and

(vi) checking the overall clerical accuracy of the FY2005 Forecast and the FY2006 Budget.

14.27 Based on the limited scope of work undertaken by Horwath outlined in paragraph 14.26 above, and in particular, the fact that Horwath has not been engaged to undertake an independent review of the FY2005 Forecast and the FY2006 Budget, Horwath expresses no opinion as to the overall accuracy and reliability of the FY2005 Forecast and the FY2006 Budget and does not warrant their achievability.

14.28 However, nothing has come to Horwath's attention to indicate that the FY2005 Forecast and the FY2006 Budget are not based on reasonable "best estimate" assumptions, taking into account the level of current and expected operations.

15 OVERVIEW AND FINANCIAL INFORMATION ON THE MERGED ENTITY

Earnings

15.1 Set out below are the aggregated earnings of the Merged Entity, including an allowance for additional corporate overheads, but excluding the effect of synergies:

Merged Entity statement of financial performance	**Actual**		**Forecast**
For the year ended 30 June	**2003**	**2004**	
For the year ending 30 June			**2005**
	$'000	$'000	$'000
Revenue from ordinary activities Ed Harry	62,629	74,759	76,772
Revenue from ordinary activities Physico	62,417	44,880	44,363
Total revenue from ongoing businesses	125,046	119,639	121,135
EBITDA Ed Harry	1,064	4,291	5,720
EBITDA Physico	742	1,777	1,223
Total EBITDA	1,806	6,068	6,943
Less: Corporate costs (excluding interest, depreciation and amortisation)	na	Na	600
EBITDA of Merged Entity (ignoring impact of synergies)			**6,343**
Revenue growth % pa	n/a	(4.3%)	1.3%
EBITDA margin %	1.4%	5.1%	5.2%

15.2 Corporate costs comprise the estimated incremental costs (excluding interest, depreciation and amortisation) of operating the Ed Harry and Physico businesses as an integrated business and as a listed entity on the ASX. These costs include estimated ASX fees, registry fees, annual general meeting costs, additional audit and accounting fees, non-executive director fees and additional director and officer insurances.

15.3 In addition, the corporate costs include an allowance for management expenses, including a group managing director and a chief financial officer.

Synergy benefits

15.4 Horwath has been advised by Physico management that in their opinion, a substantial amount of synergy benefits exist by merging the two businesses together. These benefits include:

(i) "back office" costs namely, people, accounting systems management teams and so on;

(ii) another key benefit to arise from the merger of the two businesses is that new enhanced accounting systems are to be put into place, which will enhance the stock management process;

(iii) cost of sales – this is potentially one of the major areas of savings, as Physico intends to be one of Ed Harry's key suppliers. However, it is not the intention of Physico to become Ed Harry's sole distributor. In calculating the extent of any synergy benefits for supply, Physico would need to incorporate additional costs associated with the management of the new distribution arrangement. Nonetheless, it is expected by management that a sufficient net contribution to EBITDA should result from vertically integrating the Ed Harry and Physico businesses in the Merged Entity.

16 VALUATION OF THE MERGED ENTITY

Valuation methodology

16.1 Set out in **Appendix 2** is a summary of the various valuation methodologies considered by Horwath in order to arrive at its valuation opinion of the business of the Merged Entity.

16.2 In valuing the Merged Entity, Horwath has adopted the capitalisation of future maintainable earnings method of valuation. Horwath's reasons for adopting this approach are as follows:

(i) the Merged Entity will be an integrated business comprising established businesses with a history of significant revenues and overall profitable trading;

(ii) although opportunities for sales growth in the domestic Clothes Wholesale industry are in decline, the Merged Entity has potential alternate avenues for profit growth by operating on an international basis and through improvements in cost competitiveness; and

(iii) the Merged Entity operates in a mature industry.

Valuation of Merged Entity

Maintainable earnings

16.3 In Horwath's opinion, the appropriate measure of earnings to adopt in valuing most businesses and companies is EBITDA. In Horwath's opinion, EBITDA is a preferred measurement of earnings, as it most accurately reflects the return generated by the business and ignores factors that may not be relevant to the actual earning capacity of the Merged Entity such as the following:

(i) interest costs that reflect the method of financing the Merged Entity and vary between businesses;

(ii) effective tax rates that reflect both the tax regimes in different countries and different tax positions of, and tax planning measures implemented by, businesses;

(iii) historical cost of fixed assets at the time of their acquisition and different accounting policies that will affect annual depreciation charges; and

(iv) amortisation charges of intangible assets, especially goodwill, that may discriminate against companies that have accomplished business growth by acquisition of other companies as opposed to those that have organically grown their businesses.

16.4 The rate used to capitalise future maintainable earnings is calculated by reference to EBITDA multiples derived from recent market transactions to the extent that they are available and derived from trades of minority parcels of shares in listed public companies. The transaction multiples incorporate the market's expectations of the future earnings of the respective businesses, including expected growth of future earnings due to the impact of expectations regarding future economic, industry or company specific conditions and having regard to past earning capability and generally reflect a minority shareholding position.

16.5 Horwath has chosen a maintainable EBITDA for the Merged Entity by reference to its historical earnings, but has also considered the combined FY2005 Forecasts and FY2006 Budgets of Ed Harry and Physico and estimated merged entity corporate costs. Set out in paragraphs 16.6 to 16.14 below is a discussion of the key factors considered in arriving at the estimated maintainable earnings of the Merged Entity.

Ed Harry earnings

16.6 Ed Harry sales have consistently increased for the years ended 30 June 2002 to 30 June 2004 (inclusive) as well as reflected in the FY2005 Forecast. The increases arose from the growth in store numbers and this trend is expected to continue. In addition, Ed Harry has demonstrated consistent gross profit margins ranging from 47% to 52% of sales.

16.7 The above, together with the containment of overheads, has resulted in sound earnings growth since FY2003.

16.8 Going forward, in Horwath's opinion, Ed Harry has significant opportunities and strengths (as noted in paragraphs 11.26 to 11.29 above). One of Ed Harry's largest opportunities is the potential further growth in stores, which Ed Harry has a sound track record in achieving. The strength of the company is the scalability of the business, where additional sales can be achieved without the incurring material incremental overhead costs and is a major attraction of the Ed Harry business.

16.9 Notwithstanding the above, in Horwath's opinion, Ed Harry's FY2005 Forecast earnings are most indicative of its future earning capability, supported by the growth in earnings in the FY2006 Budget.

Physico earnings

16.10 As set out in paragraph 14.1 above, Physico has been experiencing a decreasing trend in sales and variable profitability since FY2003 and has supported profitability by reducing overhead costs.

16.11 Going forward, in Horwath's opinion, the Physico business has significant strengths, threats and weakness and these are described in paragraphs 13.20 to 13.23 above. One of the major threats to Physico is operating in a declining Clothes Wholesale industry, which may result in a continued downtrend in sales.

16.12 Notwithstanding the comments made at paragraph 16.11 above, Horwath has satisfied itself that initiatives have been undertaken by the management of Physico to achieve a sustaining business model by:

(i) focusing on international distribution opportunities;

(ii) investigating initiatives to scale up the business and take advantage of existing infrastructure; and

(iii) implementing further improvements in cost structure.

16.13 Whilst the above initiatives have been undertaken, they have yet to translate into increased earnings. Accordingly, the earnings of Physico during FY2004 and FY2005 currently are the most indicative guides to Physico's earnings capacity.

Corporate overheads

16.14 For the purposes of this report, Horwath has adopted the expected full year corporate overheads as the basis for arriving at maintainable earnings. Horwath notes that no account has been taken of the expected synergy benefits arising from the Transaction when determining the level of maintainable earnings of the Merged Entity. Horwath has appropriately adjusted the selected capitalisation rate to take into account the potential synergy benefits that offset the corporate costs.

Maintainable earnings

16.15 Based on the matters noted in the above paragraphs, Horwath has adopted as the maintainable earnings of the Merged Entity for valuation purposes, the FY2005 Forecast earnings of approximately $6.4 million, as set out in paragraph 15.1 above.

Capitalisation multiple

16.16 The capitalisation multiple reflects the growth prospects, the quality of earnings and the risks, of the Merged Entity.

16.17 The choice of capitalisation multiple for the purpose of our valuation is based on a consideration of the EBITDA multiples of publicly listed companies operating in the same or similar industry sector as Physico and Ed Harry. The relevant capitalisation rate selected has been discounted for factors such as comparative business risk, size of the entities considered and other factors.

Implied EBITDA multiples observed from mergers and acquisitions

16.18 **Appendix 3** sets out a summary of merger and acquisition activity in the Clothes Retail industry.

16.19 **Appendix 4** sets out a summary of merger and acquisition activity in the Clothes Wholesale industry.

16.20 Based on a review of Appendices 3 and 4, Horwath notes that the only comparable transaction is the acquisition of Palmer Corporation Limited ("**Palmer**") by Colorado Group Limited ("**Colorado**"). Horwath notes that this transaction occurred in December 2000 and implied an EBITDA multiple paid for Palmer of 16.3 times. In Horwath's opinion, this transaction is considered to be dated and accordingly, not appropriate for the purposes of forming its opinion on the value of the Merged Entity.

EBITDA multiples observed from listed company trading multiples

16.21 **Appendix 5** provides a brief overview of companies that may be considered to be operating in the same or similar industry sector as the Merged Entity. Horwath notes that most of the companies are generally much larger and/or operate in larger markets than Merged Entity.

16.22 **Appendix 6** details the historical and, where available, forecast financial data, for the listed companies described at Appendix 5.

16.23 Based on a review of the material in Appendix 6 Horwath notes the following:

(i) the average and median forecast EBITDA multiples for companies in the Retailers group are 5.4 times and 5.0 times, respectively;

(ii) the average and median forecast EBITDA multiples for companies in the Wholesalers group are 6.8 times and 7.7 times, respectively;

(iii) the vertically integrated retailers category which the Merged Entity most closely matches has two Australian companies, Billabong International Ltd ("**Billabong**") and Colorado;

(iv) Billabong trades at an historical EBITDA multiple of 20.7 times and a forecast EBITDA multiple of 14.3 times, which in Horwath's opinion, reflects a premium paid for its track record of growing sales and earnings and its strong brand name; and

(v) Colorado trades at an historical EBITDA multiple of 5.6 times and a forecast EBITDA multiple of 5.2 times. Compared to Billabong, Colorado operates in Australia only and does not have similar historical rates of growth in its sales and earnings;

(vi) Horwath notes that Colorado has a January rather than a June year-end. This means that the historical EBITDA multiple of 5.6 times reflects the multiple of EBITDA earnings for the year to 31 January 2005 ("**2005 Earnings**") rather than a multiple on EBITDA for the year to 30 June 2004. Given that the 2005 Earnings are higher than the earnings for the year to 30 June 2004, the historical EBITDA multiple for Colorado is understated when compared to other Australian comparable companies with a 30 June year end and historical EBITDA multiples calculated on earnings for the year to 30 June 2004;

(vii) an analysis of historical and forecast EBITDA multiples for integrated retailers, retailers and wholesalers is set out below:

Comparable Group	Historical EBITDA multiple range	Forecast EBITDA multiple range
	times	times
Integrated retailers	5.6 to 20.7	5.2 to 14.3
Retailers	3.9 to 15.2	4.0 to 8.2
Wholesalers	7.2 to 38.9	3.0 to 8.7

After considering the above analysis, in Horwath's opinion, there is not an adequate sample size to provide a meaningful analysis, and there is insufficient evidence to suggest that integrated retailers command higher multiples than companies categorised as either retailers or wholesalers.

16.24 Based on the above, Horwath has selected a starting EBITDA multiple that would be relevant to the Merged Entity of 6.5 times. This multiple is based on the following:

(i) the most comparable company to the Merged Entity is Colorado, an integrated retailer with a historical and forecast EBITDA multiples of 5.6 times and 5.2 times, respectively;

(ii) the average and median historical (7.8 and 6.1, respectively) and forecast (5.4 and 5.0, respectively) EBITDA multiples of companies in the retailers group;

(iii) the average and median historical (16.6 and 10.1, respectively) and forecast (6.8 and 7.7, respectively) EBITDA multiples of companies in the wholesalers group;

(iv) it is expected that the majority of the Merged Entity's profits will be generated by the Ed Harry business, which is retail based; and

(v) the EBITDA of the Merged Entity being capitalised is essentially based on the FY2005 Forecasts, which are historical numbers.

16.25 The following adjustments to the selected starting EBITDA multiple of 6.5 times have been made so as to arrive at the appropriate multiple for valuing the Merged Entity:

(i) *discount for lack of scale*: the majority of the comparable companies are larger in size, which may attract one or more of the following benefits:

(a) operation in larger markets;

(b) economies of scale;

(c) complete vertical integration; and

(d) stronger bargaining power with suppliers and clients;

(ii) *discount for risk of loss of key customers as a result of the merger:* Horwath notes that one of the key risks identified as arising from the Transaction is that Physico customers may reduce their sales levels due to concerns over the vertical integration with the retail Ed Harry business. Accordingly, a discount has been applied for this risk factor;

(iii) *discount for competitor influence* – in Horwath's opinion, major traditional department stores and larger/ international branded retailers pose a material threat to the expansion and profitability of the Merged Entity. Accordingly, a discount for the above specific risk has been taken into consideration;

(iv) *premium for growth*: based on Horwath's review of the FY2006 Budget earnings, it is clear that Physico and Ed Harry business have an above average potential for earnings growth. Accordingly, Horwath has taken a premium for growth into account of its capitalisation rate; and

(v) *premium for control:* a premium has been applied to reflect the fact a valuation of 100% is required, rather than a 'minority share' in the company. The 'minority share' valuation is inherent in the use of listed company multiples based on the quoted share prices of those companies. The premium is based on empirical evidence of amounts paid for controlling interests and takes into account the synergies that an acquirer will achieve control of the Merged Entity. As discussed in paragraph 15.4 above, there are a number of potential synergies to arise from the merger of the Physico and Ed Harry businesses. Consequently, Horwath has applied a 20% premium for control.

16.26 Based on the above, Horwath has arrived at a range of adjusted multiples of 6.4 to 6.7 times maintainable EBITDA.

16.27 In Horwath's opinion, the selected adjusted multiple, based on the listed companies, properly reflects:

(i) the recent trends in sales and earnings for both Ed Harry and Physico;

(ii) the potential for continued growth in Ed Harry stores and sales;

(iii) potential synergies and the risk that synergies may fail to materialise, either at all or to the extent expected;

(iv) the risk that management initiatives to develop the expected business model may fail;

(v) business risks faced by each business;

(vi) the reputation and position of the Merged Entity in its market place;

(vii) the infrastructure of the Merged Entity; and

(viii) the outlook for the Clothes Retail and Wholesale industries.

Summary of enterprise value of the Merged Entity

16.28 Based on the comments detailed above, Horwath's valuation opinion of the Merged Entity based on the capitalisation of maintainable earnings methodology, is as follows:

Merged Entity		Para. Ref.	Low Value	High Value
			$'000	$'000
(a)	Maintainable EBITDA	16.15	6,400	6,400
(b)	Capitalisation multiple	16.26	6.40	6.70
(c)	**Enterprise value of the Merged Entity**	(a) x (b)	**40,960**	**42,880**

Valuation cross check

16.29 Horwath has crosschecked its valuation conclusion of the Merged Entity by reference to the implied sales multiple. Set out below is Horwath's analysis of the reasonableness of its valuation conclusion:

Merged Entity		Para. Ref.	Low Value	High Value
			$'000	$'000
(a)	Enterprise value of the Merged Entity	16.28	40,960	42,880
(b)	Sales	15.1	121,135	121,135
(c)	Implied sales multiple (times)	(a)/(b)	0.34	0.35

16.30 Horwath notes that the above forecast enterprise value: sales multiples compare to the other companies in the Clothes Retail and Wholesale industries (refer to Appendix 6) as follows:

(i) the average/median multiple for the integrated retailers is 2.1 times and this figure is largely influenced by Billabong – a much larger company than the Merged Entity; and

(ii) the average/median multiple for retailers is 0.6 and 0.7 times, respectively. Again, most of the companies listed in the retail sector are larger than the Merger Entity and generally more profitable; and

(iii) the average/median multiple for wholesalers is 1.2 and 1.0 times, respectively. Again, most of the companies listed in the wholesale sector are larger than the Merger Entity and generally more profitable

16.31 In Horwath's opinion, the relativity of the implied forecast sales multiple of the Merged Entity to the companies listed in Appendix 6 is reasonable for the following reasons:

(i) allowing for the size differential;

(ii) the majority of the Merged Entity's profits are to be derived from the Ed Harry retail business; and

(iii) the impact of sales and profitability of the Physico business relative to the Ed Harry business. In other words, if the Physico sales and profitability were to be excluded from consideration, the sales multiple would be higher.

17 ASSESSMENT OF THE TRANSACTION VALUE

17.1 Paragraph 3.11(ii) above, sets out the basis for arriving at the Transaction Value. In short, the Transaction Value is the enterprise value of the Merged Entity, plus the capital raisings, less payments to the Vendors and other borrowings and liabilities assumed and repaid.

17.2 Horwath notes that the liabilities arising from the Transaction include the following:

(i) bank debt – required to fund the Merged Entity;

(ii) Vendor Finance;

(iii) Deferred Consideration No.1– which upon Completion Date and subject to performance hurdles also becomes a liability of the Merged Entity;

(iv) Deferred Consideration No.2– which upon Completion Date and subject to performance hurdles also becomes a liability of the Merged Entity;

(v) Transaction Costs;

(vi) Performance Shares; and

(vii) Investec Options.

17.3 Set out below is Horwath's assessment of the Transaction Value:

Equity value of the Merged Entity	Ref. Para.	Low	High
		$'000	$'000
Assets			
Enterprise value	16.28	40,960	42,880
Surplus cash per Proforma balance sheet	17.4	2,250	2,250
Directors' Options	17.44	350	368
Investec Options	17.28 below	1,260	1,324
Assets arising from the purchase of the Ed Harry Special Capex (Note 1)	2.6(iv)	950	950
		45,770	47,772
Liabilities			
Banking Facility & existing	2.9	8,048	8,048
Vendor Finance	17.9	5,438	5,438
Deferred Consideration No.1	17.16	3,623	3,583
Deferred Consideration No.2	17.16	1,408	1,243
Value of Performance Shares	17.43	4,724	4,203
		23,241	22,514
Equity value of the Transaction		22,529	25,257
Ordinary Shares	2.14	39,894,170	39,894,170
Transaction Value- Value per share – Merged Entity(cents)		56.5	63.3
Mid-point Value per share – Merged Entity (cents)			**59.9**

Note 1: It is assumed that the fair value of the Special Capex will equal the amount expended to acquire it.

Note 2: May not add due to rounding.

Cash

17.4 Set out in Appendix 8 is a Proforma balance sheet of the Merged Entity, which takes into account the Transaction. It is clear from Appendix 8 that following the Transaction, the Merged Entity's working capital ratio would be some 1.9 times (that is, current assets $19.1 million divided by current liabilities $9.9 million). In Horwath's opinion, this ratio would be conservative and reflects the level of cash. Assuming that all of the cash on hand is surplus, (having regard to the availability of the working capital facility of up to $3 million (refer paragraph 2.9(i) above)), Biron's working capital ratio would be 1.7 times (that is, current assets $19.1, less cash of $2.250 million divided by current liabilities $9.9 million) and this ratio (together with the availability of the $3 million working capital facility to fund short term fluctuations) would be sufficient for the purposes of maintaining the operations of the Merged Entity. Accordingly, Horwath has assessed the amount of surplus assets as including the cash balance on the Proforma balance sheet of $2.250 million.

Vendor Finance

17.5 The EH Vendors have agreed to receive $6 million of their sale consideration as Vendor Finance.

17.6 In Horwath's opinion, the Vendor Finance does not represent a normal commercial loan arrangement as the loan is interest free for the first 12 months and thereafter bears an interest at the rate equal to the Commonwealth Bank of Australia Limited "Business Overdraft Monthly Index Rate", (currently around 9.8% pa) but without the addition of any margin.

17.7 For the purposes of assessing the value of Vendor Finance, Horwath has discounted the face value of the Vendor Finance for the interest free period of the Vendor Finance. Horwath has not adjusted the face value of the Vendor Finance for the interest rate payable in that period during which the Vendor Finance does bear interest as, in Horwath's opinion, it approximates a commercial rate of interest.

17.8 The discount rate adopted by Horwath is 9.8% pa (being equal to the currently prevailing Commonwealth Bank of Australia Limited "Business Overdraft Monthly Index Rate") that Horwath believes takes into account the time value of money and the assessed risks associated with the Vendor Finance cash flow amounts and has been used to determine the value of the Vendor Finance.

17.9 Horwath's calculation of the present value of the Vendor Finance using the above assessment methodology and discount rate is $5.438 million.

Deferred Consideration

17.10 The EH Vendors have agreed to receiving $4 million as Deferred Consideration No.1 and $2 million as Deferred Consideration No.2.

17.11 As the Deferred Consideration No.1 and 2 may or may not be paid, depending upon whether or not Ed Harry and Biron (ie the Merged Entity) reach a certain level of earnings performance, Horwath has assessed the value of the Deferred Consideration No.1 and 2 as a risk weighted probability of payment of the Deferred Consideration. The methodology adopted is:

(i) firstly, discount the Deferred Consideration No.1 and No.2 to a present value using a range of risk adjusted discount rates appropriate to value the business of Ed Harry; and

(ii) secondly, weight the discounted payments according to the assessed probability of payment. For example, if the assessed probability of payment were 90%, then the discounted amounts would be multiplied by 90% to produce the result.

17.12 Based on Horwath's review and assessment of the earnings of Ed Harry and the Merged Entity, Horwath is of the opinion that payment of each of the Deferred Consideration No.1 and No.2 is highly likely, and therefore has apportioned a weighting of 100% to Deferred Consideration No.1 being paid, and between 75% and 85% in respect of Deferred Consideration No. 2 being paid.

17.13 In regard to Deferred Consideration No.1 it is noted that the Ed Harry EBITDA required to be achieved is $4 million in FY2005 and Fy2006 and the FY2005 Forecast of Ed Harry EBITDA is $5.72 million, which is well in excess of the hurdle amount of $4 million. Horwath believes that it is highly likely that the hurdle will be met and that the Deferred Consideration No.1 will become payable.

17.14 In regard to Deferred Consideration No.2 it is noted that the Merged Entity EBITDA required to be achieved is $7 million in FY2007 and the FY2005 Forecast of the Merged Entity EBITDA is $6.34 million. Given that the hurdle must be met for FY2007 and Horwath understands that the opportunity exists for the Merged Entity to obtain significant synergy benefits in the next 2 years, Horwath believes that it is likely (but by no means certain) that the hurdle will be met and that the Deferred Consideration No.2 will become payable. In Horwath's opinion, a probability weighting of between 75% and 85% has been assigned to the derived value of the Deferred Consideration No.2 being payable.

17.15 Based on Horwath's assessment that it is that it is highly likely that both the Deferred Consideration No.1 and Deferred Consideration No.2 will become payable, it is Horwath's opinion that for the purposes of assessing the present value of the liability of Biron in respect of the Deferred Consideration No.1 and Deferred Consideration No.2 it is appropriate to discount the amounts payable from the expected payments dates to 30 June 2005 at a weighted average cost of capital ("**WACC**") discount rate of between 7.9% and 8.8% (post tax).

17.16 Based on the above, Horwath has assessed the value of the Deferred Consideration No.1 and Deferred Consideration No.2 as follows

	Low	High
	$'000	$'000
Value of Deferred Consideration No.1	3,623	3,583
Value of Deferred Consideration No.2	1,408	1,243

Investec Options

17.17 The Investec Options convert into ordinary Biron shares and have a strike price of 72 cents. Other key terms of the Investec Options include:

(i) they convert into Biron Shares on a 1 for 1 basis;

(ii) they are exercisable between 18 months and 5 years from the grant date, being Completion Date; and

(iii) they will not be listed on the ASX.

Valuation Methodology

17.18 For the purposes of this report, Horwath has valued the Investec Options on the basis of the likelihood of the Investec Options being exercised and converted into equity and on the basis that there is a reasonable expectation that such options will be converted into equity, Horwath has taken into account the discounted proceeds of the exercise of the option and the corresponding dilution effect in its calculation of the value of a Biron Share when determining the Transactional Value.

17.19 As a cross check to the above, Horwath has compared its assessed Transaction Value by taking the equity value of Biron (excluding the discounted proceeds due from the Investec Options) and deducted the intrinsic value of the Investec Options from the resulting value and divided that value by the number of Biron shares excluding the number of Investec Options to be issued. The results of the two alternative valuation approaches were similar.

17.20 Set out below is Horwath's valuation assessment of the value of the Investec Options.

17.21 There are two generally applied models used to estimate the value of an option. These are known as the "Black-Scholes model" and the "binomial model". Both take account of the intrinsic value and the various factors affecting the time value. The Black-Scholes model assumes that the option is exercised on the last date of the exercise period. That is a simplification where, as in the present case, the options may be exercised at any time during the exercise period. The binomial model takes account of the possibility of earlier exercise. Whichever model is applied, allowance should be made for the dividends that are likely to be paid over the period during which the option will be held. Dividends over this period accrue to the shareholder, but not to the option holder (and reduce the value of the options).

17.22 As the Investec Options have the characteristics of an "American" call option, Horwath has valued them as such.

17.23 Conceptually, the value of an American call option comprises the sum of:

(i) its "intrinsic value" – that is, the value if it is exercised immediately (on the assumption that this is possible). Thus, the intrinsic value of a call option is the difference between the value of the underlying asset (i.e. an ordinary share) and the exercise price of the option; and

(ii) the "time value" – this is a function of the time to maturity of the option, the volatility of the ordinary share price, and interest rates. In simple terms, this "time value" factor recognises that the value of a call option may increase substantially if there is an increase in the value of the underlying asset, but never fall below zero.

17.24 In assessing the value of the Investec Options, Horwath has applied a modified "Black-Scholes model" and a modified binomial model valuation methodology. The modifications are necessary to allow the value of the Investec Options to be reduced to reflect the impact of future dividends.

17.25 Horwath has also adopted the following parameters:

Underlying share price volatility **("Volatility")**	It is usual practice for the historical Volatility to be used as a guide to future Volatility. However, there is no information available in relation to the Merged Entity. As an estimate of the future Volatility of the Merged Entity, Horwath has had reference to the Volatility in the December 2004 Australian Graduate School of Management **("AGSM")** Risk Management Service. The future Volatility in the Merged Entity has been based on the average between the standard deviation for the Consumer Durables & Apparel GICS class (GICS Class 10) and the standard deviation for the Retailing GICS class (GICS Class 13).
Future dividends	Since neither Biron, Ed Harry nor Physico have stated any formal dividend policy, it is difficult to accurately assess the level of dividends that the Merged Entity will pay in the future. Horwath has considered the average historical dividend yield of the Consumer Durables & Apparel constitutes of the Consumer Discretionary S&P/ASX GICS Sector as at 11 May 2005 and the estimated capacity of the Merged entity to pay a dividend in the future, particularly in light of the planned new store openings, that will require the investment of funds. Therefore, a dividend yield ranging between 2% and 3% pa (based on a share price of 60 cents), in each case growing at 2% pa has been adopted as a guide to the dividend yield that the Merged Entity will pay into the future.
Risk free interest rate	Horwath has adopted the interest rate applicable to five and ten year Commonwealth bonds as at 11 May 2005 as an estimate of the appropriate risk free rate. It is assumed that this interest rate remains constant over the life of the Performance Shares. Our estimate of the risk free rate is 5.235% pa.
Term of security	5 years
Share price	On the basis that the Transaction is being consummated by third parties acting at arms length, Horwath has adopted the value of a Biron Share implied by the Transaction of $0.60 as the market value of a share in the Merged Entity.
Exercise price per option	72 cents

Valuation of Investec Options

17.26 Horwath notes that the Investec Options cannot be exercised for the first 18 months. However, Horwath does not consider this to be of a material consequence, given that it is unlikely that the Investec Options would be exercised (if permitted) in the first 18 months due to the "out of the money" nature of the Investec Options.

17.27 In determining the fairness of the Proposal, Horwath has included the proceeds from the exercise of the Investec Options in the Transaction Value. That is, 3 million Investec Options at 72 cents each or $2.16 million, discounted to reflect the assumption that they will not be exercised immediately. The increased number of Biron Shares on issue following the assumed exercise of the Investec Options has been included in the number of Ordinary Shares used to determine the value per Biron Share arising from the Transaction.

17.28 In assessing the present value of the proceeds from exercise of 3 million Investec Options, the following assumptions have been adopted:

(i) the Investec Options will be exercised after 5 years; and

(ii) the proceeds upon exercise have been discounted at an assessed after tax equity discount rate of between 10.3% pa to 11.4% pa.

Based on the above, Horwath has assessed the value of the Investec Options to be $1.260 million to $1.324 million.

17.29 Set out below is Horwath's valuation assessment of the intrinsic value of the Investec Options:

	Grant Date	Expiry	Strike Price per share	Share Price	Volatility	Annual Dividends ($)	Risk-free Rate (%)	Value of Investec Option before Discounts ($)	Value of Investec Option after marketability discount ($)
Low	July 2005	July 2010	$0.72	$0.60	23.57%	0.018	5.235	0.088	0.079
High	July 2005	July 2010	$0.72	$0.60	25.57%	0.012	5.235	0.112	0.101

17.30 The table below sets out the calculation of the total value of all the Investec Options:

Cents	Low	High	Mid-point
Value using model	8.79	11.18	
Liquidity discount	10.0%	10.0%	
Value after liquidity discount	**7.91**	**10.06**	**9.00**
Value of all Investec Options			
Number of options	3,000,000	3,000,000	3,000,000
Value of options (cents)	7.91	10.06	9.00
Total value of Investec Options	**$237,403**	**$301,799**	**$270,000**

17.31 Based on the above, the value of the Investec Options is a low value of $237,400 (that is, 3 million Investec Options multiplied by 7.91 cents) and a high value of $301,800 (that is, 3 million Investec Options multiplied by 10.06 cents) and a mid-point of approximately $270,000. The value of the Investec Options has been reflected in the Proforma balance sheet as a liability and an asset (deferred borrowing cost). The deferred borrowing cost will be amortised over the life of the Banking Facility.

17.32 As noted above, the purpose of arriving at the intrinsic value of the Investec Options is to assess the reasonableness of Horwath's valuation assessment of calculating the diluted value of a Biron Share by taking into account the present value of the future proceeds due from Investec Options and and assuming that the number of Biron Shares on issue increases by the assumed exercise of the Investec Options.

17.33 Horwath notes that its analysis of deducting the intrinsic value of an Investec Option from the equity value of Biron and dividing that value by the number of shares on issue, excluding the Investec Options, results in a reasonable approximation of the value derived by using the alternative methodology.

Performance Shares

17.34 Both the Physico and Ed Harry Vendors are to receive Performance Shares, which may be converted into Biron Shares (on a one for one basis) upon the occurrence of certain events and have limited rights until conversion.

17.35 Horwath notes the Performance Shares are transferable, although they will not be traded on the ASX. Further, the Performance Shares have no performance condition other than that in any financial year ending 30 June 2007 to 30 June 2010 (both inclusive), Biron must achieve an EBITDA of at least $7.0 million or a change of control Biron occurs. In the event that Biron does not achieve the stipulated EBITDA in any of the stipulated financial years, the Performance Shares will lapse.

Valuation Methodology

17.36 The Performance Shares are not in the nature of a typical call option over Biron ordinary shares, as the ability to exercise the Performance Shares depends on Biron earning a stipulated EBITDA and not the Biron ordinary share price reaching a stipulated value.

17.37 To value the Performance Shares consideration must be given to the likelihood that Biron will earn the stipulated EBITDA or a change in control of Biron will occur.

17.38 Horwath has determined the value of a Performance Share by assuming that it is equivalent to a Biron Share, less the present value of any future dividends likely to be paid on a Biron Share that will be foregone whilst ever the Performance Share remains unconverted, all multiplied by the estimated probability of achievement of the stipulated EBITDA target.

Valuation of Performance Shares

17.39 For the purposes of valuing the Performance Shares, Horwath has adopted the following as inputs into the valuation methodology:

Input type	Input adopted/ rationale
Term of security	Between 30 June 2007 and 30 June 2010.
Share price	On the basis that the Transaction is being consummated by third parties acting at arms length, Horwath has adopted the value of a Biron Share implied by the Transaction of $0.60 as the market value of a share in the Merged Entity.
Exercise price per security	In accordance with the proposed terms of issue of the Performance Shares, $nil per share.
Future dividends	As per Investec Options
Probability of achievement of stipulated EBITDA	Horwath has considered the EBITDA of each of Biron, Ed Harry and Physico as forecast for FY2005 (Forecast FY2005) and Budget FY2006, and the possible synergy benefits arising from the Transaction. As a result of this, Horwath considers that a 75% to 100% probability of the Merged Entity achieving the stipulated EBITDA within the stipulated time frame, as indicated in the table in paragraph 17.40 below.

17.40 Set out in the table below is a summary of the valuation of the Performance Shares:

Date	Probability of achievement		Value of a Biron share (less present value of dividends foregone)		Value of a Performance Share		Dividends foregone	PV of dividends foregone			
	Low	High	Low	High	Low	High		Low	*Low Cumulative*	High	*High Cumulative*
30-June-2005			$0.600	$0.600							
30-June-2006			$0.588	$0.588			$0.012	$0.012	$0.012	$0.012	$0.012
30-June-2007	75.0%	85.0%	$0.565	$0.566	$0.424	$0.481	$0.012	$0.011	$0.023	$0.011	$0.023
30-June-2008	80.0%	90.0%	$0.531	$0.531	$0.425	$0.478	$0.013	$0.011	$0.034	$0.011	$0.034
30-June-2009	85.0%	95.0%	$0.486	$0.487	$0.413	$0.462	$0.013	$0.011	$0.045	$0.011	$0.045
30-June-2010	90.0%	100.0%	$0.430	$0.431	$0.387	$0.431	$0.013	$0.011	$0.056	$0.011	$0.055
Average					**$0.412**	**$0.463**					

Lack of marketability

17.41 The Performance Shares will not be listed on the ASX. It is generally recognised that the value of a non publicly-traded asset is less than, and may be very much less than, a comparable publicly traded asset because of the lack of certainty and speed with which the asset may be converted to cash and the costs associated with finding a buyer and concluding a sale. However, the Performance Share holders are entitled to transfer the Performance Shares and the shares issued on the exercise of the Performance Shares will be listed.

Value of the Performance Shares

17.42 Having regard to the factors set out above, Horwath has calculated the value of the Performance Shares to be as follows:

Merged entity value		**Low**	**High**	**Mid-point**
Value from table in paragraph 17.40 above.	Cents	46.3	41.2	
Less: Liquidity discount		10.0%	10.0%	
Value after liquidity discount	Cents	**41.68**	**37.09**	**39.0**
Total Value				
EH Performance Shares	3,333,333	$1,389,393	$1,236,199	$1,300,000
Physico Performance Shares	8,000,000	$3,334,543	$2,966,879	$3,120,000
Total	**11,333,333**	**$4,723,936**	**$4,203,078**	**$4,420,000**

17.43 Based on the above, the assessed value of the 11,333,333 Performance Shares (that is, applicable to the Ed Harry and Physico Vendors) is a low value of approximately $4.203 million and a high value of approximately $4.724 million. In order to arrive at the low value of the Merged Entity, the high value of the Performance Shares is regarded as a liability and vice versa.

Directors' Options

17.44 As noted in paragraph 2.13 above the Biron Directors have been issued with Directors' Options. In short, there are 1 million options to be issued at a strike price of 60 cents per share. In Horwath's opinion, at the prices implied by the issue of new Biron Shares to the Public and to the Physico Vendors, the Directors' Options are "in the money" and therefore are likely to be exercised. In such circumstance, it is appropriate to include the proceeds from the exercise of the Directors' Options in the Transaction Value. That is, 1 million Directors' Options at 60 cents each or $600,000, discounted to reflect the assumption that they will not be exercised immediately.

17.45 In assessing the present value of the proceeds from exercise of 1 million Director's Options, the following assumptions have been adopted:

(i) the Directors' Options will be exercised after 5 years; and

(ii) the proceeds upon exercise have been discounted at an assessed after tax equity discount rates of approximately 10.3% and 11.4% pa.

Based on the above, Horwath has assessed the fair value of the Directors' Options at between approximately $350,000 and $368,000.

17.46 The inclusion of the Directors' Options as above contrasts with their exclusion from consideration in the valuation of Biron as it currently exists, as in Horwath's opinion, the options would not be "in the money" and therefore are unlikely to be exercised if the Transaction does not proceed.

18 EVALUATION OF THE PROPOSAL (INCLUDING THE TRANSACTION)

Fairness

18.1 Horwath has valued all the existing equity in Biron at between approximately $3.68 million to $3.88 million or approximately 38.5 cents per share to 40.6 cents per Biron Share, as follows:

	Para. Ref.	Low value	High value
Adjusted Net assets ($'000)	10.5	3,681	3,881
Number of shares on issue ('000)	8.5	9,561	9,561
Value of an existing Biron Share (cents) (Existing Value)		**38.5**	**40.6**

18.2 Horwath has valued all the equity in the Merged Entity or the Transaction Value (refer paragraph 17.3 above) at between 56.5 cents and 63.3 cents with a mid-point of 59.9 cents per share.

18.3 In Horwath's opinion, the acquisition of Ed Harry and Physico is considered "fair" to the Non Associated Shareholders when comparing Horwath's assessed value of the Existing Value with the Transaction Value, as follows:

	Paragraph Reference	Low value cents per share	High value cents per share
Existing Value	10.15	38.5	40.6
Transaction Value	17.3	56.5	63.3

18.4 Based on the above, it is clear that the Biron Non Associated Shareholders are more advantaged by implementing the Transaction, of which the Proposal forms part.

Advantages of implementing the Transaction (which includes the Proposal)

Impact on earnings per share ("EPS")

18.5 It is estimated that the Transaction will result in the EPS increasing from a negative amount to approximately 8.2 cents per Ordinary Share.

18.6 Horwath has assessed the impact of the Transaction on the EPS of Biron based on Biron expected annualised earnings in the absence of the Transaction or any other proposal and the forecasts for the Merged Entity. The EPS has been measured on a PAT basis. Set out below is Horwath's calculation of the impact on EPS:

Earnings		Pro forma Merged Entity	Normalised Biron stand alone
		$	$
EBITDA		6,343	(250)
Less: Depreciation		953	0
EBIT		5,390	(250)
Less: Net interest expense/(income)		710	(119)
Profit before tax		4,680	(131)
Less: Tax		1,404	0
Profit after tax		3,276	(131)
EPS (cents)		8.2	Negative
Assumptions		**$'000**	**$'000**
1	Interest bearing debt	8,048	0
	Interest rate (% pa)	9.8%	8.5%
	Annual interest expense	789	0
2	Cash on deposit	2,250	3,395
	Interest rate (% pa)	3.5%	3.5%
	Annual interest income	79	119
3	Tax at statutory rate (30%)		
4	Ordinary Shares	39,894,170	9,560,837
5	Assume Biron corporate costs on a stand-alone basis (pa		250

18.7 Based on the above table, the effect of the Transaction on the earnings per share is positive.

Dividends

18.8 Horwath has been advised that no formal dividend policy has been implemented by Biron directors. However, it is expected that when such a policy is implemented, the dividend payout ratio is likely to be between 60% and 70% of after tax profits. Non Associated Shareholders will benefit from future dividends.

Avoid potential delisting

18.9 In the medium to longer term, Biron risks the ASX making a decision to suspend quotation of Biron. In relation to this, Horwath notes the following Listing Rules:

(i) Listing Rules 12.1 and 12.2, require that an entity have operations and a financial position sufficient to warrant the continued quotation of the entity's securities and its continued listing; and

(ii) Listing Rule 12.3 states that if half or more of an entity's total assets is cash or in a form readily convertible into cash, ASX may suspend quotation of the entity's securities until it invests those in assets or uses them for the entity's business.

18.10 Accordingly, it is possible that should the ASX decide to suspend quotation of Biron Shares then shareholders would no longer have an "active" market to sell their shares.

Opportunity to benefit from merger synergies

18.11 As noted in paragraph 4.9 above, Horwath's valuation assessment may not take into account the full effects of the merger synergy benefits. Whilst there are risks that merger synergies are either overstated or not achieved, in Horwath's opinion, significant synergies are expected to arise from the merger of Ed Harry and Physico. Horwath's valuation takes into account some of the obvious synergies that are likely to arise from the merger of Physico and Ed Harry. However, there is no doubt that more benefits may in fact be available.

Potential for improved liquidity

18.12 Due to the increased number of Biron Shares to be issued from the Transaction together with the acquisition of two major businesses that are profitable, this will have the effect of improving Biron's shares liquidity.

Counter current cash burn

18.13 Currently Biron is a "cash box" and Biron runs the risk that unless a worthwhile business can be acquired, its the cash reserves will be exhausted by corporate overhead costs that need to paid, irrespective of whether or not Biron operates a business.

Potential ongoing costs

18.14 Horwath believes that if the Transaction/Proposal is not implemented, Biron will be:

(i) a small listed company, with likely little demand for its shares; and

(ii) exposed to ongoing costs of maintaining the corporate structure (such as premises rental and staffing) and listing (ASX listing fees and audit costs).

Disadvantages of implementing the Proposal

Financial position and ratios

18.15 Set out below is the estimated negative impact on gearing and net tangible assets per Ordinary Share. The estimated impact on net assets per Ordinary Share is positive.

Ratio	Biron – at present	Proforma
Net assets per share (cents)	35.4	56.6
Net tangible assets per share (cents)	35.4	(3.8)
Gearing		
- Interest-bearing Debt: Total assets	0.0%	15.9%
- Interest-bearing Debt: Total tangible assets	0.0%	30.7%

Dilution of Non Associated Shareholder proportionate interests

18.16 The Transaction will result in a substantial dilution of Non Associated Shareholders shareholding in Biron from 100% to between approximately 19.8% and 25.9% (refer to the table at paragraph 2.14 above) should the Transaction proceed.

Advantages of not implementing the Proposal

Remain open to new business acquisition opportunities

18.17 Biron is a listed vehicle with the majority of its assets in cash or near cash assets. Should the Transaction not proceed, there might be a more favourable business (than the Merged Entity) for Biron to acquire in the future. However, if Biron continues in its current form it will continue to face the risk of delisting and consuming its funds.

Disadvantages of not implementing the Transaction

Horwath believes that the major disadvantages of not implementing the Transaction are:

(i) the continued exposure of Biron to the risk of delisting; and

(ii) Biron not finding a suitable business to develop or acquire.

Conclusion

18.18 Based on the above, in Horwath's opinion, for the Non Associated Shareholders of Biron:

(i) the advantages of implementing the Transaction outweigh any disadvantages of implementing the Transaction; and

(ii) the disadvantages of not implementing the Transaction outweigh any advantages of not implementing the Transaction.

19 RISKS

General risks

19.1 By their nature, general risks are risks associated with most investments similar to Biron and the Merged Entity. It is therefore up to each Non Associated Shareholder to assess the general risks of an investment in Biron and determine whether those risks are acceptable to them.

Market risk

19.2 The value of shares can go down as well as up due to changes in the value of the underlying assets of the company, changes in general economic conditions, changes in conditions in the industry in which the company operates, as well as other factors.

Income risk

19.3 The level of income can fall as well as rise due to the above and other factors.

Economic risk

19.4 Investment returns are affected by a range of economic factors, including changes in interest rates, exchange rates, inflation, general share market conditions, government policies (including monetary and taxation policy and other laws), fluctuations in general market prices for property, shares, bonds and other tradable investments, and the general state of the domestic and world economies.

Taxation risk

19.5 After tax returns from an investment may be influenced by changes in taxation laws or their interpretation.

Terrorism risk

19.6 The unpredictable nature and social and physical destructiveness of terrorist events may affect the earnings and attractiveness of investments resulting in losses.

Specific risks

Liquidity risk

19.7 Should the Transaction be implemented, the existence of the enlarged number of Biron Shares will not necessarily result in an increased level of share trading and liquidity.

Security specific risk

19.8 The cash flows, profits, financial position and management of the underlying business being conducted affect returns from listed securities.

Interest rate risk

19.9 The risk of unfavourable movements in interest rates could lead to increased interest expenses. This could result in a reduction of Biron's future profitability.

Market risk

19.10 Any change in the markets in which the Merged Entity operates may affect Biron's future profitability.

Legal and regulatory risk

19.11 The performance of the Merged Entity may be affected by changes in government policy and/or legislation.

Vertical Integration and Offshore Procurement

19.12 There has been a recent trend in Australia towards vertical integration- the consolidation of a retail business and a wholesale business. Should any of Physico's current wholesale customers decide to vertically integrate, Physico may lose some or all of the revenue attributable to those customers. Similarly, if any of Physico's wholesale customers decide to source some or their entire product direct from offshore sources, Physico's revenues, and profitability may be adversely impacted.

Merger and Integration Risk

19.13 A key driver of Biron's future success is likely to be the success of the integration between the Ed Harry and Physico businesses. The integration challenges include the consolidation of operating and technology processes, the elimination of duplicate corporate expenses and maximising cross-selling opportunities. The ability of the newly combined group to realise these challenges as soon as possible will affect the future profitability of the Biron. If the integration process does not proceed as expected and this may result in the profitability of Biron being adversely affected.

19.14 There is also a risk that some of Physico's current customers perceive that the combination of Physico with Ed Harry will reduce Physico's reliance on external customers and therefore reduce the customers' ability to negotiate purchase pricing and terms with Physico. This may cause existing customers to purchase less volume from Physico. Biron is committed to ensuring Physico's offering and service levels remain attractive to all customers following its acquisition of Physico.

Key Customer Relationships

19.15 The apparel wholesaling industry is characterized by large, relatively low margin orders. These orders are placed by the customer's product buying managers. To the extent that buyers with whom Physico has a strong relationship leave the retail industry or become employed by customers unwilling to source product from Physico, Biron's revenues, and profitability may decline.

Competitive Environment

19.16 The Australian specialty apparel retail markets are highly competitive with a large number of market participants and few barriers to entry. Ed Harry's concepts compete for both target customers and store locations with a wide range of retail formats including local, national and international specialty apparel retail chains, full service national department stores, discount department stores and single store operations. Although Ed Harry has demonstrated an ability to compete effectively in these markets, there can be no assurance that the actions of existing or new competitors or changes in consumer preferences will not have a material adverse effect on Biron Capital's performance.

Brand and Fashion

19.17 The apparel retail industry is subject to rapid and occasionally unpredictable changes in customer preferences. Biron's success in each of its brands depends upon its ability to identify and respond to movements in fashion trends, and to develop appealing merchandise in popular sizes on a timely basis. If Biron misjudges consumer trends or fails to sell stock at expected prices, lower sales and margins could result. In addition, customers' perceptions that one or more of Biron's formats is no longer able to offer fashionable products and reasonable prices, may also adversely affect the reputation of Biron Capital's brands.

Supply Chain and Product Sourcing

19.18 Both Ed Harry and Physico have established an extensive and reliable supply chain that allows them to procure and deliver products to customers in a timely and efficient manner. The efficiency of Biron's supply chain management assists in managing working capital levels, in particular, inventory levels and the reliability of delivery to customers. Disruption to any aspect of the company's supply chain could have a material adverse effect on Biron's operational and financial performance.

19.19 Ed Harry sources its product from wholesalers locally. However, all of the products purchased by Physico are presently sourced from China from a number of different suppliers located in different regions throughout China. This makes the Biron vulnerable to the political and economic environments in this country, including movements in the Chinese Yuan / United States dollar exchange rate, which could have a material adverse effect on the company's ability to source product at competitive prices.

Customer Concentration

19.20 By definition, retail businesses have low customer concentration. However, wholesale businesses generally have relatively high customer concentration. Physico's five largest customers account for approximately 60% of Physico's sales (30% of the Merged Entity's sales). The loss of any one of Physico's largest customers may result in an adverse impact on Biron's revenues and profitability.

Relationship with Landlords

19.21 Ed Harry has 170 retail stores, all operated on a leasehold basis. While leases are distributed across landlords, with no one landlord having greater than 25% of leases, maintenance of strong relationships with landlords is an important aspect of the Ed Harry's business.

19.22 Although the majority of the leases are governed by State and Territory Retail Tenancy legislation which obliges landlords to consent to assignments of lease to financially sound parties with reasonable retail experience, (which Biron has through its Ed Harry and Physico personnel), certain of the leases require the landlords' consent for Biron Capital to continue as a tenant following a change of control in Ed Harry. If some or all of these consents are not provided, it may have an adverse impact on the company.

19.23 Given that the Merged Entity's future growth prospects depend in part upon its ability to increase sales at existing Ed Harry stores, refurbish existing Ed Harry stores, open new Ed Harry stores at new locations, develop new concepts and continue to operate Ed Harry stores on a profitable basis, any adverse change in Biron Capital's relationships with landlords could increase the Merged Entity's costs or adversely impact the ability of the Merged Entity to operate stores in preferred locations.

19.24 Ed Harry generally enters into medium-term leases typically for a period of five years, there is no assurance that it will be able to renew leases on acceptable terms. Failure to renew leases on acceptable terms could result in the loss of revenue and profitability.

Loss of Key Personnel

19.25 Biron Capital's success depends largely on its key personnel who play an important role in the business, in particular the senior management team discussed in this report. In addition to the senior management team, sales managers holding strong customer relationships perform a critical role in the business in terms of both winning new business and maintaining existing business. Whilst efforts are made to retain the services of key employees, the loss of key personnel could have a material adverse effect on Biron's earnings or growth prospects. The company may not be able to recruit replacements within a short timeframe.

Funding/Cost of Borrowing

19.26 It is possible that Biron's expansion as referred to below will be funded by a combination of debt and equity. Biron, as a borrower of money, is potentially exposed to adverse interest rate movements that may increase the financial risk inherent in its business. Whilst this risk may be partially reduced due to interest rate hedging, there remains residual exposure both now, and at the expiry date of the existing interest rate swaps. Biron's ability to raise finance by way of equity funding will be dependent on its own performance and the performance of local and international stock markets and investor sentiment that may be negative at any given time.

Expansion Plans

19.27 The continued growth of Biron, its revenue and profitability is to a certain extent dependent upon opening new stores and upgrading existing ones. This expansion is dependent upon Biron's ability to successfully identify suitable sites, negotiate acceptable lease terms and open new stores on time. Additionally, although Biron employs strict financial criteria before committing to the opening of new stores and the refurbishment of existing stores, there can be no assurance that these stores will meet established targets.

Seasonality

19.28 Biron's sales are subject to some seasonal fluctuations. There is typically increased demand in the period leading up to Christmas and Biron experiences a peak in sales and profitability in December. Any significant decrease in sales during this period could have a material adverse effect on the company's financial performance.

Intellectual Property Conflicts

19.29 The designs used in Biron's branded products may be similar to the designs of other designers and retailers. On occasion, other designers and retailers have alleged that Biron's products infringe on their intellectual property rights.

Information Technology

19.30 Biron has invested significantly in the development of information systems designed to assist it in monitoring and maximising profits, whilst allowing loss-making situations to be identified and rectified. While Biron will make every effort to ensure that these systems are maintained and improved to best meet the demands of the market, system failures may negatively impact on the company's performance.

20 QUALIFICATIONS AND CONSENTS

Qualifications

20.1 Horwath is the licensed corporate advisory arm of Horwath (NSW) Pty Limited. Horwath provides advice in relation to all aspects of takeovers and corporate reconstructions and has extensive experience in the valuation of corporate entities.

20.2 Mr Alfred Nehama was responsible for the preparation of this report. Mr Nehama was assisted by Mr Vince Fayad in preparing this report. Mr Fayad was actively involved in the preparation of this report prior to leaving Horwath. Moreover, Mr Fayad continued to assist Mr Nehama in the finalising of this report following his departure from Horwath.

20.3 Mr Nehama has extensive experience in a number of specialist corporate advisory activities including company valuations, due diligence investigations, public company floats, accounting, preparation of information memoranda and other corporate investigations. Accordingly, Mr Nehama is considered to have the appropriate experience and professional qualifications to provide the advice offered.

Interests

20.4 Neither Horwath, nor Horwath (NSW) Pty Limited, has acted as an adviser to Biron, Physico or Ed Harry with respect to the Proposal described in this report. However, Horwath (NSW) Pty Limited has provided due diligence advice in relation to the acquisition of Ed Harry and Physico, as well as acting as the independent accountant to the capital raising. However, Horwath (NSW) Pty Limited is not advising on the Transaction.

20.5 Horwath is entitled to receive a fee for the preparation of this report based on the hourly rates and time of directors and staff involved in the preparation of this report. This fee is not contingent on the outcome of the Transaction. Except for this fee, which is not contingent on the outcome of the Transaction, Horwath has not received and will not receive any pecuniary or other benefit, whether direct or indirect, for or in connection with, the preparation of this report.

Consents

20.6 This report has been prepared at the request of the directors of Biron. This report has been prepared only for the benefit of the directors of Biron and those persons who are entitled to receive copies of documents relating to the Proposal. Apart from the purpose for which this report was issued, neither the whole nor any part of this report nor any reference thereto may be included in, or be attached to, any document, circular, resolution, letter or statement without the prior written consent of Horwath to the form and context in which it appears. Horwath has consented to the use of extracts and statements, based on statements made in this report, in the Explanatory Memorandum to be issued by Biron relating to the Proposal, in the form and context in which they are included.

20.7 This report represents solely the expression by Horwath of its opinion as to whether or not the Proposal is "fair and reasonable" to the Non Associated Shareholders. The statements and opinions contained in this report are given in good faith and are based upon a consideration and assessment of information provided by the directors, executives and management of Biron and general economic and market conditions prevailing as at 8 July 2005.

20.8 Five (5) advanced drafts of this report were provided to Biron and its advisers. Certain changes to factual matters were made to this report as a result of the circulation of the draft reports. However, there were no alterations to the methodology, conclusions or recommendations made to Non Associated Shareholders as a result of issuing the draft reports.

Yours faithfully

HORWATH
INVESTMENT SERVICES PTY LIMITED

ALFRED NEHAMA
Representative

APPENDIX 1 SOURCES OF INFORMATION

Horwath has reviewed and relied upon the following information in arriving at its opinion on the Proposal:

Proposed Transaction Information

1 Draft Notice of General Meeting and Explanatory Memorandum dated 11 May 2005.

2 Draft Acquisition Prospectus including Industry overview and potential risk factors.

3 Cowley Hearne: Memorandum regarding the Executive Service Agreement between Biron and Messrs Greenblo, Elterman, and Rohald dated 18 April 2005.

4 Information published by Bloomberg.

5 Relevant extracts from the AGSM Risk Measurement Service, December 2004.

6 Information published on the internet website www.tradingroom.com.au [Accessed 10 May 2005].

Information on Biron

7 Information published by Bloomberg.

8 ASX company announcements

9 Various financial information on Biron including:

(i) management accounts for period ending February 2005; and

(ii) semi-annual financial reports and accounts for the 6 months ended 31 December 2004 and annual financial reports and accounts for the years ended 30 June 2004 and 2003;

Information on Ed Harry

10 ASIC Current and Historical Company Extract on Suregroup Pty Ltd.

11 Financial Due Diligence Report prepared by Horwath dated May 2005.

12 Information Memorandum dated October 2004.

13 Draft and updated version of the Sale of Business Agreement between Suregroup Pty Limited (vendor) and Ed Harry (purchaser).

14 Various financial information on Ed Harry, including: management accounts for Suregroup Pty Ltd for the period ended June 2005;

Information on Physico

15 The Financial Due Diligence Report prepared by Horwath dated May 2005.

16 The draft interim Legal Due Diligence Report prepared by Cowley Hearne, lawyers for Biron, in respect of Physico dated 29 April 2005.

17 Management accounts for period ended February 2005

18 The draft and updated Sale and Purchase Agreement.

General Economic Information

19 Economic and currency research publications and media releases from Westpac Institutional Bank.

20 RBA bulletins and statements on monetary policy and financial stability.

21 Publications on the 2005/06 Australian Federal Budget from ipac securities limited.

22 The Organization of the Petroleum Exporting Countries (OPEC) internet website located at www.opec.org [accessed: 4 May 2005].

Industry Information

23 The following IBISWorld Industry reports:

(i) Clothing Retailing in Australia dated 14 January 2005;

(ii) Clothing Wholesaling in Australia dated 15 February 2005; and

(iii) Women's and Girl's Wear Manufacturing in Australia dated 15 February 2005;

24 The following company's FY2004 Annual Reports:

(i) Just Group; and

(ii) Miller's Retail Limited.

Companies' information

25 ASX releases, company presentations, information published by Bloomberg, Broker reports and Internet sites of companies operating in the relevant industries in Australia and overseas.

Attention is drawn to the matters noted in paragraphs 5.3 to 5.6 of this report, relating to Horwath's reliance on the information reviewed in forming its opinion on the Proposal.

APPENDIX 2 OVERVIEW OF VALUATION METHODOLOGIES

This Appendix sets out a brief discussion of the possible valuation methodologies applicable.

Discounted Cash Flow ("DCF")

1. The DCF method involves the calculation of net present values by discounting expected future cash flows. Projected or estimated cash flows are discounted to a present value using discount rates that take into account the opportunity cost of capital and the risk of the forecast cash flows. The discount rate represents the expected return to Non Associated Shareholders for their opportunity cost of capital based on investments of commensurate risk. The DCF method is useful for valuing "start up" business or assets with finite and/or "lumpy" future cashflows.

Capitalisation of Earnings or Future Maintainable Earnings ("FME")

2. The use of FME places a value on a business or asset by assessing its core underlying earnings and applying an appropriate capitalisation rate or multiple which reflects, inter alia, comparable business capitalisation rates, economic and industry prospects, business growth opportunities and forecast earnings over a period or multiple periods.

Net Asset Value on a Going Concern Basis ("NAGC")

3. The net assets method assesses the value of a company's shares based on the summation of the value of its assets and liabilities, assuming that the company is a going concern. The net assets method is usually appropriate for companies where the majority of assets consist of cash or passive investments.

Realisable Net Asset Value ("NAV")

4. The NAV method assesses the value of a company's shares based on the summation of the realisable value of its assets and liabilities assuming the company is to be liquidated. It may be appropriate to consider the expenses and losses, (including taxation), that would be incurred in a liquidation or a break up of the company.

5. This approach is generally used in situations where a business is not earning a profitable return, has solvency problems, is to be wound up, or is of the type that is typically sold on a net asset basis (such as share and property investment companies and trusts). This approach can also be used to compare with the results of an alternative valuation method by providing an estimate of a minimum value, especially where the subject equity holding (eg shareholding in a company) is a controlling interest.

6. Unless the ongoing value is greater than its realisable net asset value, usually it would be in the owner's interest to realise the assets and repay liabilities, rather than to continue operating as a going concern. This approach is typically more relevant to the valuation of a majority interest on the basis that the majority shareholder, by virtue of its control, may enforce a liquidation to realise the underlying net asset value, whereas a minority shareholder normally would not be able to effect such a realisation.

Transaction prices for securities ("Market prices")

7. The recent trend in prices and volumes of securities transacted indicate values placed by buyers and sellers on the securities being traded.

8. Assuming the buyers and sellers were both knowledgeable and willing but not anxious these market values can be used to form an opinion as to the market value of securities being valued.

APPENDIX 3 MERGER AND ACQUISITION ACTIVITY IN THE RETAIL CLOTHING INDUSTRY

The following table illustrates recent worldwide merger and acquisition activity in the retail clothing industry:

Target	Target Country	Acquirer Name	Acquirer Country	Date announced / completed	Deal Type	Currency	Value of deal	EBIT Multiple	EBITDA Multiple	Revenue Multiple	Target description paragraph
							USD million	(x)	(x)	(x)	
Just Jeans Group Limited	Australia	Prudential PLC	Great Britain	June 2001	Takeover	GBY	68.79	9.82	5.35	0.39	1
Mark's Work Wearhouse Ltd	Canada	Canadian Tire Corp - CLA	Canada	December 2001	Takeover	CAD	88.29	7.55	4.62	0.36	2
Shirmax Fashions Ltd	Canada	Reitmans (Canada) Ltd	Canada	April 2002	Takeover	CAD	51.72	7.17	4.81	0.42	3
Casual Male Corp	United States	Casual Male Retail Group Inc	United States	May 2002	Takeover	USD	170.00	5.34	3.94	0.25	4
Oasis Stores PLC	Great Britain	Sierra PLC	Great Britain	July 2001	Takeover	GBY	77.68	6.49	3.57	0.40	5
Arcadia Group PLC	Great Britain	Taveta Investments Ltd	Great Britain	August 2002	Takeover	GBY	1394.29	12.25	5.62	0.48	6
QS Group PLC	Great Britain	Hamsard 2353 Ltd	Great Britain	September 2002	Takeover	GBY	19.79	n/a	6.23	0.15	7
Torii Co Ltd	Japan	Aoki International Co Ltd	Japan	June 2003	Takeover	JPY	14.45	n/a	22.21	0.27	8
Brice	France	Otexo	France	June 2003	Takeover	EUR	126.41	8.63	n/a	0.75	9

Target	Target Country	Acquirer Name	Acquirer Country	Date announced / completed	Deal Type	Currency	Value of deal	EBIT Multiple	EBITDA Multiple	Revenue Multiple	Target description paragraph
							USD million	(x)	(x)	(x)	
New Look Group PLC	Great Britain	Trinitybrook PLC	Great Britain	September 2003	Takeover	GBY	1036.79	7.84	6.03	1.03	10
Voice ASA	Norway	On Sunde AS	Norway	September 2003	Takeover	NOK	40.37	10.23	6.74	0.47	11
Loehmanns Holdings Inc	United States	Crescent Capital Investments	United States	April 2004	Takeover	USD	167.43	12.95	7.38	0.46	12
Barneys New York	United States	Jones Apparel Group Inc	United States	November 2004	Takeover	USD	356.19	12.35	7.83	0.78	13
Sportsman S.A.	Greece	Notos Com Holdings S.A.-REG	Greece	May 2001	Takeover	EUR	62.72	8.00	n/a	1.31	14
Endysi S.A.	Greece	Notos Com Holdings S.A.-REG	Greece	May 2001	Takeover	EUR	20.06	29.04	n/a	1.16	15

Source: Bloomberg

1. **Just Jeans Group Limited (JJS)** is a clothing retailer and specialty jeans retailing chain in Australia. The company operates outlets in Australia and New Zealand. The stores provide a variety of merchandise for men, women and children, including shorts, shirts, socks, blazers, hats and accessories. Just Jeans stores include Jacqui E and Jay Jays.
2. **Mark's Work Wearhouse Ltd. (MWW)** owns and franchises retail stores across Canada. The company's stores specialise in workwear, casual wear, and related apparel in name brand and private label lines. Mark's operates stores throughout Canada under the names Mark's Work Wearhouse and Work World.
3. **Shirmax Fashions Ltd. (SHX)** is a specialty retailer of fashion apparel. The company operates stores catering to the women's plus-size and maternity wear markets in Canada. Shirmax has store locations across Canada.
4. **Casual Male Corp (CMALQ)** operates speciality retail businesses in large, under-served niche markets. The company operates retail stores, catalogue titles, and commerce-enabled Web sites selling apparel and accessories for big and tall men under the Casual Male, Big & Tall, Repp Ltd. and B&T Factory trade names. Casual Male also offers rugged workwear and healthcare apparel.
5. **Oasis Stores plc (OAS)** is a retailer of women's clothing and accessories. The company operates some 155 "Oasis" and 27 "Coast" assorted shops and concessions, which sell clothing, footwear, fashion accessories and costume jewellery for women ages 18 to 35. The company has retail outlets in the UK, Ireland and Germany, in addition to licensee outlets in Europe, Taiwan, Japan and the Middle East.
6. **Arcadia Group plc (AG/)** is a high street retailer, operating in countries such as Dubai, Kuwait, Saudi Arabia, Poland, Taiwan and China. The Group's portfolio of brands includes Burton Menswear, Dorothy Perkins, Evans, Top Shop and Top Man. The Group also owns 50% of Zoom.co.uk, a free UK Internet service provider.
7. **QS Group plc (QSG)** is a clothing retailer. The company sells family clothing throughout southern England.
8. **TORII CO., LTD. (9868)** operates specialty stores of men's wear including formal wears and casual wears in the Tokai area. The company also sells original brand products.
9. **Brice SA (BRC)** operates a chain of about 200 men's clothing stores. The company markets everyday clothing for men under its own brand name, targeting a clientele of men 25 years of age and older. Brice' mens stores are mainly located in shopping centres in France and Belgium.
10. **New Look Group PLC (NEW)** is a retailer of womenswear, which sells own-label clothing and accessories through over 480 New Look stores in the United Kingdom and over 135 Mim's stores in France. The Group's product line encompasses a full range of clothing, as well as jackets, lingerie, footwear, and a range of lifestyle products, including accessories for mobile phones.
11. **Voice ASA (VOI)** owns and manages the clothing store chains VIC, Match, and Voice of Europe, as well as concept shops and a wholesale business. The company distributes and markets brand name and private label clothing. Voice retails its products through company-owned stores, memberships, and franchises primarily in Norway.
12. **Loehmann's Holdings, Inc. (LHMS)** is the holding company for Loehmann's, Inc., a specialty retailer. The company retails designer and brand name women's fashion apparel, accessories, and shoes at discounted prices that are typically below department store prices. Loehmann's operates stores in metropolitan markets located in various states.
13. **Barneys New York, Inc. (BNNY)** retails men's, women's and children's apparel, accessories, and items for the home. The company operates both full-price and outlet stores throughout the United States.
14. **Sportsman S.A. (SPRKA)** is a retailer of sporting goods and sportswear. The company distributes products with brand names such as "Bostonian," "Lacoste", "Newman", "Pentlands" and "La Chemise."
15. **Endysi S.A. (ENDY)** retails clothing and footwear. The company retails apparel with the brand names Lacoste, Newman, Bostonians and Springfield. Endysi operates 10 stores in Greece and one in Bulgaria.

APPENDIX 4 MERGER AND ACQUISITION ACTIVITY IN THE WHOLESALE CLOTHING INDUSTRY

The following table illustrates recent worldwide merger and acquisition activity in the wholesale clothing industry:

Target	Domicile of target	Acquirer	Date announced / completed	Currency	Value of deal (USD million)	EBIT Multiple	EBITDA Multiple	Sales Multiple	Target description paragraph
					USD million	(x)	(x)	(x)	
Palmer Corporation Limited	Australia	Colorado Group Limited	December 2000	AUD	7.58	n/a	16.27	0.24	1
Kasper, Ltd.	United States	Jones Apparel Group Inc	August 2003	USD	232.50	6.49	5.52	0.64	2
Garan, Incorporated	United States	Berkshire Hathaway Inc-CLA	July 2004	USD	213.21	5.04	4.37	0.84	3
Gerber Childrenswear, Inc.	United States	Kellwood Co.	May 2002	USD	94.71	5.23	3.93	0.46	4
Salant Corporation	United States	Perry Ellis International	February 2003	USD	75.74	5.63	3.94	0.30	5
PremiumWear, Inc.	United States	New England Business Service	May 2000	USD	36.86	41.42	7.34	0.71	6
Full Line Distributors, Inc.	United States	Bain Capital LLC	July 2001	USD	27.86	10.64	8.85	0.31	7
Duck Head Apparel Company, Inc.	United States	Tropical Sportswear International	June 2001	USD	17.89	n/a	23.11	0.41	8
Dewhirst Group plc	Great Britain	Kirkgate Group Ltd	July 2001	GBP	151.26	3.82	2.65	0.27	9
William Baird plc	Great Britain	Jacques Vert PLC	October 2002	GBP	52.30	5.52	3.47	0.15	10
Martin International Holdings PLC	Great Britain	Crystal International Ltd	May 2004	GBP	26.20	4.90	2.58	0.16	11
Intersport PSC Holding AG	Switzerland	Stancroft Trust Limited	July 2000	GBP	18.19	12.68	9.53	0.28	12
Aigle	France	Societe Internationale DE PR	August 2003	EUR	67.38	7.08	4.75	0.71	13

Target	Domicile of target	Acquirer	Date announced / completed	Currency	Value of deal (USD million)	EBIT Multiple	EBITDA Multiple	Sales Multiple	Target description paragraph
					USD million	(x)	(x)	(x)	
D'Urban Incorporated	Japan	Renown Inc	October 2003	JPY	208.38	230.69	33.45	0.93	14
Ssang Bang Wool Ltd.	South Korea	Investor Group	May 2002	KRW	249.48	16.31	11.19	1.14	15
IK Enterprises Inc.	South Korea	Doosan Corp	October 2001	KRW	130.45	44.98	24.44	2.42	16
Time I.N.C.	South Korea	Handsome Co Ltd	March 2003	KRW	60.26	3.65	3.17	0.84	17
Byford International Limited	Hong Kong	Roly International Holdings	July 2004	SGD	8.77	13.17	11.01	2.27	18

Source: Bloomberg

1. **Palmer Corporation Limited (PLC)** wholesales, retails, markets and distributes clothing under the brand names "Jag," "Adele Palmer" and "Jagmen." The company operates approximately 22 Jag retail stores in shopping centres throughout Australia and New Zealand. Palmer also markets watches and fragrances through license agreements in Australia and New Zealand.
2. **Kasper, Ltd. (KASPQ)** manufactures and markets women's clothing. The company sells sportswear, dresses, knitwear, and career suits to major department stores across the United States. Kasper also designs and manufactures suits for sale under private labels for various department stores.
3. **Garan, Incorporated (GAN)** designs, manufactures, and sells clothing for men, women, and children. The company produces knit sport shirts, sweater shirts, woven slacks, jeans, knit dresses, and skirts. Garan sells its products to national chain stores, department stores and specialty stores under brand names such as Garanimals, Garan, and Bobbie Brooks.
4. **Gerber Childrenswear, Inc. (GCW)** markets infant and toddler apparel and related products to retailers such as mid-tier department stores and volume retailers. The company markets its products under the Gerber, Baby Looney Tunes, Curity, and Onesies names. Gerber also, through Auburn Hosiery, manufactures, markets, and sells branded sport socks for men, women, and children.
5. **Salant Corporation (SLNT)** designs, manufactures, imports, and markets men's apparel. The company sells its products under the Perry Ellis brand name to retailers, including department and specialty stores, national chains, major discounters, and mass volume retailers. Salant sells its products throughout the United States and Canada.
6. **PremiumWear, Inc. (WEAR)** designs, sources, and markets knit and woven shirts and other apparel. The company's customers include the promotional products/advertising specialty industry, as well as golf pro and resort shops. PremiumWear markets its products under its Page & Tuttle brand and other licensed brands.
7. **Full Line Distributors, Inc. (FLD)** manufactures and distributes imprintable and decorable knitted sportswear. The company's products include basic t-shirts and sweatshirts, golf shirts, baseball and golf caps, athletic jackets, athletic jerseys and shorts, bags, and aprons. Full Line's products are for sale to mass merchants, retailers, selected distributors, and screen printers.
8. **Duck Head Apparel Company, Inc. (DHA)** designs, sources, produces, markets, and distributes boy's and men's casual sportswear. The company markets its line of clothing under the Duck Head brand. Duck Head primarily sells apparel in the south-eastern United States to national and regional department stores and specialty apparel retailers.

9. **Dewhirst Group plc (DEWH)** is a textile company. Through its subsidiaries, the Group manufacturers and distributes mens, women's and children's clothing, in addition to military and police uniforms. The majority of Dewhirst's output is sold to the Marks & Spencer retail stores. They also produce a range of toiletries and skin care products.

10. **William Baird plc (BDW)** is a textile company. The company manufactures and supplies a wide range of apparel mainly within the UK and to Continental Europe. Baird designs and sells brand name clothing and products to a number of companies.

11. **Martin International Holdings PLC (MTA)**, a holding company, designs, manufactures, and distributes ladies', men's, and children's clothing.

12. **Intersport PSC Holding AG (IHSN)** is a company providing wholesale sports related goods, including sportswear, team equipment, snow and ice sports articles, bikes and footwear. The company focuses on brand names, supplying its goods to licensed retail stores only. In addition, Intersport provides marketing, management, computer and financial services to its retailers.

13. **Aigle (AGL)** produces and distributes clothing for the outdoors such as boots, shoes, and sportswear. The company markets its products through traditional retailers, and operates a network of stores under its own brand name. Aigle has locations all across Europe, in Russia, Korea, Japan, elsewhere in Asia, and South America.

14. **D'URBAN INCORPORATED (8116)**, a member of the Renown Group, manufactures and trades of men's apparel. The company mainly produces suits, slacks, pants, underwear, socks, shoes, and bags for men, as well as for women and children. D'urban also sells non-suit lines such as bedding products, sporting goods, furniture, cosmetics, electronic products, and auto parts and equipment.

15. **Ssang Bang Wool Ltd. (008900)** manufactures and markets men's and women's underwear. The company produces ladies' panties, bras, lingerie, sleepwear, and men's boxers. SBW also fabricates casual wear and cotton yarn.

16. **IK Enterprises Inc. (0429)** distributes apparel. The company' products include jean casual wear, children's, men's, and women's clothing under the brands GUESS, DKNY, Mickey Club, and Guess Kids.

17. **Time I.N.C. (4693)** manufactures and markets women's clothing from casual to business attire. The company markets its products through retail shops, department stores, and its own sales agencies in South Korea.

18. **Byford International Limited (8272)** sources, sells, and distributes men's innerwear, socks, and apparels under the Byford brand name, and receives related royalty income.

APPENDIX 5 DESCRIPTION OF COMPANIES IN THE RETAIL AND WHOLESALE CLOTHING INDUSTRIES

Vertically Integrated Retailers

Billabong International Limited (BBG) manufactures and distributes surfwear and extreme sports apparel throughout the world. Billabong designs board shirts, swimwear, T-shirts, fleece tops, jumpers, shirts, walk shorts, trousers, jeans, backpacks and accessories under its brand name. The company also sponsors professional surfing, skateboarding and snowboarding events.

Colorado Group Limited (CDO) operates specialty footwear retail stores in Australia. The company operates retail outlets under the names "Colorado Adventure wear," "Williams the Shoemen" and "Mathers Shoes." The retail operations are mainly concentrated in Queensland and New South Wales.

Retailers

Just Group Limited (JST) is a specialty clothing retail company operating throughout Australia and New Zealand. The company retails brands such as Just Jeans, Jay Jays, Urban Brands, Portmans, Jacqui E and Peter Alexander.

Brazin Limited (BRZ) is a specialist retailer of women's lingerie, sleepwear and swimwear in Australia. The company operates Bras N Things stores, which primarily sell women's lingerie and Aztec Rose, a designer and marketer of women's surfwear. The company also retails music, primarily compact discs, through its Sanity Music and stores.

Miller's Retail Limited (MRL) is a retailer of women's low priced clothing throughout Australia and New Zealand. The company also operates the Go-Lo, Crazy Clark's and Makro discount store chains.

Country Road Limited (CTY) designs, wholesales, licenses and retails apparel, homewares and related items. The company operates retail stores and outlets in Australia and New Zealand.

OrotonGroup Limited (ORL) owns and operates retail leather, clothing and accessories stores throughout Australia and New Zealand. The company manufactures and markets its products under the brand names Morrissey, Oroton and Polo Ralph Lauren.

Noni B Limited (NBL) is a women's fashion retailer operating retail stores throughout Australia. The company retails women's business dresses, casual dresses and special occasion dresses.

Wholesalers

Pacific Brands Limited (PBG) is a manager of consumer brands in Australia and New Zealand. The company markets brands like Berlei, Bonds, Clarks, Dunlop, Everlast, Grosby, Holeproof, Hush Puppies, KingGee, Slazenger, Sleepmaker and Tontine. These brands are for products such as footwear, home comfort products, outwear and sport underwear and hosiery.

Gazal Corporation Limited (GZL) imports, produces and distributes apparel under the "Gazal" name and other name brands. The apparel products include mens business and sports shirts, ladies lingerie and sleepwear, boys and girls schoolwear, sweatsuits, dresses and casual wear and surfwear. The company places emphasis on budget priced merchandise.

Austin Group Limited (ATG) designs, manufactures and markets women's, children's, and men's clothing in Australasia. The clothing is marketed under various tradenames and is sold to major retailers.

AS'TY INC. (8008) is a wholesaler primarily of practical clothing. The company operates direct sales stores through subsidiaries. AS'TY also wholesales men's and women's apparel.

CHOYA Corporation (3592) manufactures and wholesales apparel through department and specialty stores. The company specializes in men's dress shirts. Choya also produces men's casual wear and women's blouses and shirts. The company makes its products for mass merchandise and tailor-made markets. Choya also manufactures apparel for some brands on original equipment manufacturing basis.

Takihyo Co., Ltd. (9982) plans, produces, wholesales, imports, and exports apparel for women, men, and children, as well as accessories and interior products. The company also wholesales popular brand goods.

Oxford Industries, Inc. (OXM) is an international manufacturer and wholesale marketer of branded and private label apparel for men, women, and children. The company provides licensed brands such as Nautica, Geoffrey Bean, and Oscar de la Renta. Oxford's private label customers include national chains, specialty catalogs, mass merchandisers, department stores, specialty stores, and Internet retailers.

KIMURATAN Corporation (8107) is a manufacturer-wholesaler of infants' and children's wear. The company mainly manufactures suits, one-pieces, sweaters, pyjamas, pants, blankets, and other related goods for infants and children. Kimuratan's main products are well known under the brand name, Otoginokuni (Fairyland).

Vet'Affaires (VET) distributes low-priced apparel and accessories for men, women, children, and babies. The company's stores are located near large-and mid-sized cities, and in shopping centres. Vet'Affaires owns Central'Vet, a logistics company that maximizes the supplying process from international sources, and PM DIS, an advertising company dedicated to the Vet'Affaires Group.

APPENDIX 6 VALUATION INDICIA OF COMPANIES IN THE RETAIL AND WHOLESALE CLOTHING INDUSTRIES

Name	Ticker	Exchange	Currency	Current Market Cap	Enterprise Value	Historical Multiples				Forecast Multiples			
						Year end	EV/Sales	EV/EBITDA	EV/EBIT	Year end	EV/Sales	EV/EBITDA	EV/EBIT
				$Millions	$Millions		(x)	(x)	(x)		(x)	(x)	(x)
Integrated retailers													
Billabong International Limited	BBG	Australia	AUD	2,917.72	2,996.32	Jun-04	4.4	20.7	22.3	Jun-05	3.4	14.3	15.1
Colorado Group Limited	CDO	Australia	AUD	418.03	412.33	Jan-05	0.9	5.6	6.6	Jan-06	0.8	5.2	6.1
Average/ median							**2.7**	**13.1**	**14.4**		**2.1**	**9.8**	**10.6**
Retailers													
Just Group Limited	JST	Australia	AUD	429.46	495.76	Jul-04	0.8	5.4	7.4	Jul-05	0.7	5.0	6.3
Brazin Limited	BRZ	Australia	AUD	196.99	173.09	Jun-04	0.5	6.6	10.9	Jun-05	0.4	4.2	5.5
Miller's Retail Limited	MRL	Australia	AUD	193.55	258.75	Jun-04	0.2	3.9	6.7	Jun-05	0.2	4.0	6.0
Country Road Limited	CTY	Australia	AUD	131.21	126.91	Jun-04	0.7	15.2	71.0				
OrotonGroup Limited	ORL	Australia	AUD	91.67	99.07	Jul-04	0.7	5.7	8.9	Jul-05	0.7	5.7	8.9
Noni B Limited	NBL	Australia	AUD	99.32	90.12	Jun-04	1.0	9.7	13.4	Jun-05	0.9	8.2	11.2
Average							**0.6**	**7.8**	**19.7**		**0.6**	**5.4**	**7.6**
Median							**0.7**	**6.1**	**9.9**		**0.7**	**5.0**	**6.3**

Name	Ticker	Exchange	Currency	Current Market Cap	Enterprise Value	Historical Multiples				Forecast Multiples			
						Year end	EV/Sales	EV/EBITDA	EV/EBIT	Year end	EV/Sales	EV/EBITDA	EV/EBIT
				$Millions	$Millions		(x)	(x)	(x)		(x)	(x)	(x)
Wholesalers													
Pacific Brands Ltd	PBG	Australia	AUD	1,202.2	1,650.1	Jun-04	4.5	38.9	59.2	Jun-05	1.1	8.7	12.3
Gazal Corporation Limited **	GZL	Australia	AUD	178.2	212.3	Jun-04	1.1	9.3	11.1	Jun-05	1.0	8.1	10.0
Austin Group Limited	ATG	Australia	AUD	48.2	45.2	Jun-04	0.8	7.2	7.9				
AS'TY INC.	8008	Japan	JPY	20,583.5	23,091.5	Feb-05	1.1		40.6	Feb-06	0.5		
CHOYA Corporation	3592	Japan	JPY	6,487.6	11,537.6	Jan-05	1.3			Jan-06	1.0		
Takihyo Co., Ltd.	9982	Japan	JPY	23,089.9	20,301.9	Feb-05	0.3		7.7	Feb-06			
Oxford Industries, Inc. ***	OXM	United States	USD	778.5	1,102.3	May-04	0.9	10.9	13.5	May-06	0.8	7.2	9.0
Kimuratan Corporation	8107	Japan	JPY	22,300.9	29,338.9	Mar-04	5.5			Mar-06	3.7		
Vet'Affaires	VET	France	EUR	84.6	84.3	Dec-04	0.7			Dec-05	0.6	3.0	3.2
Average							**1.8**	**16.6**	**23.3**		**1.2**	**6.8**	**8.6**
Median							**1.1**	**10.1**	**12.3**		**1.0**	**7.7**	**9.5**

Key

***SOURCE:** Bloomberg 10 May 2005

** Historical and forecasts multiples are calculated based on Chairman's 2004 Results Presentation, dated 1 September 2004

*** Forecasts are based on broker report, dated 31 March 2005

APPENDIX 7 DETERMINATION OF APPLICABLE DISCOUNT RATE TO ARRIVE AT PRESENT VALUE FOR THE VENDOR FINANCE AND DEFERRED CONSIDERATION

1.1 As the Vendor Finance and Deferred Consideration No.1represent:

(i) material principal sums; for which payment is dependant on the earnings ability of the Merged Entity; and

(ii) where the principal sum rank behind the bank funding of the Merged Entity;

in Horwath's opinion, the discount rate used to equate the future repayments on the Vendor Finance and Deferred Consideration No.1to their present value represents the risk-adjusted rate of return demanded by a hypothetical investor in the Merged Entity.

*Weighted average cost of capital ("**WACC**")*

1.2 In the case of the Merged Entity, which has assets that are capable of debt financing, the applicable discount rate would be based on the cost of equity and debt financing weighted by the proportion of equity and debt used. This is commonly referred to as the WACC. The WACC can be derived using the following formula:

WACC = [E/V * Re] + [D/V * Rd]

Where:

Re: cost of equity capital

Rd: cost of debt capital

E/V: portion of the company funded by equity

D/V: portion of the company funded by debt

1.3 For the purposes of this report, Horwath have assumed in estimating the Merged Entity's WACC, that a debt to equity capital structure would be 50% debt and 50% equity. The assumed gearing level is based on Horwath's consideration of:

(i) The level of NTA in the Merged Entity;

(ii) The overall profitability of the Merged Entity; and

(iii) The level and nature of the Merged Entity earnings.

Cost of Equity Re

1.4 The cost of equity or "Re" has been estimated by Horwath using the Capital Asset Pricing Model ("**CAPM**"). This is the most widely accepted and used methodology for determining the cost of equity. The formula for estimating cost of equity using CAPM is set out below:

Re = Rf + B (Rm – Rf)

= Rf + B (ERMP)

Where:

Re: Required rate of return on equity

Rf: Risk free rate of return

B: Beta

Rm: Return on the market

ERMP: Equity market risk premium

1.5 Set out in the following paragraphs, is Horwath's assessment of the parameters for the above formula.

Risk free rate

1.6 The risk free rate has been based on the 10 year Australian government bond yield to maturity. As at 11 May 2005, this rate was 5.34% (source: Bloomberg). This rate has been used as it is the closest proxy for a risk free rate for a business in Australia for a period that matches the period of the future CFP's cashflows. The rate above is a nominal rate.

Equity risk market premium

1.7 The equity risk market premium ("**ERMP**") is the rate of return above that of the risk free rate required by an investor to invest in a portfolio of stock securities. This rate takes into account risk across the stock market. The ERMP in the short term may be quite volatile as the ERMP changes with perceived risk of investing in the stock market, political and economic uncertainty, economic conditions and changes in monetary policy. However, in the longer term (approximately 10 years), the ERMP is relatively stable.

1.8 The ERMP adopted by Horwath is 5.5% based on:

(i) Bloomberg's estimate of the prospective EMRP of 4.76%; and

(ii) studies on the long term historical ERMP in Australia that indicate a long term ERMP of 6%.

Beta

1.9 The beta coefficient measures the non-diversifiable risk of a company in comparison to the market as a whole. A beta of more than one indicates that the company has a higher risk, where a beta of less than one indicates that the company has a lower risk than a portfolio of stocks, which are representative of the market.

1.10 Historical beta is estimated by using information on the returns of a company compared to the stock market as a whole. As the Merged Entity is yet to be listed on the Australian stock exchange, the historical beta for the Merged Entity cannot be obtained directly.

1.11 In order to estimate a beta value applicable to the Merged Entity, Horwath has had regard to the ungeared beta's of companies, which are comparable to the Merged Entity which are categorised as integrated retailers and retailers. A description of these companies is outlined in Appendix 5. Horwath notes that whilst not all of these companies are directly comparable to the Merged Entity, the companies have sufficiently similar activities, operate in the same broad industry and face similar risks to those faced by the Merged Entity.

1.12 Set out below are the levered and ungeared betas of the comparable companies:

Retail Clothing Industry

Company	Domicile	Currency	Code	Adjusted Beta	Gearing	Effective tax rate	Ungeared Beta
Billabong International Limited	Australia	AUD	BBG	0.93	8.30%	30%	0.88
Colorado Group Limited	Australia	AUD	CDO	0.76	2.00%	30%	0.75
Just Group Limited	Australia	AUD	JST	0.87	17.00%	30%	0.78
Brazin Limited	Australia	AUD	BRZ	0.8	8.70%	30%	0.75
Miller's Retail Limited	Australia	AUD	MRL	0.38	25.40%	30%	0.32
Country Road Limited	Australia	AUD	CTY	1.03	7.10%	30%	0.98
OrotonGroup Limited	Australia	AUD	ORL	0.27	10.40%	30%	0.25
Noni B Limited	Australia	AUD	NBL	0.64	0.40%	30%	0.64
						Average	**0.67**
						Median	**0.75**

Source: Bloomberg and KPMG corporate tax rates survey – 2004.

1.13 The beta of a company is primarily influenced by the riskiness of a company's cashflows, its level of gearing and tax position and the extent of the Merged Entity' cyclical or counter cyclical nature. Horwath has had regard to betas without gearing and taxation for the selected comparable companies.

1.14 In selecting an appropriate beta for the Merged Entity, Horwath has considered the following:

(i) the average beta of the comparable companies of 0.67;

(ii) the Merged Entity is not as large nor does it have a diversified income stream compared to the companies detailed in Appendicies 5 and 6; and

(iii) the Merged Entity has yet to trade as an integrated retailer.

1.15 Based on the above, Horwath has selected a beta of between 0.90 and 1.10.

<u>Calculation of cost of equity</u>

1.16 Applying the CAPM formula for the cost of equity and based on the data inputs above, the cost of equity of the Merged Entity is between 10.3 and 11.4% (after tax).

<u>Dividend imputation</u>

1.17 For the purposes of calculating the WACC for the Merged Entity (global change), Horwath has not considered the effect of dividend imputation. This is because in Horwath's opinion, inconclusive evidence exists to support the assertion that dividend imputation has an effect on the cost of equity capital in Australia.

Rd

1.18 In determining a rate of return required for debt financing, Horwath has had regard to:

(i) long term business financing indicator rates disclosed by the major banks and financiers in Australia as published in the Australian Financial Review;

(ii) the assets of the Merged Entity which would be available as collateral for debt financing; and

(iii) the quality and consistency of the Merged Entity's future cashflows.

1.19 Based on the above, Horwath have selected a debt financing rate applicable to the Merged Entity of between 8% and 9% pa (pre-tax).

WACC

1.20 Having calculated the components required in the WACC formula, set out below is a calculation of the Merged Entity's WACC:

WACC	**Low**	**High**
	%	%
Proportion of the Merged Entity funded by equity	50%	50%
Re	10.3%	11.4%
Equity cost proportion of WACC	5.1%	5.7%
Proportion of the Merged Entity funded by debt	50%	50%
Rd (after tax)	5.6%	6.3%
Debt cost proportion of WACC	2.8%	3.2%
WACC	**7.9%**	**8.8%**

1.21 Based on the above, for the purposes of determining a present value for the Deferred Consideration, a discount rate of between 7.9% and 8.8% was used.

APPENDIX 8 SUMMARY PRO FORMA STATEMENT OF FINANCIAL POSITION OF MERGED ENTITY

PRO FORMA BALANCE SHEET AT 1 JULY 2005	Biron	Ed Harry	Physico	Sub total	Notes	Adjustments	Pro Forma
	$'000	$'000	$'000	$'000	1	$'000	$'000
Current Assets							
Cash Assets	3,395	0	0	3,395	2	(1,145)	2,250
Receivables	0	1	6,320	6,321		0	6,321
Inventory	0	7,916	2,028	9,944		0	9,944
Other	0	0	592	592		0	592
	3,395	7,917	8,940	20,252		(1,145)	19,107
Non Current Assets							
Property, Plant and Equipment	17	3,547	1,829	5,393	3	950	6,343
Intangibles	0	0	37	37	4	24,051	24,088
Loans Receivable	0	0	0	0		0	0
Deferred borrowing costs					5	670	670
Other	0	0	128	128		0	128
	17	3,547	1,994	5,558		25,671	31,229
Total Assets	3,412	11,464	10,934	25,810		24,526	50,336
Current Liabilities							
Payables	31	6,451	1,640	8,122		0	8,122
Interest-bearing liability	0	0	5,100	5,100	6	(4,100)	1,000
Provisions	0	413	341	754		0	754
	31	6,864	7,081	13,976		(4,100)	9,876
Non Current Liabilities							
Interest-bearing liability	0	0	48	48	8	7,000	7,048
Deferred Settlement							
- Deferred Consideration	0	0	0	0	9	4,929	4,929
- Vendor Finance	0	0	0	0	10	5,438	5,438
Provisions	0	0	205	205		0	205
Investec Options					7	270	270
	0	0	253	253		17,637	17,890
Total Liabilities	31	6,864	7,334	14,229		13,536	27,765
Net Assets	**3,381**	**4,600**	**3,600**	**11,581**		**10,990**	**22,571**

PRO FORMA BALANCE SHEET AT 1 JULY 2005	Biron	Ed Harry	Physico	Sub total	Notes	Adjustments	Pro Forma
	$'000	$'000	$'000	$'000	1	$'000	$'000
Contributed Equity							
Share Capital-Ordinary	8,583	0	4,025	12,608	11	10,745	23,353
Share Capital-Performance Shares	0	0	0	0	12	4,420	4,420
Accumulated Reserves	(5,202)	0	(425)	(5,627)	13	425	(5,202)
Discount on acquisition	0	4,600	0	4,600	14	(4,600)	0
	3,381	**4,600**	**3,600**	**11,581**		**10,990**	**22,571**
Number of shares	9,560,837						39,894,170
Net assets per share (cents)	35.4						56.6
Net tangible assets per share	35.4						(3.8)
Gearing							
- Interest-bearing Debt: Total assets	0.0%						16.0%
- Interest-bearing Debt: Total tangible assets	0.0%						30.7%

Notes to the Proforma balance sheet

Note 1 Basis of Preparation of the Proforma Balance Sheet

The Proforma balance sheet represents the aggregation and consolidation of the assets and liabilities of Biron and Physico as well as the acquisition of the Ed Harry business. In preparing the Proforma balance sheet, regard has been had to the required level of net assets to be given to Biron on Completion Date.

In preparing the Proforma balance sheet, regard has been had to AASB 3 *Business Combinations*, being the Australian version of the International Financial Reporting Standard ("**IFRS**") number 3 *Business Combinations*, under which consideration is to be given as to whether or not there has been a "reverse takeover", in this case by the Physico Vendors. Horwath has been advised that in the opinion of the Biron directors, control of Biron is achieved by Physico Vendors, only after the Physico Vendors complete the Physico Subscription -in other words, the payment of cash for the issue of the Biron Shares - and accordingly, the provisions of the Business Combinations standard do not apply. Alternatively, should the Business Combinations standard in fact apply, there would be an immaterial adjustment to the goodwill on consolidation, arising from the acquisition of Physico.

Note 2 - Cash	**$'000**
Subtotal per the Proforma Balance Sheet	3,395
Adjustments	
Proceeds from the Investec Facility	8,000
Payment to EH Vendor	(9,000)
Proceeds from Public capital raising	4,000
Proceeds from Physico Subscription	5,000
Repayment of underwriting fees	(1,430)
Repayment of Physico shareholders loan and external loans	(5,100)
Special Capex	(950)
Transaction Costs – stamp duty and legal	(1,665)
Balance, as per the Proforma balance sheet	**2,250**

Note 3 – Property Plant & Equipment	
Subtotal per the Proforma Balance Sheet	5,393
Special Capex	950
Balance, as per the Proforma balance sheet	**6,343**

Note 4 Intangibles	
Subtotal per the Proforma Balance Sheet	**37**
Goodwill on acquisition of the Ed Harry Business [refer note 15)]	18,066
Goodwill on acquisition of Physico [refer note 15)]	3,120
Investec Fees,	1,200
Transaction Costs	1,665
Balance, as per the Proforma balance sheet	**24,088**

Note 5 Deferred Borrowing costs	
Subtotal per the Proforma Balance Sheet	-
Investec Options	270
Investec Facility	400
Balance, as per the Proforma balance sheet	**670**

Note 6 – Current interest-bearing liability

Subtotal per the Proforma Balance Sheet	5,100
Investec Facility – current portion	1,000
Repayment of Physico shareholders loan and external loans	(5,100)
Balance, as per the Proforma balance sheet	1,000

Note 7–Investec Options

Subtotal per the Proforma Balance Sheet	-
Value of Investec Options – refer to paragraph 17.26	270
Balance, as per the Proforma balance sheet	**270**

Note 8 Interest bearing liability – non current portion

Subtotal per the Proforma Balance Sheet	48
Investec Facility	7,000
Balance, as per the Proforma balance sheet	**7,048**

Note 9- Deferred Consideration

Subtotal per the Proforma Balance Sheet	-
Deferred Consideration, arising from the purchase of the Ed Harry business	4,929
Balance, as per the Proforma balance sheet	**4,929**

Note 10 Vendor Finance

Subtotal per the Proforma Balance Sheet	-
Vendor Finance arising from the purchase of the Ed Harry business	5,438
Balance, as per the Proforma balance sheet	**5,438**

Note 11 Share capital –ordinary

Subtotal per the Proforma Balance Sheet	12,608
Proceeds from Public capital raising	4,000
Proceeds from Physico Subscription	5,000
Transaction Costs – capital raising	(1,030)
Transaction Shares	1,200
Elimination of Physico's share capital	(4,025)
Physico Consideration	3,600
Consideration Shares	2,000
Balance, as per the Proforma balance sheet	**23,353**

Note 12 Performance Shares

Subtotal per the Proforma Balance Sheet	-
EH Performance Shares	1,300
Physico Performance Shares	3,120
Balance, as per the Proforma balance sheet	**4,420**

Note 13 Accumulates losses

Subtotal per the Proforma Balance Sheet	(5,627)
Elimination of Physico's pre acquisition profits	(425)
Balance, as per the Proforma balance sheet	**(5,202)**

Note 14 Discount on acquisition

Subtotal per the Proforma Balance Sheet	4,600
Adjustment to goodwill on acquisition of the ED Harry Business	(4,600)
Balance, as per the Proforma balance sheet	-

Note 15 Fair value calculation	**Ed Harry**	**Physico**
Pay	$'000	$'000
Cash	9,000	0
Deferred Consideration	4,928	0
Vendor Finance	5,438	0
Share Capital-Ordinary	2,000	3,600
Share Capital-Performance Shares	1,300	3,120
	22,666	6,720
Less: net assets acquired	4,600	3,600
Intangibles	18,066	3,120
Number of Biron Shares to be issued	3,333,333	6,000,000
Assessed value of Biron Shares (adopted) ($)	0.60	0.60
	2,000,000	3,600,000

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