Wesfarmers

OWNERSHIP - SIMPLIFICATION PLAN -

Explanatory Memorandum

Your directors unanimously recommend that you vote in favour of all resolutions

Wesfarmers Limited
ABN 28 008 984 049

Please complete the enclosed proxy form and return it as soon as possible in the reply paid envelope provided before 10.00 am Wednesday, 4 April 2001.

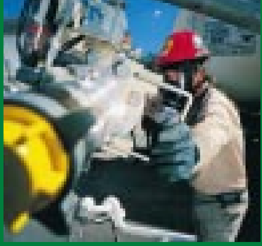
This explanatory memorandum is dated 28 February 2001

The meeting of Wesfarmers shareholders will be held on Friday, 6 April 2001 at 10.00 am, Burswood Theatre, Burswood International Resort, Great Eastern Highway, Burswood, Western Australia.

a simplified ownership structure that will benefit all Wesfarmers shareholders

On 13 February 2001, a proposal to simplify the complex Wesfarmers ownership structure was announced which, upon completion, will result in The Franked Income Fund unitholders and optionholders and Westralian Farmers Co-operative Limited stockholders becoming direct shareholders in Wesfarmers. The directors of Wesfarmers unanimously recommend that you support the implementation of the simplification proposal by voting in favour of all resolutions.

HARRY PERKINS AO, CHAIRMAN, WESFARMERS LIMITED







28 February, 2001

Dear Wesfarmers Shareholder

Simplification of Wesfarmers ownership structure

On 13 February 2001, a proposal to simplify the complex Wesfarmers ownership structure was announced which, upon completion, will result in The Franked Income Fund unitholders and optionholders and Westralian Farmers Co-operative Limited stockholders becoming direct shareholders in Wesfarmers.

The simplification proposal represents the completion of the transition that commenced in 1984 from a farmers' co-operative to a more typically structured Australian publicly listed company. The proposal, if implemented, will simplify the complex Wesfarmers group ownership structure which includes Westralian Farmers Co-operative Limited and The Franked Income Fund. The simplification proposal has been developed to provide both value and simplicity for all stakeholders and is supported by the boards of all the entities involved. It should also assist the Wesfarmers group to achieve a structure which is consistent with characteristics currently favoured in stock markets generally.

The simplification proposal will not change the business operations of the Wesfarmers group. It is a simplification of the Wesfarmers ownership structure only.

The proposal requires the approval of Wesfarmers shareholders and a meeting has been called for Friday 6 April 2001.

The directors of Wesfarmers unanimously recommend that you support the implementation of the simplification proposal by voting in favour of all resolutions. Some of the directors have interests in the resolutions. Details of these interests are set out in section 7.3 of the explanatory memorandum. All of the directors of Wesfarmers intend to vote in favour of all resolutions for all shares under their control, to the extent they are entitled to vote.

The directors have engaged Ernst & Young Corporate Finance Pty Limited to advise shareholders in relation to the simplification proposal. They conclude that the simplification proposal is in the best interests of Wesfarmers shareholders and that the proposed acquisition of Gresham Partners Management Limited, in the context of the simplification proposal, is fair and reasonable to Wesfarmers shareholders. A copy of their report is attached as annexure A to the explanatory memorandum.

If you cannot attend the meeting, please complete and return the enclosed personalised green proxy form in the reply paid envelope as soon as possible.

Full particulars of the proposed resolutions and explanatory notes relating to the resolutions and the simplification proposal generally are included in the explanatory memorandum and the accompanying notice of meeting.

If you would like to enquire about any aspect of the information contained in this document, please call our Information Line on 1800 890 089, visit our website at www.wesfarmers.com.au or seek advice from your investment adviser or other professional adviser.

Yours sincerely

Harry Perkins

Harry Perkins AO
Chairman of Directors

On full implementation of the simplification proposal, Wesfarmers will have an ownership structure more typical of the majority of Australian listed companies. This simplified structure is likely to make Wesfarmers a more attractive investment.

Key issues for Wesfarmers shareholders

Simplified ownership structure for Wesfarmers

On full implementation of the simplification proposal, Wesfarmers will have an ownership structure more typical of the majority of Australian listed companies. This simplified structure is likely to make Wesfarmers a more attractive investment.

Improved liquidity

The simplification proposal will result in more Wesfarmers shares being freely tradeable and Wesfarmers having a more diverse and larger shareholder base. Again, this is expected to make Wesfarmers a more attractive investment.

No dilution to existing holdings

Under the proposal, Wesfarmers proposes to buy-back and cancel slightly more shares than it issues to The Franked Income Fund unitholders and optionholders and Westralian Farmers Co-operative Limited stockholders. If fully implemented the proposal will not result in any dilution of existing shareholders' interests.

No impact on operations

The simplification proposal will not change the business operations of the Wesfarmers group. It is a simplification of the Wesfarmers ownership structure only.

No material impact on earnings per share

As there is no change to business operations and no material change to the number of shares on issue as a result of the simplification proposal, the impact on Wesfarmers' earnings per share is neutral.

The simplification proposal involves giving a financial benefit to a related party

As part of the proposal, Gresham Partners Management Limited, the responsible entity of The Franked Income Fund, is to be acquired by Wesfarmers in return for Wesfarmers shares. The Gresham Group will receive a financial benefit from the acquisition of Gresham Partners Management Limited. Mr JP Graham, a director of Wesfarmers, has an indirect beneficial interest in Gresham Partners Management Limited through his interest in the Gresham Group and, as such, may be considered to receive a financial benefit from the acquisition of Gresham Partners Management Limited.

Wesfarmers interim dividend

The simplification proposal will not affect the interim dividend of 27 cents per Wesfarmers share which is payable on 20 April 2001.

All of the resolutions are important for implementing the simplification proposal

If the simplification proposal and Gresham Partners Management Limited acquisition resolutions are not passed, the simplification proposal will not proceed. The proposal may proceed if the buy-back resolution is not passed.

Simplification proposal is conditional

Full implementation of the simplification proposal is subject to a number of other conditions including the approval of The Franked Income Fund unitholders and optionholders and Westralian Farmers Co-operative Limited stockholders at meetings scheduled for 6 April 2001.

Above is a very brief summary of the main features of the simplification proposal. Wesfarmers shareholders are urged to read this explanatory memorandum in full. The explanatory memorandum explains that if all aspects of the proposal are not implemented, some of the anticipated benefits may not be achieved.

Your vote is important. You should complete the personalised green proxy form that accompanies this document and return it in the reply paid envelope provided so as to be received before 10.00 am (Perth time) on Wednesday, 4 April 2001, whether or not you propose to attend the shareholder meeting.

Summary of resolutions*

Resolution 1 (simplification proposal resolution):

To approve the simplification proposal described in section 2 including the issue of Wesfarmers shares to The Franked Income Fund unitholders and optionholders, Westralian Farmers Co-operative Limited stockholders and Gresham Partners Holdings Limited.

Resolution 2 (GPML acquisition resolution):

To approve Wesfarmers giving a financial benefit to a related party by the issue of 1,107,420 Wesfarmers shares to Gresham Partners Holdings Limited for the acquisition of Gresham Partners Management Limited, on the terms described in section 5.

Resolution 3 (buy-back resolution):

To approve Wesfarmers to buy-back Wesfarmers shares it controls after the implementation of the simplification proposal. (See section 6 for details)

* Please see accompanying notice of meeting for full text of resolutions.

What you should do

Step 1

Read the notice of meeting and this explanatory memorandum

This explanatory memorandum sets out the Wesfarmers simplification proposal for shareholders. This information is important. You should read this document carefully and if necessary seek your own independent advice on any aspects about which you are not certain.

Step 2

Vote on the resolutions

Your vote is important. The Wesfarmers shareholders meeting is scheduled for 10.00 am (Perth time) on Friday, 6 April 2001. You should complete the personalised green proxy form that accompanies this document and return it in the reply paid envelope provided so as to be received before 10.00 am (Perth time) on Wednesday, 4 April 2001, whether or not you propose to attend.

For details on how to complete and lodge the personalised green proxy form please refer to the instructions on the proxy form.

The directors recommend you vote "FOR" each of the resolutions by completing the enclosed proxy form or attending the meeting. Some of the directors have interests in the resolutions. Details of these interests are set out in section 7.3.

Questions

If you have any questions about any matter contained in the notice of meeting and explanatory memorandum, please contact the Information Line on 1800 890 089. Information on the simplification proposal will also be available on the Wesfarmers website at www.wesfarmers.com.au.

Key dates

Information meetings in WA country centres	**14-16 March 2001**
Last date for acceptance of proxies	**10.00 am (Perth time) on Wednesday, 4 April 2001**
Record date for voting entitlement	**5.00 pm (Perth time) on Wednesday, 4 April 2001**
Shareholders meeting	**10.00 am (Perth time) on Friday, 6 April 2001**
Deferred delivery trading in newly issued Wesfarmers shares commences *	**Opening of trading on 19 April 2001**
Interim dividend paid to shareholders	**20 April 2001**

* THIS DATE IS INDICATIVE ONLY AND MAY CHANGE.

Last day for acceptance of proxies is Wednesday 4 April 2001 (10.00 am Perth time)

Contents

1	Overview	10
2	Details of the simplification proposal	15
3	Impact of the simplification proposal on Wesfarmers	26
4	Independent Accountant's Report	28
5	GPML acquisition	36
6	Buy-back	39
7	Additional information	42
8	Glossary	47
Annexure A	Expert's Report	48
	Corporate directory	76
Enclosures	Notice of meeting Proxy form	

1

Overview

1.1 Overview of simplification proposal

In essence, the proposed simplification of the Wesfarmers ownership structure involves the exchange of The Franked Income Fund (**FIF**) units and options, Westralian Farmers Co-operative Limited (**WFCL**) stock units and the acquisition of Gresham Partners Management Limited (**GPML**) in return for Wesfarmers shares. Wesfarmers will then own FIF and WFCL. The Wesfarmers shares held directly and indirectly by FIF and WFCL are then proposed to be bought back and cancelled by Wesfarmers.

The key entities involved in the simplification proposal are Wesfarmers, FIF and WFCL.

WFCL was formed as a rural co-operative in 1914. It has about 15,000 stockholders and its assets consist almost entirely of a prescribed preferential interest in WFCL Investments which holds Wesfarmers shares. WFCL established Wesfarmers and FIF in 1984 and 1988 respectively to overcome the inherent limitations in the co-operative structure. WFCL Investments now has an interest in approximately 46 per cent of the issued Wesfarmers shares.

FIF is a major Australian publicly listed entity with about 30,000 unitholders and about 25,000 optionholders. FIF's assets consist almost entirely of investments, directly and indirectly (through WFCL Investments), in Wesfarmers. The responsible entity of FIF is GPML. Wesfarmers has a 45 per cent indirect ownership interest in GPML.

The FIF structure, established in 1988, has served its original purposes well, but it is no longer considered to be value maximizing. In addition, as a result of changes to Australia's taxation laws and developments in share markets generally, the opportunity to simplify the ownership structure of Wesfarmers and release value has arisen.

The consideration payable under the simplification proposal is as follows:

Component	**Consideration**	**No. of Wesfarmers shares (000)**
Acquisition of FIF units	one Wesfarmers share for every 2.4851 FIF units	120,877
Acquisition of FIF options	one Wesfarmers share for every 10.5614 FIF options	2,751
Acquisition of WFCL stock units	one Wesfarmers share for every 6.4500 WFCL $2.00 stock units (being $12.90 of WFCL stock)	9,413
Acquisition of GPML	1,107,420 Wesfarmers shares	1,107
Total Wesfarmers shares being issued		**134,148**
Wesfarmers shares proposed to be bought back and cancelled		**136,031**

The implementation of the simplification proposal requires the approval of stakeholders in FIF, WFCL and Wesfarmers, as well as the satisfaction of a number of other conditions.

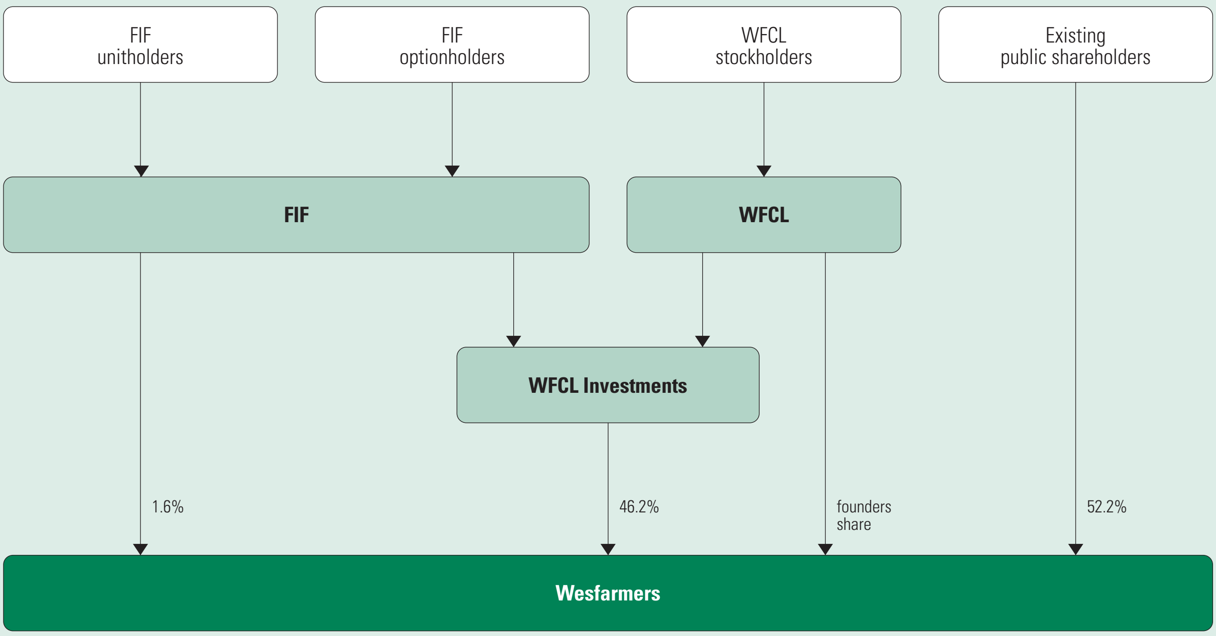
Wesfarmers believes that a partial implementation of the simplification in certain circumstances would still provide significant benefits to Wesfarmers shareholders and so should be pursued even if the simplification proposal cannot be implemented in full. Accordingly, it is possible that some but not all of the simplification proposal will be implemented. An explanation of the possible outcomes in these circumstances is contained in section 2.5. No part of the simplification proposal will proceed if the approvals required from Wesfarmers shareholders under the simplification proposal and GPML acquisition resolutions are not obtained.

As part of the simplification proposal, GPML, the responsible entity of FIF, is to be acquired in return for Wesfarmers shares. The Gresham Group will receive a financial benefit from the sale of GPML to Wesfarmers. Mr JP Graham, a director of Wesfarmers, has an indirect beneficial interest in GPML through his interest in the Gresham Group and, as such, may be considered to receive a financial benefit from the acquisition of GPML by Wesfarmers. Details of the acquisition of GPML are contained in section 5.

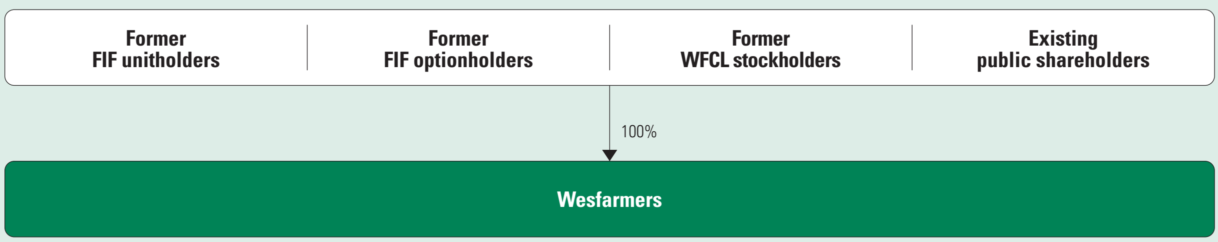
As a result of the acquisition of FIF and WFCL, Wesfarmers will obtain control over approximately 136 million shares in itself. These shares are proposed to be eliminated under a buy-back which requires the approval of Wesfarmers shareholders. Details of the proposed buy-back are contained in section 6.

The impact of the simplification proposal on the Wesfarmers ownership structure is shown in the diagram below.

Current Structure



New Structure



1.2 Requirement for Wesfarmers shareholder approval

The approvals sought from Wesfarmers shareholders effectively give them the ability to approve the simplification proposal as a whole. The technical requirements for the meeting are as follows:

(a) Approval is sought for the simplification proposal, including the issue of Wesfarmers shares to FIF unitholders and optionholders, WFCL stockholders and Gresham Partners Holdings Limited (**GPHL**). The ASX has granted certain waivers to Wesfarmers (described in section 7.4) on the understanding that Wesfarmers shareholders are given the opportunity to approve the simplification proposal. Details in relation to the simplification proposal are contained in sections 2 and 3 of this explanatory memorandum.

(b) Approval for the acquisition of GPML, the responsible entity of FIF, by Wesfarmers is sought because the acquisition involves the issue of Wesfarmers shares to GPHL and may, therefore, be considered to result in a related party of Wesfarmers receiving a financial benefit. Details in relation to the GPML acquisition and the interests of related parties are contained in section 5 of this explanatory memorandum.

(c) Approval is sought for the buy-back of Wesfarmers shares which will be controlled by Wesfarmers following the acquisition of FIF units and options and WFCL stock units. The Corporations Law requires a company which acquires control over its own shares to dispose of those shares or cease to control the entity which holds those shares within 12 months (or such longer period permitted by ASIC). The buy-back is being implemented for this purpose and will be a selective buy-back under the Corporations Law. The simplification proposal will still be implemented even if the buy-back resolution is not approved. Details in relation to the buy-back are contained in section 6 of this explanatory memorandum.

1.3 Wesfarmers directors' recommendation

All of the directors of Wesfarmers are in favour of the simplification proposal and recommend that you vote in favour of all resolutions as they believe them to be in the best interests of shareholders. Some of the directors have interests in the simplification proposal by virtue of their relationship with and security holdings in FIF, WFCL, GPML and WFCL Investments. These interests are set out in section 7.3.

1.4 Implications of the simplification proposal for Wesfarmers shareholders

In reaching the conclusion to recommend the simplification proposal, the directors considered the potential benefits for Wesfarmers shareholders, the potential arguments against the simplification proposal and a number of other relevant transactional issues. The directors consider that the benefits of the proposal outweigh the arguments against it.

An overview of the matters considered is set out below.

Simplified structure for Wesfarmers

The simplification of the Wesfarmers ownership structure is an important element in maintaining widespread investment interest in Wesfarmers shares and facilitating enhanced investor understanding of Wesfarmers.

The current ownership structure of Wesfarmers is complicated by the holding of approximately 46 per cent of the issued Wesfarmers shares by WFCL Investments (which is controlled by WFCL) and the special voting power afforded to WFCL through holding the founders share in Wesfarmers which gives it the ability to exercise a majority of votes in certain circumstances. Implementation of the simplification proposal and the subsequent buy-back effectively unwinds these structures, removing WFCL Investments' control of Wesfarmers and giving Wesfarmers an ownership structure which is more typical of the majority of Australian publicly listed companies.

Improved liquidity

In addition, upon implementation of the simplification proposal, Wesfarmers will have a larger and more diverse shareholder base which is expected to improve the liquidity of Wesfarmers shares and attract increased institutional investment. All FIF unitholders and optionholders and all WFCL stockholders will receive shares in Wesfarmers under the simplification proposal. A slightly greater number of shares than those issued under the simplification proposal are proposed to be bought back, including the holdings of WFCL Investments, which are not treated as freely tradeable shares by the markets. Assuming the simplification proposal is fully implemented, this will increase the number of Wesfarmers shares which are freely tradeable from about 152 million (WFCL Investments' 131 million shares are not treated as freely tradeable) to approximately 281 million and should increase the number of Wesfarmers shareholders from about 41,000 to over 60,000.

In addition, an increase in liquidity and an increase of the "free float", or the number of freely tradeable Wesfarmers shares, is expected to assist Wesfarmers to retain or improve its investability weighting factors in key indices, such as the ASX 100 Index and the MSCI Australia Index.

No dilution of existing holdings

The simplification proposal is a restructure and, if fully implemented, will not dilute the holdings of existing public shareholders in Wesfarmers as the net number of shares on issue after the buy-back will not exceed the current Wesfarmers issued capital. Some dilution of voting rights may occur if the simplification proposal is not fully implemented.

No impact on business operations

The proposed simplification will not change the business operations of the Wesfarmers group and is expected to be neutral to Wesfarmers' earnings per share.

A minor change to the income from investments of the Wesfarmers group will occur as a result of the unwinding of the FIF structure as part of the simplification proposal. As a shareholder in the Gresham Group, Wesfarmers currently has an indirect beneficial interest in a portion of the remuneration paid to GPML, the responsible entity of FIF, which will no longer be received by the Wesfarmers group.

Administrative and management cost savings

The establishment of Wesfarmers as the only listed and publicly owned entity in the ownership structure is expected to bring administrative and management savings by reducing or removing costs associated with WFCL and FIF.

The simplification proposal involves giving a financial benefit to a related party

As part of the simplification proposal, GPML, the responsible entity of FIF, is to be acquired in return for 1,107,420 Wesfarmers shares. The acquisition of GPML is a condition of the simplification proposal and reflects GPML's interests in FIF through holding the trustee unit and its management rights. This acquisition is important in facilitating capital gains tax rollover relief for FIF unitholders under the proposal. The Gresham Group will receive a financial benefit from the acquisition of GPML but, as a result, would lose its ongoing management remuneration. Mr JP Graham, a director of Wesfarmers, has an indirect beneficial interest in GPML through his interest in the Gresham Group and, as such, may be considered to receive a financial benefit from the acquisition of GPML.

The directors have engaged Ernst & Young Corporate Finance Pty Ltd to advise shareholders in relation to the terms of the acquisition by Wesfarmers of GPML, which results in the financial benefit being received by Mr JP Graham. A copy of the report is attached as annexure A. The report concludes that the acquisition of GPML in the context of the simplification proposal is fair and reasonable to Wesfarmers shareholders.

Conditions to the simplification proposal

There are a number of approvals and consents which are required for the implementation of the simplification proposal and it is anticipated that they will be obtained, subject to the over-riding requirement for the approval of the Wesfarmers shareholders.

While it is not anticipated, it is possible that the acquisition of GPML and FIF units and options could be completed without the acquisition of WFCL by Wesfarmers. It is also possible that the acquisition of FIF units may proceed even if the acquisition of FIF options has not been completed. The implications of these outcomes are described more fully in section 2.5.

If the simplification proposal does not proceed

If the simplification proposal does not proceed, the existing shareholding structure of Wesfarmers will be retained. FIF will remain listed on the ASX as a separate registered managed investment scheme and the proposed transfer of units and options will not occur. GPML will remain as the responsible entity of FIF and GPML will not be acquired by Wesfarmers. WFCL will remain in its current form and Wesfarmers will continue as a controlled entity of WFCL.

The development of the simplification proposal has required substantial legal, taxation and commercial input from third parties and the implementation of the simplification proposal will incur transaction costs such as stamp duty. In the event of the proposal not proceeding, the major transaction costs (relating to stamp duty and tax) will not be payable, but certain costs in pursuing the proposal will have been incurred. As the proponent of the simplification proposal, Wesfarmers is responsible for meeting the costs of all parties involved, including FIF, GPML and WFCL. These once-off costs will be expensed in the profit and loss of the Wesfarmers group in the year that the proposal is completed.

1.5 Voting exclusions

The following voting exclusions apply to the proposed resolutions:

- **Resolution 1 - simplification proposal resolution:** FIF, WFCL, WFCL Investments, GPML, GPGL, GPHL, any related party of Wesfarmers and any associate of those persons cannot vote on resolution 1 and any votes purported to be cast by them will be disregarded.
- **Resolution 2 - GPML acquisition resolution:** GPHL, Mr JP Graham and any of their respective associates cannot vote on resolution 2 and any votes purported to be cast by them will be disregarded.
- **Resolution 3 - buy-back resolution:** To the extent that they hold Wesfarmers shares, WFCL Investments, WSML (as the new responsible entity of FIF and holder of FIF's Wesfarmers shares and in its own capacity), WFCL and DPCL and any of their respective associates cannot vote on resolution 3 and any votes purported to be cast by them will be disregarded.

The above exclusions do not prevent the casting of a vote by one of these persons if it is cast as a proxy appointed in writing that specifies how the proxy is to vote on the proposed resolution and it is not cast on behalf of one of those persons.

2

Details of the simplification proposal

2.1 The Wesfarmers shareholding structure

WFCL, the predecessor to Wesfarmers, was incorporated in 1914 under the Companies Act 1893 and registered in 1946 under the Co-ops Act. It was initially involved in the provision of rural services in Western Australia but commencing in the 1950s, the company progressively diversified its operations to include industrial activities.

As a result of the inherent limitations of the co-operative structure, particularly the limitations on distributions to stockholders, the differential between the underlying capital value of WFCL's business compared to the value of stock in WFCL and the illiquidity of WFCL stock, Wesfarmers was established in 1984 to hold the operating assets of the Wesfarmers group. Wesfarmers was listed on the ASX with WFCL retaining a controlling 60 per cent interest at that time, with the balance of shares issued to WFCL stockholders.

Because of the continuing growth of the Wesfarmers group and the limitations on the distribution of dividends and restriction on the ability of stockholders to receive increased capital value imposed on WFCL as a co-operative, a further restructure was implemented in 1988.

Under the 1988 restructure, FIF was created by interposing WFCL Investments between WFCL and Wesfarmers. WFCL stockholders were then issued units in FIF on a pro rata basis. FIF was listed in 1988. Under the current structure:

- WFCL Investments' assets comprise a holding of about 46 per cent of Wesfarmers.
- WFCL Investments receives and distributes the dividends received from Wesfarmers. WFCL receives a prescribed, preferential component of the dividend in accordance with a formula in the constitution of WFCL Investments and the excess is distributed to FIF. For example, in relation to the last full financial year ended 30 June 2000, WFCL was entitled to less than 8 per cent of the income of WFCL Investments.
- Other than in certain limited circumstances, which have not arisen, WFCL is entitled to all of the voting shares in WFCL Investments and so controls WFCL Investments' 46 per cent shareholding in Wesfarmers. WFCL also holds the founders share in Wesfarmers which gives it special voting power in certain circumstances. WFCL is the ultimate holding company of Wesfarmers.
- FIF is a listed managed investment scheme. Its investment focus has been entirely on the Wesfarmers group. As such, the financial performance of FIF is dependent on the performance and dividend policy of Wesfarmers from time to time. As FIF presently has no voting control in relation to WFCL Investments' shareholding in Wesfarmers, FIF has no power to direct the Wesfarmers dividend policy or the appointment of directors to the Wesfarmers board.

- FIF is managed by the responsible entity, GPML. GPML receives distributions on the trustee unit it holds in FIF. The trustee unit has special preferential distribution rights. Wesfarmers has a 45 per cent beneficial interest in GPML.
- WFCL is unlisted and therefore stockholders in WFCL have limited liquidity. WFCL has established a facility under which it offers holders of WFCL stock units the opportunity to sell those stock units to its subsidiary, Dairy Properties Co-operative Limited (**DPCL**), for $2.00 per stock unit. DPCL currently holds about seven per cent of the issued WFCL stock units.

2.2 Commercial rationale for the simplification proposal

As a result of changes to Australia's taxation laws and developments in share markets generally, the opportunity to simplify the ownership structure of Wesfarmers and to release value for all stakeholders in FIF and WFCL has arisen. In particular:

- The simplification proposal is the logical completion of the transition of Wesfarmers from its co-operative beginnings to a dynamic and successful major Australian public company.
- WFCL conducts no trading business for its stockholders.
- Units in FIF generally trade at a significantly lower price to the underlying value represented by FIF's direct and indirect shareholding in Wesfarmers. The differential in value relates in part to the complexity of the structure through which the indirect shareholding is held, and the control that rests with WFCL.
- The complexity of the current ownership structure is not well understood by domestic and international investors.
- The holding by WFCL Investments of approximately 46 per cent of Wesfarmers' issued capital significantly reduces the free float of Wesfarmers shares. On an average day the number and value of Wesfarmers shares traded on the ASX is very low compared to Australian companies in similar market segments and of similar market capitalisation.
- The increase in capital value and dividend payments of Wesfarmers since establishment of FIF in 1988 has been significant and thereby reduced the impact of the leverage provided by an investment in FIF as compared with a direct investment in Wesfarmers.

2.3 Overview of steps in the simplification proposal

In broad terms, the simplification of the ownership structure is proposed to be achieved by:

(a) Wesfarmers acquiring all of the issued units and options in FIF by:

- unitholders disposing of their units under a compulsory transfer authorised by FIF unitholders and optionholders in return for shares in WSML (a wholly owned subsidiary of Wesfarmers) which will be exchanged for Wesfarmers shares under a compulsory exchange provision in the WSML constitution;
- optionholders disposing of their options under a compulsory transfer authorised by FIF unitholders and optionholders in return for shares in Wesfarmers; and
- the appointment of WSML as the new responsible entity of FIF and the transfer of the trustee unit in FIF to WSML in exchange for a WSML manager share issued to GPML and the acquisition of GPML by Wesfarmers.

(b) Wesfarmers acquiring all of the issued stock in WFCL in exchange for shares in Wesfarmers under a court approved scheme of arrangement under the Co-ops Act.

(c) Wesfarmers buying back any Wesfarmers shares held by WFCL, WFCL Investments, DPCL and FIF at a time when those entities will be wholly owned by Wesfarmers.

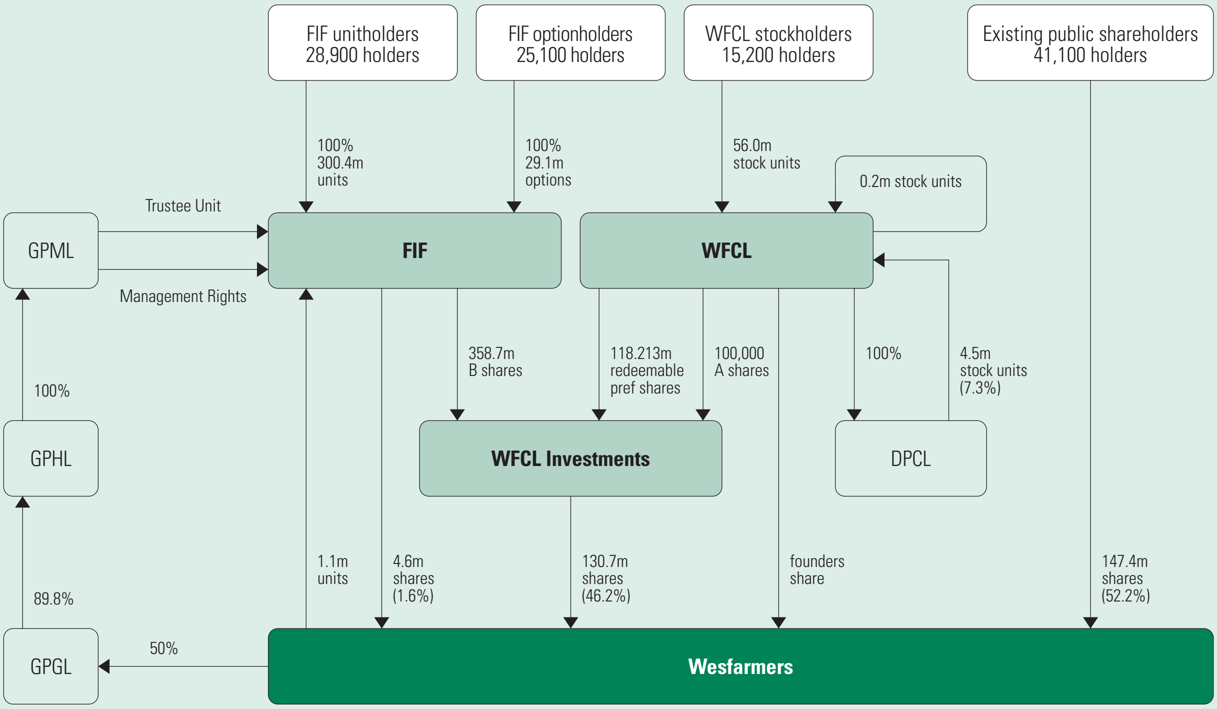
The key steps involved in the simplification proposal are described in more detail below.

Each step is subject to a number of conditions designed essentially to:

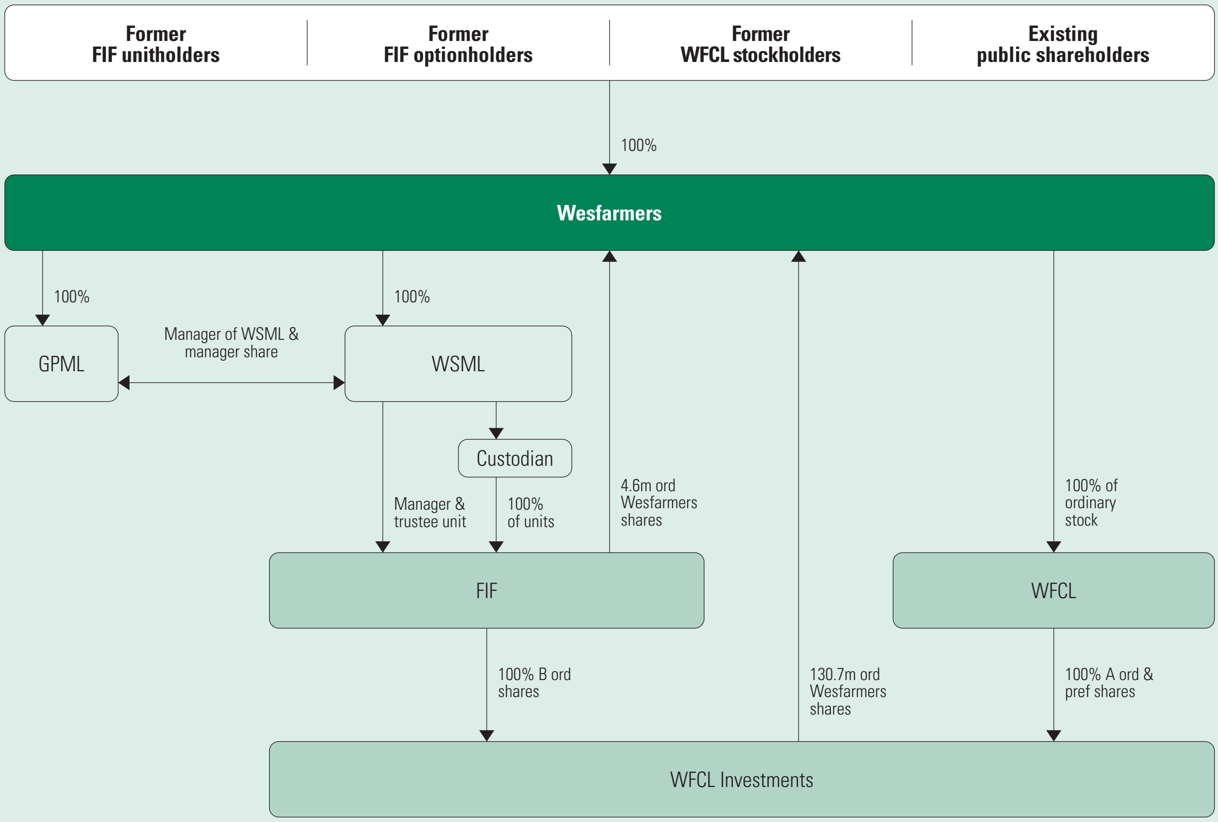
- comply with statutory procedures and approval requirements; and
- ensure that capital gains tax rollover relief is available for unitholders of FIF and stockholders of WFCL who receive Wesfarmers shares under the simplification proposal. Capital gains tax rollover relief is not available to FIF optionholders.

The diagrams below shows the structural impact of the simplification proposal on the Wesfarmers ownership structure:

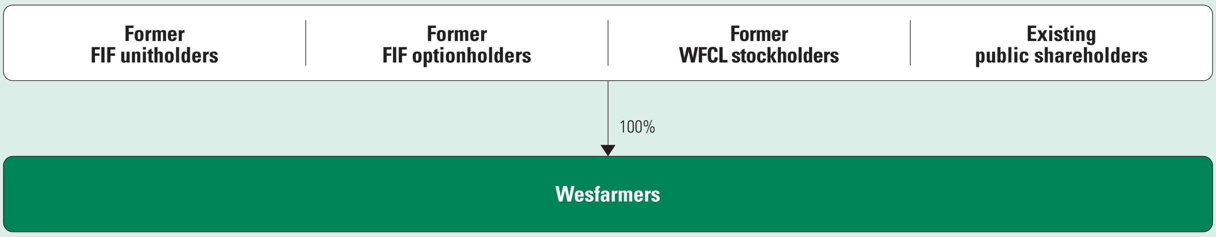
Existing structure



Structure after acquisition of FIF and WFCL



Simplified structure after buy-back



2.4 Explanation of the steps in the simplification proposal

(a) Acquisition of FIF

Treatment of FIF Units

Method of acquisition

The acquisition of FIF units in return for Wesfarmers shares will be implemented through a two stage process: first the exchange of units for an equivalent number of shares in WSML, followed by the exchange of those WSML shares for Wesfarmers shares. The first stage will require the amendment of the FIF constitution to insert a provision to allow for the transfer of all units under the proposal as it relates to FIF **(FIF Proposal)**, an approval by FIF unitholders and optionholders authorising implementation of the FIF Proposal and the appointment of WSML as the new responsible entity of FIF.

Following an opportunity for FIF unitholders and optionholders to object, all FIF units will then be transferred to a custodian to be held on behalf of WSML. The responsible entity will, as agent and attorney for all unitholders, transfer the units to WSML and bind unitholders to comply with the terms of issue of the WSML shares received as consideration.

The next stage is the exchange of WSML shares for new Wesfarmers shares. This is achieved under provisions in the FIF Implementation Deed and WSML constitution which provide for Wesfarmers to exchange WSML shares for Wesfarmers shares. The process will occur after the issue of the WSML shares and the acquisition of the trustee unit by WSML. Under the WSML constitution, shareholders agree to comply with the terms of issue of the Wesfarmers shares.

Price

Each FIF unit will be acquired for the issue of one fully paid share in WSML, which in turn will be exchanged for Wesfarmers shares. Ultimately, unitholders will receive one Wesfarmers share for every 2.4851 FIF units held on the record date for implementation of the FIF Proposal. An entitlement to a fraction of a Wesfarmers share held by a former unitholder will be rounded to the nearest whole number of Wesfarmers shares, unless that unitholder would not receive any Wesfarmers shares for its units, in which case the unitholder will receive one Wesfarmers share. WSML has reserved the right to aggregate holdings in circumstances where it believes holdings have been split to create fractional entitlements and thereby increase entitlements to Wesfarmers shares.

Members meetings

A combined meeting of both unitholders and optionholders of FIF has been convened for 6 April 2001 to consider and, if thought fit, pass the resolutions necessary for implementation of the FIF Proposal. The resolutions relate to the changes to the FIF constitution required to enable the compulsory transfer of all units and options, approving the FIF Proposal and thereby empowering the responsible entity to transfer all units and options, and appointing WSML as the new responsible entity of FIF.

In addition, a separate meeting of optionholders will be held to approve by ordinary resolution the implementation of the FIF Proposal as it relates to optionholders.

The information sent to FIF unitholders and optionholders contains an independent expert's report from Grant Samuel & Associates Pty Limited which concludes that the FIF Proposal is fair and reasonable and in the best interests of both unitholders and optionholders.

GPML has recommended that FIF unitholders and optionholders vote in favour of all resolutions at the FIF unitholders and optionholders meetings and has indicated that to the extent it is entitled to vote its units and options at the meetings it intends to vote in favour of all resolutions. The interests of the directors of GPML in the FIF Proposal are described in section 7.3.

Conditions

Once the necessary FIF unitholder and optionholder approvals relating to the unit acquisitions are obtained, the acquisition of the FIF units is conditional upon (in summary):

- Wesfarmers shareholders approving the simplification proposal including the issue of new Wesfarmers shares to FIF unitholders, FIF optionholders and GPHL (as consideration for the acquisition of GPML) under the FIF Proposal;
- Wesfarmers shareholders approving the GPML acquisition;
- GPML, Wesfarmers and WSML obtaining, in relation to the FIF Proposal, all waivers or approvals required from regulatory authorities or third parties;
- the parties not terminating the FIF Implementation Deed;
- no material adverse change occurring, in relation to the assets and liabilities, financial position and performance, profits and losses or prospects of FIF or this condition being waived by Wesfarmers; and
- approval of optionholders to the acquisition of FIF options and no event occurring which is likely to delay acquisition of options, or this condition being waived by WSML.

Wesfarmers and WSML intend to proceed with, and will implement, the acquisition of units even if the WFCL Scheme is not implemented and so the acquisition of FIF units is not conditional on the implementation of the WFCL Scheme. The acquisition of units is conditional on the acquisition of options but that condition may be waived by WSML. Therefore the acquisition of units may proceed without options being acquired in the manner proposed or at all.

Tax implications

In general, provided WSML acquires all of the units in FIF and the trustee unit is transferred to WSML for a manager share in WSML, capital gains tax rollover relief will be available to unitholders. The broad effect of the rollover relief will be that any capital gain the unitholder would otherwise realise from the disposal of their units under the simplification proposal is ignored. Rather, the unitholder will be regarded as having a cost base in the new Wesfarmers shares determined by reference to its cost base in the units disposed of under the FIF Proposal. FIF unitholders should refer to the tax report contained in the FIF explanatory memorandum.

Treatment of FIF options

Method of acquisition

The acquisition of FIF options in return for new Wesfarmers shares will be implemented by an amendment of the FIF constitution to insert a provision to allow for the transfer of all options under the FIF Proposal, approval by unitholders and optionholders authorising implementation of the FIF Proposal and the appointment of WSML as the new responsible entity of FIF.

Following an opportunity for affected FIF unitholders and optionholders to object, all options will be transferred to Wesfarmers on behalf of optionholders by the responsible entity of FIF. The responsible entity will, as agent and attorney for all optionholders, transfer the options to Wesfarmers and bind optionholders to comply with the terms of issue of the new Wesfarmers shares received.

Price

Each optionholder will receive one Wesfarmers share for every 10.5614 FIF options held by that optionholder on the record date for implementation of the FIF Proposal. An entitlement to a fraction of a Wesfarmers share held by a former optionholder will be rounded to the nearest whole number of Wesfarmers shares, unless that optionholder would not receive any Wesfarmers shares for its options, in which case the optionholder will receive one Wesfarmers share. The responsible entity of FIF has reserved the right to aggregate holdings in circumstances where it believes holdings have been split to create fractional entitlements and thereby increase entitlements to Wesfarmers shares.

Members meeting

A combined meeting of both unitholders and optionholders of FIF has been convened for 6 April 2001 to consider and, if thought fit, pass the resolutions necessary for implementation of the FIF Proposal.

In addition, a separate meeting of optionholders of FIF will be held to approve, by ordinary resolution, the FIF Proposal as it relates to optionholders.

The information sent to FIF optionholders contains an independent expert's report from Grant Samuel & Associates Pty Limited which concludes that the FIF Proposal is fair and reasonable and in the best interests of both unitholders and optionholders.

GPML has recommended that FIF unitholders and optionholders vote in favour of all resolutions at the FIF unitholders and optionholders meetings and has indicated that to the extent it is entitled to vote its units and options at the meetings it intends to vote in favour of all resolutions. The interests of the directors of GPML in the FIF Proposal are described in section 7.3.

Conditions

Once the necessary FIF unitholder and optionholder approvals relating to the option acquisition are obtained, the acquisition of the FIF options will be conditional upon the same conditions as the FIF unit acquisition mentioned above (other than the condition relating to the acquisition of FIF options).

As mentioned above, it is possible that the acquisition of FIF units may proceed without Wesfarmers acquiring the FIF options (if WSML waives the condition relating to the acquisition of FIF options). The implications for optionholders of such circumstances are set out in section 2.5.

Tax implications

The changes to tax rules which provide capital gains tax rollover relief for unitholders do not extend to an acquisition of options and so any gain on the disposal of the options will be taxable. Optionholders should refer to the tax report contained in the FIF explanatory memorandum.

Alternative method for acquiring options

If the option acquisition does not proceed in the manner proposed, but the acquisition of FIF units proceeds, Wesfarmers will seek to acquire the options under Part 6A.2 of the Corporations Law. In general terms, that Part enables a holder of over 90 per cent of the voting power in an entity (such as FIF) who also holds 90 per cent of the value of all securities in the entity to compulsorily acquire outstanding securities (such as FIF options) for cash consideration. If this procedure is adopted, optionholders will receive a notice explaining their rights and obligations and an independent expert's report on the fairness of the cash consideration offered.

Treatment of GPML and the trustee unit

Method of acquisition

The acquisition of the trustee unit by WSML is necessary to ensure capital gains tax rollover relief is available to FIF unitholders. GPML (the responsible entity of FIF) holds the trustee unit and is remunerated primarily by way of a distribution on the trustee unit.

WSML will be appointed the new responsible entity of FIF and the trustee unit will be acquired by WSML. GPML will then be acquired by Wesfarmers in return for the issue of Wesfarmers shares. The appointment of WSML as responsible entity will occur only if all units are to be acquired and so should have no impact on unitholders if the FIF Proposal is implemented. WSML will be the responsible entity of FIF during any period when options are being acquired under Part 6A.2 of the Corporations Law (see above).

A summary of the implications of the GPML acquisition is set out in section 5.

Price

The shares in GPML will be acquired by Wesfarmers in return for the issue of 1,107,420 Wesfarmers shares. The trustee unit will be acquired by WSML in return for a manager share in WSML having equivalent rights and value to the trustee unit.

Members meetings

A meeting of shareholders of Wesfarmers has been convened for 6 April 2001 to consider and, if thought fit, pass the resolutions necessary for the acquisition of GPML and the issue of Wesfarmers shares as consideration. Wesfarmers shareholder approval is being obtained under Chapter 2E of the Corporations Law because the Gresham Group will receive a financial benefit from the acquisition of GPML and Mr JP Graham, a director of Wesfarmers, has an indirect beneficial interest in GPML through his interest in the Gresham Group. This explanatory memorandum contains an expert's report from Ernst & Young Corporate Finance Pty Ltd which concludes that the simplification proposal is in the best interests of Wesfarmers shareholders and the proposed acquisition of GPML in the context of the simplification proposal is fair and reasonable to Wesfarmers shareholders. A copy of this report is contained in annexure A.

The directors of Wesfarmers have recommended that shareholders vote in favour of all resolutions. The interests of the directors of Wesfarmers in the simplification proposal are contained in section 7.3.

A meeting of members of FIF has been convened for 6 April 2001 to consider and, if thought fit, pass the resolutions necessary for the appointment of WSML as the new responsible entity of FIF. GPML has recommended that FIF unitholders and optionholders vote in favour of the resolution to appoint WSML as responsible entity. The interests of the directors of GPML in the FIF Proposal are described in section 7.3.

Conditions

Once the necessary FIF and Wesfarmers approvals are obtained, the acquisition of GPML and the trustee unit will be conditional upon Wesfarmers being satisfied that the conditions to the acquisition by WSML of all FIF units have been satisfied or waived by WSML (where permitted) and that WSML will acquire all of the FIF units under the FIF Proposal.

Other

GPML has entered into the Management Agreement with WSML which takes effect if WSML is appointed as responsible entity of FIF. Under that agreement, GPML will provide management services to WSML, including ensuring that WSML complies with its obligations as responsible entity of FIF when appointed to that position. As consideration for these services, GPML will be entitled to receive payments equivalent to the amount it currently receives as responsible entity which will be payable through dividends on the manager share in WSML held by GPML (which at that time will be a wholly owned subsidiary of Wesfarmers).

(b) Acquisition of WFCL

Method of acquisition

WFCL stock units will be acquired by Wesfarmers under a court approved scheme of arrangement under the Co-ops Act, in return for Wesfarmers shares. A scheme of arrangement is court sanctioned and by law, binds all members of a co-operative company.

Under the scheme, WFCL stockholders' stock units will be transferred to Wesfarmers in return for Wesfarmers shares.

The scheme requires approval of the relevant classes of WFCL stockholders and subsequent approval of the scheme from the Court. Approval from stockholders to amend the constitution of WFCL is also required to implement the WFCL Scheme.

Price

Each stockholder will receive one Wesfarmers share for every 6.45 stock units (being $12.90 of stock units) held by that stockholder on the record date for implementation of the scheme. An entitlement to a fraction of a Wesfarmers share held by a former stockholder will be rounded to the nearest whole number of Wesfarmers shares, unless that stockholder would then receive no Wesfarmers shares for its stock units, in which case the stockholder will receive one Wesfarmers share. Wesfarmers has reserved the right to aggregate holdings in circumstances where it believes holdings have been split to create fractional entitlements and thereby increase entitlements to Wesfarmers shares.

WFCL stockholders meetings

Meetings of each class of WFCL stockholders have been convened for 6 April 2001 to consider, and if thought fit, pass the resolutions necessary for implementation of the scheme. The scheme requires approval by 75 per cent of the votes cast and 50 per cent of the number of WFCL stockholders voting (in person or by proxy) from each of the following classes of WFCL stockholders:

- WFCL stockholders on the primary producers register; and
- all other WFCL stockholders.

In addition, a further meeting of stockholders will be held on the same date to amend the articles of association of WFCL to permit a person (Wesfarmers) to hold more than 10 per cent of the issued shares in WFCL and thereby enable the simplification proposal to proceed. The amendment will only take effect if the WFCL Scheme is implemented. The amendment requires approval by not less than 75 per cent of the WFCL stockholders on the primary producers' register voting in person or by proxy.

The information sent to WFCL stockholders contains an independent expert's report from KPMG Corporate Finance (Aust) Pty Ltd which concludes that the WFCL Scheme is in the best interests of WFCL stockholders.

The directors of WFCL have recommended that stockholders vote in favour of all resolutions. The interests of directors of WFCL in the simplification proposal are contained in section 7.3.

Conditions

Once the necessary WFCL stockholder approvals are obtained, the acquisition of the WFCL stock units is conditional upon (in summary):

- the acquisition by WSML of all FIF units or Wesfarmers being satisfied there is no impediment to the acquisition of FIF units;
- approval by the Court of the WFCL Scheme;
- approval by Wesfarmers shareholders of the simplification proposal;
- confirmation by the ASX that it will grant official quotation of the Wesfarmers shares to be issued to WFCL stockholders;
- no material adverse change occurring in relation to the assets and liabilities, financial position, profits and losses or prospects of WFCL, that does not arise as a result of circumstances relating to Wesfarmers or as a result of the announcement of the WFCL Scheme; and
- any other necessary approval or consent required prior to the WFCL Scheme becoming effective, being obtained.

As mentioned above, Wesfarmers will implement the acquisition of FIF units even if the WFCL Scheme is not implemented and the acquisition of FIF units may proceed without FIF options being acquired in the manner proposed or at all.

Tax implications

In general, capital gains tax rollover relief will be available to WFCL stockholders. The broad effect of the rollover relief in these circumstances is that any capital gain the stockholder would otherwise realise from the disposal of their stock units under the simplification proposal, is ignored. Rather, the stockholder will be taken to have a cost base in the new Wesfarmers shares determined by reference to its cost base in the stock units disposed of in exchange for the Wesfarmers shares. Stockholders should refer to the tax report in the WFCL Scheme explanatory statement.

Other

WFCL has a trading facility through its subsidiary DPCL under which WFCL stock units can be bought and sold. The trading facility, under which stockholders were able to sell their stock units at their par value of $2.00 was suspended on announcement of the simplification proposal on 13 February 2001.

DPCL currently holds approximately seven per cent of the issued stock units in WFCL and WFCL also holds a small number of WFCL stock units. These stock units will be acquired by Wesfarmers in return for Wesfarmers shares.

(c) Self holdings of Wesfarmers shares to be eliminated by way of buy-back

Under the Corporations Law, WFCL, WFCL Investments, FIF and DPCL will be required to cease to hold Wesfarmers shares or Wesfarmers will be required to cease to control those entities within 12 months after the acquisition of WFCL and FIF. If the simplification proposal is implemented in full, the number of Wesfarmers shares controlled by Wesfarmers will comprise approximately 136 million Wesfarmers shares. Upon Wesfarmers acquiring control of entities which hold Wesfarmers shares, the voting rights attached to those shares will be suspended.

Wesfarmers intends to buy-back all of the Wesfarmers shares held by WFCL, WFCL Investments, FIF and DPCL, being the entities it will then control. The shares will be bought back for cash, but the payment will be to Wesfarmers' wholly owned entities and therefore will result in no net cash outflow from the Wesfarmers group, other than transaction costs such as tax and stamp duty (if any). The shares bought back will be transferred from WFCL, WFCL Investments, FIF and DPCL to Wesfarmers and, immediately following registration of the transfer, will be cancelled.

The founders share in Wesfarmers held by WFCL will be redeemed upon the acquisition by Wesfarmers of all of the stock units in WFCL.

See section 6 for a more detailed explanation of the buy-back.

2.5 Other potential outcomes of the simplification proposal

Wesfarmers is committed to ensuring that its ownership structure is simplified and so, if any component of the simplification proposal is not implemented, Wesfarmers will consider the alternatives to achieve the benefits of the proposal described in this explanatory memorandum. Wesfarmers believes that a partial implementation of the simplification proposal in certain circumstances will still provide significant benefits to Wesfarmers shareholders and so should be pursued. Accordingly, it is possible that some but not all of the simplification proposal will be implemented in the limited circumstances described below.

The potential outcomes of the simplification proposal are:

- The proposal is implemented in full. The implications of the simplification proposal for Wesfarmers described in sections 2 and 3 assume that the simplification proposal is implemented in full including the subsequent buy-back of Wesfarmers shares.
- No part of the simplification proposal is implemented. This will occur if the FIF unit acquisition is unsuccessful or Wesfarmers shareholders decline to give the approvals necessary for implementation of the simplification proposal.
- FIF units and options or FIF units alone are acquired but the WFCL Scheme is not successful and therefore WFCL remains in the Wesfarmers shareholding structure. This outcome would arise if the WFCL Scheme is not approved for any reason. The implications of this outcome are described below.
- The WFCL Scheme is successful and FIF units but not options are acquired in the manner proposed, therefore FIF options remain on issue. The implications of this outcome are described below.
- Wesfarmers shareholders may not approve the buy-back or not all of the external interest holders in WFCL, WFCL Investments and FIF are removed (this may occur if the simplification proposal is only partly implemented as referred to above). The implications of these outcomes are described below.

It is important to note that the simplification proposal relates only to the Wesfarmers shareholding structure and none of the potential outcomes will have a material impact on the operations of Wesfarmers or its subsidiaries.

Acquisition of FIF units and/or FIF options, but not WFCL

If the FIF units and/or options are acquired but the acquisition of WFCL stock units does not proceed, it is Wesfarmers' intention to investigate and consider alternative methods to acquire WFCL and complete the proposed simplification of the Wesfarmers ownership structure. The key implications of such an outcome are as follows:

- The benefits for FIF unitholders and optionholders of increased value, direct Wesfarmers ownership and participation in the benefits to Wesfarmers shareholders (of improved liquidity and diversity of shareholder base) should continue to be available. Capital gains tax rollover relief would also continue to be available for unitholders.
- WFCL Investments would continue as the largest shareholder in Wesfarmers but dividends above the prescribed preferential dividend payable to WFCL, which were formerly paid to FIF, would be retained within the Wesfarmers group and be available for distribution to Wesfarmers shareholders. Some timing differences may arise from a financial accounting perspective but this is not anticipated to interrupt the usual timing for payment of Wesfarmers' dividends nor its dividend policy.
- The voting rights of existing Wesfarmers shareholders would be diluted. The percentage interest of existing Wesfarmers shareholders would be reduced by approximately 30 per cent of their current holdings as Wesfarmers would not seek to buy-back the Wesfarmers shares held by WFCL Investments. As mentioned above, dividend entitlements should not be affected by the additional shares on issue. Wesfarmers would acquire approximately 4.6 million Wesfarmers shares as a consequence of the acquisition of FIF. These shares are proposed to be bought back or disposed of by Wesfarmers within 12 months (or such longer period permitted by ASIC). Any gain on disposal of these shares may be taxable. The voting rights attaching to the Wesfarmers shares held or controlled by Wesfarmers would be suspended pending their disposal.
- WFCL would continue to control WFCL Investments and WFCL's control position of Wesfarmers would be reduced, but not removed, with WFCL Investments' holding of Wesfarmers shares being reduced from approximately 46 per cent to approximately 32 per cent. WFCL would also continue to hold the founders share. As such, WFCL would continue to be the controlling entity of Wesfarmers.
- The investment of Wesfarmers in FIF would be eliminated for accounting purposes against the equity issued under the simplification proposal (other than that which would have been attributable to the acquisition of WFCL). As the number of Wesfarmers shares to be issued to WFCL represents a small proportion of the shares to be issued under the simplification proposal, the net equity position of Wesfarmers would be similar to that achieved by full implementation of the simplification proposal. The key financial ratios would not, on a net equity basis, materially change under this outcome.
- The costs of the simplification proposal would be reduced by the stamp duty which otherwise would have been payable on the acquisition of the WFCL stock units, but otherwise would not be materially affected by the failure to acquire WFCL.

Acquisition of WFCL and FIF units, but not FIF options

The acquisition of FIF options is a condition to the acquisition of FIF units. This condition may however be waived by WSML, in which case the acquisition of units may proceed even if the acquisition of options does not. WSML has advised that its current intention would be to waive the condition in the event that the optionholder approval to the acquisition of the options under the FIF Proposal is not obtained or the FIF Proposal, so far as it relates to options, cannot be implemented as anticipated. WSML will, however, assess the relevant circumstances at the time such an event arises and reserves the right not to waive the condition.

If the FIF options are not acquired in the manner intended under the FIF Proposal, it is Wesfarmers' intention to seek to acquire those options under the compulsory acquisition provisions in Part 6A.2 of the Corporations Law at the earliest practical date. A summary of the compulsory acquisition procedure under Part 6A.2 and the key implications of such an outcome are as follows:

- In general terms, Part 6A.2 enables a holder of over 90 per cent of the voting power in a listed entity (such as FIF) and 90 per cent of the value of all securities in the entity to compulsorily acquire outstanding securities (such as FIF options) for cash consideration. The cash consideration offered must be the fair value for the options. If this procedure is adopted, optionholders will receive a notice explaining their rights and obligations together with an independent expert's report on the fairness of the consideration offered.
- During the period that the compulsory acquisition procedure for the options is being implemented, it is expected that FIF will maintain its listing on the ASX and the options will continue to be quoted and tradeable.
- It is expected that the compulsory acquisition procedure will be completed prior to the next option exercise period. If the procedure is delayed, and options are exercised, it is the intention of Wesfarmers to also seek to acquire the units issued upon exercise of the options under the compulsory acquisition procedure under Part 6A.2 of the Corporations Law.
- WSML, a subsidiary of Wesfarmers, will be the responsible entity of FIF during any period when options are being acquired under Part 6A.2 of the Corporations Law (see above).
- Wesfarmers has applied for relief from ASIC to modify section 664D of the Corporations Law to provide that the consideration provided to optionholders who also hold other securities in WFCL or FIF will not constitute a prohibited benefit under that section.

Buy-back of Wesfarmers shares

Wesfarmers intends to buy-back the Wesfarmers shares under its control, following implementation of the simplification proposal.

If Wesfarmers shareholders do not approve the buy-back then the remainder of the simplification proposal may still proceed. In these circumstances, Wesfarmers would consider other methods for eliminating the Wesfarmers shares it controls. This may include a subsequent request to shareholders to approve a buy-back of those shares.

If all external interest holders in WFCL, WFCL Investments and FIF have not been removed, the buy-back may not proceed or may be postponed pending resolution of those issues. Wesfarmers will however still be required to dispose of the Wesfarmers shares held by an entity Wesfarmers controls or will be required to cease to control that entity within 12 months after the date it acquires the entity (or such later date permitted by ASIC).

If these shares were to be sold, their sale may have an adverse and dilutionary effect on Wesfarmers shares held by former FIF unitholders and optionholders and WFCL stockholders and other Wesfarmers shareholders. In addition, there may be significant adverse tax consequences on a sale of those shares in such a situation.

3

Impact of the simplification proposal on Wesfarmers

3.1 Expert's Report

The directors have engaged Ernst & Young Corporate Finance Pty Ltd to advise shareholders in relation to the simplification proposal. A copy of the report is attached as annexure A. The report concludes that the simplification proposal is in the best interests of Wesfarmers shareholders.

3.2 No impact on operations

The simplification proposal will not affect the business operations of Wesfarmers or its subsidiaries.

Wesfarmers has an indirect investment in GPML, the responsible entity of FIF. The simplification proposal will result in GPML and FIF being acquired by Wesfarmers. As a result, Wesfarmers will no longer receive a return on its investment in GPML. Wesfarmers will receive a share of the gain arising from the sale of GPML.

3.3 Pro-forma balance sheet and capital structure

Set out in section 4 is the Independent Accountant's Report containing and reporting on:

- the 31 December 2000 balance sheet for the Wesfarmers group that has been subject to an audit review;
- an unaudited balance sheet (**Pro-forma Balance Sheet A**) for the Wesfarmers group based on the audit reviewed 31 December 2000 balance sheet which, for comparison purposes, has been adjusted for the material post 31 December 2000 events, other than the proposed simplification; and
- the unaudited pro forma balance sheet (**Pro-forma Balance Sheet B**) for the Wesfarmers group at 31 December 2000 reflecting the material post 31 December 2000 events and full implementation of the simplification proposal (including the proposed buy-back of Wesfarmers shares).

The Independent Accountant's Report also describes the impact of the simplification proposal on the Wesfarmers capital structure.

In general terms the financial implications of the simplification proposal can be summarised as follows:

- Earnings per share will not change materially as a result of the proposal.
- Net borrowings will increase by approximately $23 million due to the payment of stamp duty, income tax and other costs of the restructure after offsetting these costs against cash held by entities acquired under the simplification proposal. Wesfarmers gearing ratio (net debt to equity) will increase marginally as a result of these additional borrowings and lower equity due to reduced number of Wesfarmers shares on issue. Wesfarmers will continue to have interest cover of approximately 10 times.
- The issued capital following implementation of the simplification proposal (including the proposed buy-back) will be slightly smaller than the current issued capital of Wesfarmers.
- The simplification proposal will result in no material ongoing impact on reported earnings for the Wesfarmers economic entity once the proposal is completed, as it will not affect the operations of the Wesfarmers group.

3.4 Subsequent events

Although not incorporated in the Pro-forma Balance Sheets A and B, it is noted that on 9 January 2001 Wesfarmers Agribusiness Limited, a wholly owned subsidiary of Wesfarmers, announced a takeover bid for the remaining 40 per cent of IAMA Limited (**IAMA)** which Wesfarmers does not currently own. The consideration for that takeover bid is $1.65 per IAMA share, with a total estimated acquisition cost of $142 million. The takeover offers were dispatched to IAMA shareholders on 9 February 2001. As at 19 February 2001, Wesfarmers Agribusiness had received acceptances to its offers entitling the company to in excess of 90 per cent of IAMA shares in total and was proceeding to compulsory acquisition of the remainder in accordance with the Corporations Law and to have IAMA removed from the Official List of ASX. The 100 per cent shareholding of IAMA that Wesfarmers will have at the completion of the compulsary acquisition process will have the following financial impact on the Wesfarmers group:

- an increase in the borrowings of Wesfarmers by approximately $142 million;
- a reduction in outside equity interests of approximately $95 million; and
- an increase in intangibles of approximately $47 million.

4

Independent Accountant's Report

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19 February 2001

The Board of Directors
Wesfarmers Limited
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Dear Sirs

Independent Accountant's Report

1. Introduction

The Directors of Wesfarmers Limited ("Wesfarmers" or "the Company") have requested Ernst & Young to report on the historical balance sheet, the pro forma balance sheet "A" and the pro forma balance sheet "B" of the Wesfarmers Group as at 31 December 2000. This report has been prepared for inclusion in an Explanatory Memorandum to the members of Wesfarmers, an Explanatory Memorandum to the members of The Franked Income Fund ("FIF") and an Explanatory Statement to the members of Westralian Farmers Co-operative Limited ("WFCL").

The purpose of this report is to show the impact of how the proposal to simplify the shareholding structure ("the Simplification Proposal") of Wesfarmers, as well as certain other material subsequent events, will have on the financial position of Wesfarmers as if the transactions had occurred on 31 December 2000.

2. Background

In 1984 the operating assets of WFCL were transferred into a wholly owned subsidiary, being Wesfarmers, via a Scheme of Arrangement between WFCL and its members. WFCL retained an approximate 60% interest in the ordinary shares of Wesfarmers with the remaining 40% being distributed to the members. At the same time Wesfarmers was listed on the Australian Stock Exchange Limited ("ASX").

A further restructure was undertaken in 1988 with a second Scheme of Arrangement between WFCL and the members. Pursuant to this scheme WFCL transferred to WFCL Investments Pty Ltd ("WFCLI") ordinary shares in Wesfarmers, which represented approximately 45% of the issued ordinary capital of Wesfarmers. At the same time FIF was allotted shares in WFCLI with each member receiving two fully paid units in FIF for every WFCL stock unit held. Subsequently FIF was listed on the ASX. As part of the establishment of FIF, Gresham Partners Management Limited ("GPML") was appointed as the manager of FIF.

The Directors are recommending the Simplification Proposal as a means of simplifying the current shareholding structure. The Simplification Proposal involves a series of events that are designed to remove WFCL, WFCLI and FIF as shareholders in Wesfarmers and replace them with the underlying equity holders, being the members of WFCL and the unit and optionholders of FIF.

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The transactions to be undertaken as part of the Simplification Proposal involve Wesfarmers:

- acquiring all the issued stock units in WFCL under a court approved scheme of arrangement;
- acquiring all the issued units in FIF;
- acquiring all the issued options over FIF units;
- acquiring GPML, the manager of FIF; and
- subsequently buying back the Wesfarmers shares held by each of WFCL, WFCLI, FIF and Dairy Properties Co-operative Limited ("DPCL") at a time when these entities are wholly owned subsidiaries of the Company.

Following the completion of the Simplification Proposal, Wesfarmers would become the ultimate holding company with all interested parties directly holding shares in the Company.

3. Scope

We have conducted a review of the historical balance sheet, the pro forma balance sheet "A" and the pro forma balance sheet "B" of the Wesfarmers Group as at 31 December 2000, as set out in Appendix A.

The purpose of the pro forma balance sheet "A" is to show the financial effects on the Company as if the following transactions which have taken place since 31 December 2000, had taken place as at 31 December 2000:

- the issue of 4.1 million shares at $17.92 per share on 24 January 2001 pursuant to the Company's employee share plan;
- the sale of Wesfarmers Dalgety Limited to IAMA Limited ("IAMA") for $145 million, satisfied through the issue of 116,065,210 fully paid ordinary shares in IAMA taking Wesfarmers shareholding from 13.04% to 60% of the expanded IAMA share capital; and
- the placement of 11 million shares in Wesfarmers to institutional shareholders at $19.00 per share for a net consideration of $206.1 million and the subsequent reduction in borrowings.

The purpose of the pro forma balance sheet "B" is to show the financial effects on the Company as if the above transactions and the following future transactions had taken place as at 31 December 2000:

- the acquisition of all the units in FIF for $2.183 billion satisfied by the issue of 120.877 million Wesfarmers shares;
- the acquisition of all the outstanding options to acquire FIF units for $49.677 million satisfied by the issue of 2.751 million Wesfarmers shares;
- the acquisition of 100% of GPML for $20 million satisfied by the issue of 1.107 million Wesfarmers shares;
- the acquisition of all the stock units in WFCL for $170.006 million satisfied by the issue of 9.413 million Wesfarmers shares;
- the buyback of 136.031 million shares held by FIF, WFCL, WFCLI and DPCL for $2.457 billion;
- the payment of costs associated with the Simplification Proposal totalling $47.744 million; and
- that relief to permit the proposed capital gains tax rollovers referred to in the Taxation Report are available and that Wesfarmers elects to take advantage of that rollover relief.

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We have reviewed the financial information in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that:

(i) the historical balance sheet is not presented fairly in accordance with the measurement requirements, but not the disclosure requirements, of applicable Accounting Standards and other mandatory professional reporting requirements in Australia;

(ii) the pro forma balance sheet "A" is not presented fairly in accordance with the measurement requirements, but not the disclosure requirements of applicable Accounting Standards and other mandatory professional reporting requirements in Australia, as if the transactions set out in Note 1 of Appendix B had taken place as at 31 December 2000; and

(iii) the pro forma balance sheet "B" is not presented fairly in accordance with the measurement requirements, but not the disclosure requirements of applicable Accounting Standards and other mandatory professional reporting requirements in Australia, as if the transactions set out in Note 1 of Appendix B had taken place as at 31 December 2000.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements and was limited to enquiries of the Directors and personnel of Wesfarmers, reading of Directors' minutes and relevant contracts, analytical review procedures applied to the financial data, the performance of limited verification procedures and comparison for consistency in application of accounting standards and policies.

These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than that given in an audit. As we have not performed an audit on the financial information of the Company as at 31 December 2000 as set out in Appendix A to this report, we do not express an audit opinion on the financial information.

4. Statements

Historical Balance Sheet

Based on the scope of our review, which is not an audit, nothing has come to our attention that causes us to believe the historical balance sheet as at 31 December 2000, as set out in Appendix A, does not present fairly, in accordance with the measurement requirements, but not the disclosure requirements of applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of Wesfarmers as at 31 December 2000.

Pro forma Balance Sheet "A"

Based on the scope of our review, which is not an audit, nothing has come to our attention which would require any modification to the pro forma balance sheet "A", as set out in Appendix A, in order for it to present fairly the financial position of Wesfarmers as at 31 December 2000, on the basis of the assumptions stated in Note 1 of Appendix B and in accordance with the measurement requirements, but not the disclosure requirements, of applicable Accounting Standards and other mandatory professional reporting requirements in Australia, had the transactions taken place on 31 December 2000.

Pro forma Balance Sheet "B"

Based on the scope of our review, which is not an audit, nothing has come to our attention which would require any modification to the pro forma balance sheet "B", as set out in Appendix A, in order for it to present fairly the financial position of Wesfarmers as at 31 December 2000, on the basis of the assumptions stated in Note 1 of Appendix B and in accordance with the measurement requirements, but not the disclosure requirements, of applicable Accounting Standards and other mandatory professional reporting requirements in Australia, had the transactions taken place on 31 December 2000.

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5. Subsequent events

To the best of our knowledge and belief, and based on the work we have performed as described in the scope paragraph above, there have been no material transactions or events subsequent to 31 December 2000, other than those included in our report, which would require a comment on, or adjustment to, the information referred to in our report or that would cause the information included in this report to be misleading.

6. Disclosures

Ernst & Young does not have any pecuniary interest that could reasonably be regarded as being capable of affecting its ability to give an unbiased opinion in this matter. We do not believe that Ernst & Young Corporate Finance Pty Ltd's involvement in relation to the Simplification Proposal impacts our ability to provide such an opinion. Ernst & Young is the ongoing auditor and tax advisor of the Company and will receive a fee for the preparation of this report.

The Directors have agreed to indemnify and hold harmless Ernst & Young and its employees from any claims arising out of misstatement or omission in any material or information supplied by the Directors.

Consent for the inclusion of the Independent Accountant's Report in the form and context in which it appears has been given. At the date of this report this consent has not been withdrawn.

Yours faithfully

Ernst + Young

Ernst & Young

G H Meyerowitz

Partner

ERNST & YOUNG

APPENDIX A

WESFARMERS LIMITED

Balance sheets

Set out below is the historical balance sheet, the pro forma balance sheet "A" and the pro forma balance sheet "B" of Wesfarmers as at 31 December 2000 on the basis of the assumptions contained in Note 1 of Appendix B.

	Reviewed Historical 31 December 2000 $'000	Pro forma "A" 31 December 2000 $'000	Pro forma "B" 31 December 2000 $'000
CURRENT ASSETS			
Cash	63,203	96,703	107,001
Receivables	485,590	645,190	646,785
Inventories	653,789	730,489	730,489
TOTAL CURRENT ASSETS	1,202,582	1,472,382	1,484,275
NON-CURRENT ASSETS			
Receivables	114,157	190,907	190,907
Investments	339,143	326,557	332,486
Property, plant and equipment	1,480,624	1,513,924	1,513,924
Intangibles	132,655	206,881	206,881
Other	37,009	94,809	94,809
TOTAL NON-CURRENT ASSETS	2,103,588	2,333,078	2,339,007
TOTAL ASSETS	3,306,170	3,805,460	3,823,282
CURRENT LIABILITIES			
Borrowings	303,698	351,898	385,486
Accounts payable	398,144	526,944	531,452
Provisions	169,134	183,834	191,569
Other	139,418	139,418	139,418
TOTAL CURRENT LIABILITIES	1,010,394	1,202,094	1,247,925
NON-CURRENT LIABILITIES			
Borrowings	830,404	759,430	759,430
Accounts payable	2,165	2,165	2,165
Provisions	164,004	166,204	166,268
Other	25,167	25,167	25,167
TOTAL NON-CURRENT LIABILITIES	1,021,740	952,966	953,030
TOTAL LIABILITIES	2,032,134	2,155,060	2,200,955
NET ASSETS	1,274,036	1,650,400	1,622,327

The balance sheets should be read in conjunction with the accompanying notes detailed in Appendix B.

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	Reviewed Historical 31 December 2000 $'000	Pro forma "A" 31 December 2000 $'000	Pro forma "B" 31 December 2000 $'000
SHAREHOLDERS' EQUITY			
Issued capital	945,951	1,226,475	1,198,402
Reserves	62,714	62,714	62,714
Retained profits	263,778	263,778	263,778
Shareholders equity attributable to members of Wesfarmers Limited	1,272,443	1,552,967	1,524,894
Outside equity interest in controlled entities	1,593	97,433	97,433
TOTAL SHAREHOLDERS' EQUITY	1,274,036	1,650,400	1,622,327

The balance sheets should be read in conjunction with the accompanying notes detailed in Appendix B.

APPENDIX B

1. Assumptions on which the Pro forma balance sheet "A" and the Pro forma balance sheet "B" of Wesfarmers is based

Pro forma balance sheet "A"

The pro forma balance sheet "A" has been prepared based on the assumption that the following transactions which have taken place since 31 December 2000, had taken place as at 31 December 2000:

- the issue of 4.1 million shares at $17.92 per share on 24 January 2001 pursuant to the Company's employee share plan;
- the sale of Wesfarmers Dalgety Limited to IAMA Limited ("IAMA") for $145 million satisfied through the issue of 116,065,210 fully paid ordinary shares in IAMA taking Wesfarmers shareholding from 13.04% to 60% of the expanded IAMA share capital; and
- the placement of 11 million shares in Wesfarmers to institutional shareholders at $19.00 per share for a net consideration of $206.1 million and the subsequent reduction in borrowings.

Pro forma balance sheet "B"

The pro forma balance sheet "B" has been prepared based on the assumption that the above transactions and the following future transactions had taken place as at 31 December 2000:

- the acquisition of all the units in FIF for $2.183 billion satisfied by the issue of 120.877 million Wesfarmers shares;
- the acquisition of all the outstanding options to acquire FIF units for $49.677 million satisfied by the issue of 2.751 million Wesfarmers shares;
- the acquisition of 100% of GPML for $20 million satisfied by the issue of 1.107 million Wesfarmers shares;
- the acquisition of all the stock units in WFCL for $170.006 million satisfied by the issue of 9.413 million Wesfarmers shares;
- the buyback of 136.031 million shares held by FIF, WFCL, WFCLI and DPCL for $2.457 billion;
- the payment of costs associated with the Simplification Proposal totalling $47.744 million; and
- that relief to permit the proposed capital gains tax rollovers referred to in the Taxation Report are available and that Wesfarmers elects to take advantage of that rollover relief.

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2. Share capital

	No. of Ordinary Shares on Issue 000's	Issued and Paid Up Capital $'000
Balance of share capital as at 31 December 2000	267,596	945,951
Subsequent events		
Employee share plan issue	4,155	74,450
Share placement	11,000	206,074
Share capital after subsequent events but prior to the Simplification Proposal	282,751	1,226,475
Simplification Proposal		
Wesfarmers shares to be issued to FIF unit holders	120,877	2,183,040
Wesfarmers shares to be issued to FIF option holders	2,751	49,677
Wesfarmers shares to be issued to GPML	1,107	20,000
Wesfarmers shares to be issued to WFCL stockholders	9,413	170,006
Issued capital after acquisition of FIF, WFCL and GPML	416,899	3,649,198
Buyback of Wesfarmers shares held by WFCLI	(130,739)	(2,361,152)
Buyback of Wesfarmers shares held by FIF	(4,573)	(82,592)
Buyback of Wesfarmers shares held by DPCL	(691)	(12,481)
Buyback of Wesfarmers shares held by WFCL	(28)	(497)
Share capital after buyback	280,868	1,192,476
Costs associated with the issue of shares and other costs of the capital restructure	-	(47,744)
Net discount on acquisition of FIF, WFCL and GPML	-	47,741
Adjustment arising from the sale of GPML	-	5,929
Share capital after subsequent events and Simplification Proposal	280,868	1,198,402

5

GPML acquisition

5.1 Background

Wesfarmers holds a 50 per cent interest in the parent company of the Gresham Group in conjunction with the Gresham Group's founders. The Gresham Group is an independent Australian owned investment house with a broad range of specialist investment management and corporate advisory businesses. The Gresham Group of companies include GPHL and GPML.

In developing the simplification proposal, Chase Ord Minnett Limited (**"JP Morgan"**) was engaged by Wesfarmers, WFCL and GPHL to consider the commercial, legal and financial involvement of GPML as responsible entity of FIF and to advise as to the value of GPML within the simplification proposal. Against the background of this advice, Wesfarmers and GPHL entered into an agreement for the purchase and sale of GPML for a value which was below the value assessed by JP Morgan.

In reaching its decision to acquire GPML for $20 million, Wesfarmers also had regard to:

- the legal and taxation advice provided to the parties in the context of developing the simplification proposal;
- the need to include the trustee unit within the FIF Proposal in order to ensure that capital gains tax rollover relief would be available for unitholders;
- the role of the Gresham Group in the development of Wesfarmers; and
- the value being foregone by Wesfarmers' associate, GPHL, as a result of the FIF Proposal.

While other options were considered, the acquisition of GPML on the terms described below, was considered to be the appropriate course of action.

The directors have engaged Ernst & Young Corporate Finance Pty Limited to advise in relation to the terms of the acquisition by Wesfarmers of GPML. A copy of the report is contained in annexure A. The report concludes that the acquisition of GPML in the context of the simplification proposal is fair and reasonable to Wesfarmers shareholders.

5.2 Terms of acquisition

The terms of the proposed acquisition of GPML are contained in a share sale agreement dated 13 February 2001 made between Wesfarmers and GPHL (**GPML Acquisition Agreement**). Under the GPML Acquisition Agreement, GPHL has agreed to sell and Wesfarmers has agreed to buy all of the issued shares in GPML. The material terms of the agreement are as follows:

- The purchase price of the shares in GPML is 1,107,420 Wesfarmers shares. This price is equivalent to $20 million based on a Wesfarmers share price of $18.06 being the weighted average sale price of Wesfarmers shares on the ASX in the 30 days up to and including 9 February 2001. Wesfarmers has a 44.91 per cent indirect beneficial interest in GPHL and so the consideration attributable to GPHL shareholders other than Wesfarmers is 55.09 per cent or approximately $11 million.
- The acquisition of GPML is subject to a number of conditions including:
  - Wesfarmers shareholders approving the acquisition of GPML;
  - the acquisition by WSML of all FIF units;
  - the registration of WSML as the responsible entity of FIF; and
  - GPML completing an asset restructuring.

  If these conditions are not fulfilled by 30 September 2001 or a later date agreed on by GPHL and Wesfarmers, the GPML Acquisition Agreement may be terminated by either party.
- At completion, GPHL must ensure that the only assets of GPML are the manager share in WSML, any accrued entitlement to a distribution as holder of the trustee unit in FIF, the rights to receive remuneration as the manager of WSML, the books and records of GPML and cash at bank required to satisfy all liabilities of GPML (whether actual or contingent), but excluding any liability of GPML to pay to GPHL the accrued entitlement to a dividend equivalent to the distribution received by GPML on the trustee unit and fees from FIF (if any). GPML will pay or resolve to pay to GPHL a fully franked cash dividend for an amount equal to that accrued entitlement.
- GPHL has agreed to procure the provision of sufficient services to GPML, at the cost of GPHL, to enable GPML to fulfil its managerial duties under the Management Agreement between WSML and GPML which will assist WSML in performance of its obligations as responsible entity for FIF from completion until the earlier of the date on which FIF ceases to be a registered managed investment scheme and 30 September 2001.

5.3 GPML ownership and related parties

GPHL owns all of the issued shares in GPML.

Wesfarmers holds an approximate 45 per cent indirect beneficial interest in GPML through its interest in the Gresham Group.

Mr JP Graham is chief executive officer, a director and a substantial shareholder of the Gresham Group. As such, he holds an indirect beneficial interest in GPML through his interest in the Gresham Group.

Pursuant to Part 2E of the Corporations Law, a public company may only give a financial benefit to a related party of the public company where it obtains the approval of its members in accordance with the requirements of the Corporations Law. A person is a related party for these purposes if they are a director of the public company or an entity controlled by such a director (unless the public company also controls such an entity). The term financial benefit is to be given a broad interpretation so that the economic and commercial substance of conduct prevails.

Having regard to the relationship between the parties, it has been considered appropriate to seek shareholder approval under Part 2E on the basis that the financial benefit to be received by the Gresham Group involves a possible related party of Wesfarmers and on the basis that Mr JP Graham may receive a financial benefit as a related party by virtue of his indirect beneficial interest in GPML through his interest in the Gresham Group.

Mr JP Graham, a director of Wesfarmers, has advised that he and entities controlled by and associated with him have a 35.8 per cent indirect beneficial interest in GPHL. Accordingly, although GPHL is not controlled by Wesfarmers or Mr JP Graham, Mr JP Graham may indirectly receive a benefit, through interposed companies, by the acquisition by Wesfarmers of GPML from GPHL.

5.4 Implications of the GPML acquisition

The material implications of the acquisition of GPML are disclosed below and in the Expert's Report:

- The acquisition of GPML has taken account of all stakeholders and will facilitate the availability of capital gains tax rollover relief for FIF unitholders. This is an important component of the overall simplification proposal.
- Wesfarmers has an indirect beneficial interest in GPML, the responsible entity of FIF. GPML has historically paid dividends to its shareholders based on the distribution and other payments received by GPML as responsible entity of FIF and from its holding of FIF units. The simplification proposal will result in all of GPML being acquired by Wesfarmers and FIF ceasing to be a registered managed investment scheme. Accordingly, Wesfarmers will wholly own FIF and GPML and so will cease to receive a return on its indirect investment in GPML.
- The Gresham Group and Mr JP Graham, a director of Wesfarmers, have an interest in the transaction as outlined in section 5.3.
- The acquisition of GPML involves the acquisition of an operating company and so involves risks inherent in the acquisition of a company (such as unknown liabilities which arise after the acquisition of GPML). The directors have attempted to limit these risks by the inclusion of warranties and indemnities in the GPML Acquisition Agreement.
- The acquisition of GPML, change of responsible entity and exchange of the trustee unit in return for the WSML manager share may give rise to transaction costs such as stamp duty and tax liabilities (subject to the availability of applicable rollover relief being available to GPML and Wesfarmers). Stamp duty on the acquisition of GPML is expected to be approximately $120,000. Provision has been made for these costs in structuring the transaction.

5.5 Expert's Report

The directors have engaged Ernst & Young Corporate Finance Pty Ltd to advise shareholders in relation to the terms of the acquisition by Wesfarmers of GPML, which results in a financial benefit being received by a related party of Wesfarmers. A copy of the report is contained in annexure A. The report concludes that the acquisition of GPML in the context of the simplification proposal is fair and reasonable to Wesfarmers shareholders.

5.6 Directors' recommendation

The directors recommend that shareholders who are entitled to vote approve the issue of the Wesfarmers shares to GPHL in return for the acquisition of GPML by voting in favour of the GPML acquisition resolution (resolution 2). This recommendation is supported by the Expert's Report.

5.7 Requirement for shareholder approval

Shareholder approval to the GPML acquisition is being sought because:

- the Corporations Law requires a company which proposes to give a financial benefit to a related party to obtain the approval of its shareholders; and
- the issue of Wesfarmers shares as consideration for the acquisition of GPML requires shareholder approved under the Listing Rules 7.1 and 10.11.

5.8 Voting exclusions

GPHL, Mr JP Graham and any of their respective associates cannot vote on the GPML acquisition resolution.

The above exclusions do not prevent the casting of a vote by one of these persons if it is cast as a proxy appointed in writing that specifies how the proxy is to vote on the proposed resolution and it is not cast on behalf of one of those persons.

6

Buy-back

6.1 Background

If the simplification proposal is fully implemented, Wesfarmers will acquire control of WFCL, FIF, DPCL, WFCL Investments and GPML (**Wesfarmers Subsidiaries**).

If only the FIF Proposal and not the WFCL Scheme is implemented, Wesfarmers will acquire control of FIF and GPML only.

As a result, whether the simplification proposal is fully or partly implemented, Wesfarmers will gain control over entities which hold Wesfarmers shares. Assuming the simplification proposal is fully implemented, the number of Wesfarmers shares held by the Wesfarmers Subsidiaries will represent approximately 33 per cent of the then Wesfarmers issued capital after acquisition of FIF and WFCL and is made up of the following shareholdings:

Wesfarmers Subsidiary	Number of Wesfarmers shares
WFCL Investments	130,739,318
FIF*	4,573,212
DPCL**	691,100
WFCL**	27,533

* FIF's holding will be held by a custodian on behalf of WSML as the responsible entity of FIF.

** DPCL and WFCL will receive Wesfarmers shares under the simplification proposal in exchange for WFCL stock they currently hold.

Under the Corporations Law, if a company (such as Wesfarmers) obtains control of an entity that holds shares in the company (Wesfarmers), then within 12 months after it obtains that control, or such longer period permitted by ASIC, the entity must cease to hold the shares, or the company must cease to control the entity. Accordingly, following the acquisition of FIF and/or WFCL, Wesfarmers will be required to eliminate the Wesfarmers shares it controls. Wesfarmers intends to buy-back these Wesfarmers shares under a selective buy-back under the Corporations Law.

The proposed buy-back is considered the most commercially beneficial and cost effective manner of complying with Wesfarmers obligation to eliminate a substantial shareholding in itself. During the time when Wesfarmers controls the Wesfarmers Subsidiaries, the voting rights attaching to the Wesfarmers shares held by the Wesfarmers Subsidiaries are suspended and so cannot be exercised at any Wesfarmers shareholders meeting.

6.2 Shares to be bought back

The number of Wesfarmers shares on issue prior to implementation of the simplification proposal is approximately 282,751,000. The number of Wesfarmers shares on issue after the acquisition of GPML, FIF units and options and WFCL stock units will be approximately 416,899,000.

If Wesfarmers acquires all FIF units and options and WFCL stock units, the number of Wesfarmers shares to be bought back will be approximately 136,031,000 representing approximately 32 per cent of the issued capital immediately prior to the implementation of the buy-back. This will result in Wesfarmers having an issued capital of approximately 280,868,000 shares.

If Wesfarmers acquires all FIF units and options, but not WFCL stock units, it will not obtain control of the Wesfarmers shares held by WFCL Investments and so will not be required to acquire those shares. The number of Wesfarmers shares to be bought back in these circumstances will be 4,573,000 representing 1.1 per cent of the issued capital immediately prior to the implementation of the buy-back. This will result in Wesfarmers having an issued capital of approximately 402,913,000 shares.

No Wesfarmers shares held by directors of Wesfarmers will be bought back.

6.3 Terms of acquisition

The terms of the proposed buy-back will be contained in a buy-back agreement to be made between Wesfarmers and the relevant Wesfarmers Subsidiaries. Under the buy-back agreement, Wesfarmers will buy all of the issued Wesfarmers shares held by the Wesfarmers Subsidiaries.

The Wesfarmers shares will be bought back for cash but, as the payment will be to Wesfarmers wholly owned entities, there will be no net cash outflow from the Wesfarmers group, other than transaction costs on the buy-back, such as stamp duty (if any).

The buy-back agreement will only be entered into if Wesfarmers shareholders approve the buy-back at the meeting and if the directors determine it is appropriate to do so after considering the extent to which all components of the simplification proposal have been implemented. If the directors believe that the buy-back may create material liabilities or exposures for the company they may determine to delay or not to implement the proposed buy-back.

The material terms of the agreement are as follows:

- The consideration for the acquisition of Wesfarmers shares under the buy-back will be the notional issue price at which Wesfarmers shares are issued under the simplification proposal, being $18.06. This price is based on the weighted average sale price of Wesfarmers shares on the ASX in the 30 days up to and including 9 February 2001.
- Wesfarmers will pay the stamp duty costs (if any) on the transfer of shares the subject of the buy-back.

The Wesfarmers shares to be bought back will be all of the Wesfarmers shares held by the Wesfarmers Subsidiaries or, if the acquisition of WFCL does not proceed, the number of Wesfarmers shares which Wesfarmers controls as a result of the acquisition of FIF.

6.4 Implications of the buy-back

A number of the benefits of the simplification proposal involving Wesfarmers are dependent in part on the implementation of the buy-back. Details of the implications of the simplification proposal as a whole are described elsewhere in this explanatory memorandum. The material implications of the buy-back as a separate component of the proposal are as follows:

- The Wesfarmers shares the subject of the buy-back will be acquired from Wesfarmers' wholly owned subsidiaries and trusts and therefore there will be no net cash outflow from the Wesfarmers group other than transaction costs such as stamp duty (if any). Funds for the buy-back will be provided from Wesfarmers' own resources.

- There should be no adverse tax implications of the buy-back if the buy-back transaction occurs once the proposed tax consolidations regime takes effect (expected to be from 1 July 2001), as under these proposed rules transactions within a 100 per cent owned group will not give rise to tax consequences. The proposed tax consolidations regime is still in draft form and accordingly there can be no guarantee that these provisions will be adopted by 1 July 2001 or adopted in their current form. Under the current tax law applicable to the buy-back, there is not expected to be any adverse tax consequences to Wesfarmers, WSML, WFCL, WFCL Investments or DPCL provided all external interests in FIF and WFCL are acquired. Tax may be payable in relation to the acquisition of the Wesfarmers shares held by FIF. An allowance for the tax payable in these circumstances has been made in anticipated costs of the simplification proposal.
- Transaction costs will be payable in relation to the buy-back. The Western Australian government has indicated that stamp duty on transfers of listed securities may be eliminated from 1 July 2001. If these changes are implemented, it is expected that no stamp duty will be payable on the transfer of Wesfarmers shares under the buy-back, provided the buy-back agreement is entered into after 1 July 2001. An allowance for stamp duty has, however, been made in the anticipated costs of the simplification proposal.
- Upon Wesfarmers acquiring control over the shares held by the Wesfarmers Subsidiaries, the voting rights attaching to those shares are immediately suspended. Wesfarmers will however have control over the power to dispose of those shares. If the acquisitions of FIF, GPML and WFCL are completed, Wesfarmers will control approximately 32 per cent of the issued Wesfarmers shares. The buy-back will eliminate this shareholding.

6.5 Timing for buy-back

Subject to shareholders approving the buy-back and the directors determining to proceed with the buy-back, the buy-back agreement will be entered into on or as soon as practicable after 2 July 2001, provided all FIF units and options and WFCL stock units have been acquired at that time.

Completion of the buy-back of Wesfarmers shares will occur in the week following the execution of the buy-back agreement.

If the acquisition of FIF units and options and WFCL stock units is not completed on or before 30 September 2001 or the directors determine not to proceed with the buy-back, then the buy-back will not proceed. Subsequently, the directors may, but will not be obliged to, seek new approval to buy-back the Wesfarmers shares acquired under the simplification proposal. If Wesfarmers has acquired all FIF units and options, but not WFCL stock units, only the Wesfarmers shares which Wesfarmers controls at the relevant time will be acquired under the buy-back.

6.6 Requirement for shareholder approval

Shareholder approval to the buy-back is being sought because it constitutes a selective buy-back under the Corporations Law and so requires approval by special resolution at a meeting of Wesfarmers shareholders.

6.7 Voting exclusions

To the extent that they hold Wesfarmers shares, WFCL Investments, WSML, GPML (as responsible entity of FIF and holder of FIF's Wesfarmers shares and in its own capacity), WFCL and DPCL and any of their respective associates cannot vote on the buy-back resolution (resolution 3).

However, the above exclusions do not prevent the casting of a vote by one of these persons if it is cast as a proxy appointed in writing that specifies how the proxy is to vote on the proposed resolution and it is not cast on behalf of one of those persons.

7

Additional information

7.1 Summary of FIF Implementation Deed

Wesfarmers, GPML and WSML entered into an implementation deed dated 13 February 2001 to give effect to the FIF Proposal **(FIF Implementation Deed).**

The FIF Implementation Deed:

- deals with the obligations of the parties to obtain the necessary consents and approvals for the FIF Proposal;
- describes the conditions of the FIF Proposal;
- subject to obtaining required consents and satisfying the conditions, binds each of the parties to carry out certain specific steps required to implement the FIF Proposal and grants a right of enforcement of certain of these obligations to each of the unitholders and optionholders in FIF;
- sets out representations and warranties and indemnities given by each of the parties to the others; and
- sets out the rights of each of the parties to terminate the FIF Implementation Deed.

Conditions

Implementation of the FIF Proposal is subject to the following conditions (in summary):

- FIF members approving the FIF Proposal, the FIF constitution amendments and the change in the responsible entity of FIF required to implement the FIF Proposal;
- Wesfarmers shareholders approving the simplification proposal (including the issue of Wesfarmers shares under the FIF Proposal) and the acquisition of GPML;
- all approvals, waivers and exemptions required being obtained from ASIC, ASX and any third parties;
- a supplemental deed poll containing the FIF constitution amendments executed by the responsible entity being lodged with ASIC under section 601GC(2) of the Corporations Law;
- Wesfarmers and GPML not having agreed to terminate the FIF Implementation Deed;
- no material adverse change occurring in relation to the assets and liabilities, financial position and performance, profits and losses or prospects of FIF that does not arise as a result of circumstances relating to Wesfarmers or as a result of the announcement of the FIF Proposal (waivable by Wesfarmers);
- there being no material breach of the FIF Implementation Deed by any of the parties that is then continuing; and
- approval by FIF optionholders of the FIF option acquisition and no event occurring or circumstance arising which will, or in the opinion of senior counsel jointly engaged by GPML and Wesfarmers is likely to, delay the acquisition of FIF options by Wesfarmers (waivable by WSML).

If any of the above conditions are not satisfied or waived by 30 September 2001, any of GPML, WSML and Wesfarmers may by notice to the other parties, terminate the FIF Implementation Deed.

Warranties

WSML, Wesfarmers and GPML have given the usual warranties in relation to the power to enter into and perform their obligations under the FIF Implementation Deed and that all information provided for the meeting documentation is true and correct in all material aspects.

Indemnities

To the maximum extent permitted by law, Wesfarmers has agreed to indemnify and keep indemnified each of GPML and its respective directors, officers and employees against any claim, demands, damages, losses, costs, expenses and liabilities **(Losses)** suffered or incurred as a result of the FIF Proposal. This indemnity does not extend to any Losses caused by fraud, wilful dishonesty or gross negligence (where the negligence does not arise from a situation where the party is relying in good faith on legal, taxation, financial or other professional advice it has received in connection with the FIF Proposal).

7.2 Summary of WFCL Implementation Deed

Wesfarmers and WFCL entered into an implementation deed dated 13 February 2001 to give effect to the WFCL Scheme **(WFCL Implementation Deed).**

The WFCL Implementation Deed:

- deals with the obligations of the parties to obtain the necessary consents and approvals for the WFCL Scheme;
- describes the conditions to the WFCL Scheme;
- subject to obtaining the necessary consents and satisfaction of the relevant conditions, binds the parties to carry out certain steps required to implement the WFCL Scheme;
- sets out representations and warranties given by each party to the other; and
- sets out the rights of each party to terminate the WFCL Implementation Deed.

Conditions

Implementation of the WFCL Scheme is subject to the following conditions (in summary):

- the acquisition by WSML of all FIF units or Wesfarmers being satisfied there is no impediment to the acquisition of FIF units;
- approval of the WFCL Scheme and constitutional amendment by WFCL stockholders;
- Court approval of the WFCL Scheme;
- Wesfarmers shareholders approving the simplification proposal including the issue of Wesfamers shares to WFCL stockholders under the WFCL Scheme;
- the ASX confirming that it will grant official quotation of the Wesfarmers shares;
- no material adverse change occurring in relation to the assets and liabilities, financial position and performance, profits and losses or prospects of WFCL that does not arise as a result of circumstances relating to Wesfarmers or as a result of the announcement of the WFCL Scheme or this condition being waived by Wesfarmers; and
- any other necessary approval or consent required prior to the WFCL Scheme becoming effective being obtained.

If any of the above conditions are not satisfied or waived and the WFCL Scheme does not become effective before 30 September 2001 or the parties agree in writing that one or more of the conditions cannot be satisfied and will not be waived before 30 September 2001, the WFCL Implementation Deed will terminate.

Representations and warranties

Wesfarmers and WFCL have given the usual warranties and indemnities in relation to the power to enter into and perform their obligations under the WFCL Implementation Deed and that all information provided for the meeting documentation is true and correct in all material aspects.

7.3 Interests of directors

As at the date of this explanatory memorandum the number, description and amount of securities of Wesfarmers, FIF and WFCL held by or on behalf of each director in Wesfarmers, GPML and WFCL is as follows:

Directors	FIF Units	FIF Options	WFCL Stock Units	Wesfarmers Ordinary Shares	
				Current	Post Restructure
Chaney MA(1)(7)	4,582	458	3,711	600,427	602,889
Fraunschiel E(6)(7)	654,493	64,155	250,000	362,365	670,566
Graham JP(5)(7)	349,308	33,796	4,331	97,574	242,006
Perkins CH(1)(7)	440,638	44,064	89,306	28,608	223,938
Eastwood TR(2)(7)	1,188,716	116,521	478,190	488,149	1,051,657
Giglia LA(2)	1,665	158	12,957	6,669	9,363
Hogan KP(2)	3,767	103	2,617	5,073	7,005
Nuttall DEW(2)	24,476	10,164	43,256	23,606	41,123
Paterson JM(2)	-	-	10,919	11,705	13,398
White DC(2)	4,434	443	3,617	6,845	9,232
Asimus DJ(3)	-	-	-	2,700	2,700
Flugge TJ(3)	3,149	196	1,080	2,964	4,417
Lester RD(3)	66,023	6,231	212	12,738	39,929
McPhail R(4)(7)	-	-	-	-	-
Rich GJ(4)(7)	10,488	1,049	-	-	4,319

Notes:

(1) Director of Wesfarmers, WFCL, GPML and WFCL Investments
(2) Director of Wesfarmers and WFCL
(3) Director of Wesfarmers
(4) Director of GPML
(5) Director of Wesfarmers and GPML
(6) Director of Wesfarmers, GPML and WFCL Investments
(7) Director of GPHL

The directors, whether as directors, members, creditors or otherwise, have no material interest in the simplification proposal or any other arrangements or matters contemplated in this explanatory memorandum, except that:

- they are members holding securities as set out above;
- Wesfarmers is a shareholder in the Gresham Group. The indirect beneficial interest of Wesfarmers in GPML, through its shareholding interest in the Gresham Group, is approximately 45 per cent;
- each of Messrs Graham, McPhail and Rich are directors and executives of the Gresham Group. The direct and indirect beneficial interest of Mr JP Graham and associated interests of Mr JP Graham in GPHL, though their shareholding interest in the Gresham Group, is approximately 35.8 per cent. Messrs McPhail and Rich also have a direct and indirect beneficial interest in GPHL through shareholding interests in the Gresham Group;
- the Wesfarmers Staff Retirement Fund (**WSRF**) holds:
  - 122,666 Wesfarmers shares;
  - 3,363,170 WFCL stock units;
  - 3,000,000 FIF units;
  - 300,000 FIF options.
- each of Messrs Perkins and Fraunschiel are directors of the Wesfarmers Superannuation Plan Pty Ltd, the trustee of WSRF. Mr Fraunschiel is a beneficiary of the WSRF;
- the Gresham Group beneficially owns 1,146,935 FIF units and 113,575 FIF options. The interest of the persons set out above does not include those units and options. As noted in this explanatory memorandum, each of Wesfarmers and Mr JP Graham has an indirect beneficial interest in the Gresham Group.

7.4 Regulatory waivers

(a) **ASX waivers**

The ASX has granted a waiver from the following Listing Rule requirements:

- Listing Rule 7.1, to the extent necessary to permit Wesfarmers to issue shares to FIF unitholders and optionholders and to WFCL stockholders under the simplification proposal.
- Listing Rule 10.11, to the extent necessary to permit Wesfarmers to issue shares to related parties and associates who are FIF unitholders and optionholders or WFCL stockholders under the simplification proposal.

The above waivers have been granted on the condition that Wesfarmers shareholders approve the simplification proposal at a general meeting at which Wesfarmers disregards any votes cast by FIF, WFCL, WFCL Investments, GPML, GPGL, GPHL, any related party of Wesfarmers and any associate of those persons.

(b) **ASIC modifications and exemptions**

Wesfarmers has applied for modifications to the Corporations Law in the unlikely event that FIF options are not acquired under the simplification proposal and it seeks to acquire them under Part 6A.2 of the Corporations Law, to permit it to seek to acquire any FIF units issued upon exercise of the FIF options under Part 6A.2 at the same time as seeking to acquire the FIF options, even though the units may not have been issued at that time.

7.5 Other information

The Wesfarmers shares issued under the simplification proposal will rank equally with all Wesfarmers shares from the date of issue.

The timing for the issue of Wesfarmers shares to GPHL, FIF unitholders and optionholders and WFCL stockholders is dependent on the timing of approvals by the FIF members and WFCL stockholders respectively of various aspects of the simplification proposal, the subsequent approval of the WFCL Scheme by the Court and no objection being sustained in relation to the acquisition of FIF units or options. Wesfarmers expects that the shares will be issued in late April or early May 2001.

While the exact dates of the proposed issues cannot be ascertained at this stage because they are dependent on factors outside Wesfarmers' control, they will not in any event occur later than three months after the date of the Wesfarmers shareholders meeting, subject to any extension permitted by the ASX.

The simplification proposal contemplates that some but not all components of the proposal may proceed. Accordingly, the issue of Wesfarmers shares may proceed progressively as the necessary approvals for a particular component of the proposal are received.

7.6 Consent of experts named

Ernst & Young Corporate Finance Pty Ltd has given and has not, before the issue of this explanatory memorandum, withdrawn its consent to being named in this explanatory memorandum as expert in connection with the terms of the simplification proposal and the acquisition by Wesfarmers of GPML. Ernst & Young Corporate Finance Pty Ltd has not authorised or caused the issue of this explanatory memorandum and does not take any responsibility for any part of this explanatory memorandum, other than the report attached as annexure A.

Ernst & Young has given and has not, before the issue of this explanatory memorandum, withdrawn its consent to being named in this explanatory memorandum as independent accountant in connection with the Independent Accountant's Report. Ernst & Young has not authorised or caused the issue of this explanatory memorandum and does not take any responsibility for any part of this explanatory memorandum, other than the report contained in section 4.

Freehills has given and has not, before the issue of this explanatory memorandum, withdrawn its consent to being named in this explanatory memorandum as solicitors in connection with the simplification proposal. Freehills has not authorised or caused the issue of this explanatory memorandum.

KPMG Corporate Finance (Aust) Pty Ltd has given and has not, before the issue of this explanatory memorandum, withdrawn its consent to being named in this explanatory memorandum as independent expert in connection with the WFCL Scheme. KPMG Corporate Finance (Aust) Pty Ltd has not authorised or caused the issue of this explanatory memorandum and does not take any responsibility for any part of this explanatory memorandum.

Grant Samuel & Associates Pty Ltd has given and has not, before the issue of this explanatory memorandum, withdrawn its consent to being named in this explanatory memorandum as independent expert in connection with the FIF Proposal. Grant Samuel & Associates Pty Ltd has not authorised or caused the issue of this explanatory memorandum and does not take any responsibility for any part of this explanatory memorandum.

Greenwoods and Freehills Pty Ltd has given and has not, before the issue of this explanatory memorandum, withdrawn its consent to being named in this explanatory memorandum as tax adviser to WFCL in connection with the WFCL Scheme and FIF in connection with the FIF Proposal. Greenwoods and Freehills Pty Ltd has not authorised or caused the issue of this explanatory memorandum and does not take any responsibility for any part of this explanatory memorandum.

Chase Ord Minnett Limited ("JP Morgan") has given and has not, before the issue of this explanatory memorandum, withdrawn its consent to being named in this explanatory memorandum as adviser to Wesfarmers, WFCL and GPHL in connection with the value of GPML within the simplification proposal.

JP Morgan has not authorised or caused the issue of this explanatory memorandum and does not take any responsibility for any part of this explanatory memorandum.

8

Glossary

Throughout this explanatory memorandum, the following abbreviations and definitions are used:

ASIC means Australian Securities & Investments Commission.

ASX means Australian Stock Exchange Limited.

buy-back agreement means the proposed buy-back agreement between Wesfarmers and its subsidiaries referred to in section 6.3.

Co-ops Act means the Companies (Co-operative) Act 1943 (Western Australia).

Court means the Supreme Court of Western Australia.

DPCL means Dairy Properties Co-operative Limited.

Expert's Report means the expert's report prepared by Ernst & Young Corporate Finance Pty Ltd which is set out in annexure A.

February Placement means the placement of Wesfarmers shares made on 13 February 2001.

FIF means The Franked Income Fund (ARSN 088 409 367).

FIF Implementation Deed means the deed described in section 7.1.

FIF Proposal means the proposal for Wesfarmers to acquire FIF described in section 2.4(a).

founders share means the founders share in Wesfarmers held by WFCL.

GPGL means Gresham Partners Group Limited (ACN 003 856 933).

GPHL means Gresham Partners Holdings Limited (ACN 002 993 259).

GPML means Gresham Partners Management Limited (ACN 003 344 312).

GPML Acquisition Agreement means the agreement between GPHL and Wesfarmers dated 13 February 2001.

Gresham Group means the Gresham investment banking group of companies (including GPHL).

IAMA means IAMA Limited (ACN 008 724 052).

Independent Accountant's Report means independent accountant's report prepared by Ernst & Young which is set out in section 4.

Listing Rules means the official listing rules of the ASX.

Management Agreement means the agreement to be entered into between WSML and GPML under which GPML agrees to provide services to WSML to perform its obligations as responsible entity.

manager share means the manager share in WSML.

notice of meeting means the notice of general meeting incorporating this explanatory memorandum.

resolution means a resolution specified in the notice of meeting.

simplification proposal means the proposal to simplify the Wesfarmers shareholding structure described in section 2.

trustee unit means the trustee unit in FIF held by GPML.

Wesfarmers or **Company** means Wesfarmers Limited (ABN 28 008 984 049).

Wesfarmers group means Wesfarmers and its controlled entities.

Wesfarmers Subsidiaries has the meaning given to that term in section 6.

WFCL means Westralian Farmers Co-operative Limited.

WFCL Implementation Deed means the WFCL Scheme implementation deed summarised at section 7.2.

WFCL Investments means WFCL Investments Pty Ltd (ACN 009 287 245).

WFCL Scheme means the proposed scheme of arrangement between WFCL and Wesfarmers.

WSML means Wesfarmers Securities Management Limited (ACN 095 800 212).

A

Annexure A:

Expert's Report

ERNST & YOUNG
CORPORATE FINANCE PTY LIMITED

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  GPO Box M939
  Perth WA 6843

13 February 2001

The Independent Directors
Wesfarmers Limited
40 The Esplanade
PERTH WA 6000

Dear Sirs

Expert's Report

1 Introduction

This report has been prepared by Ernst & Young Corporate Finance Pty Limited at the request of the Independent Directors of Wesfarmers Limited and is to accompany the Notice of General Meeting and Explanatory Memorandum for the Meeting. A glossary of terms used in this report is included at Appendix 3. At the Meeting, Wesfarmers shareholders will be asked to consider, amongst other matters, resolutions seeking approval for:

- the implementation of the simplification proposal; and
- the GPML Acquisition for a consideration of $20 million to be satisfied through the issue of the Vendor Shares.

The simplification proposal, if successful, requires Wesfarmers to issue shares to FIF unit holders and option holders and WFCL stockholders in excess of 15% of the issued capital of the Company. Ordinarily, Public Shareholder approval for the share issues would be required pursuant to ASX Listing Rules 7.1 and 10.11, however ASX has granted Wesfarmers a waiver from these requirements on the condition that the Public Shareholders approve the implementation of the simplification proposal. While there is no explicit legal requirement to provide shareholders with an expert's report in relation to the simplification proposal, the Independent Directors of Wesfarmers have determined that an expert's report should be made available to shareholders to assist them in their consideration of the overall simplification proposal.

GPML is a subsidiary of GPHL, which is in turn controlled by GPGL, a company in which Wesfarmers holds a 50% equity interest. GPML is the Manager of FIF. The acquisition of GPML represents an important step in the implementation of the simplification proposal being put forward by Wesfarmers. Approval of the GPML Acquisition is a condition of the simplification proposal and if the acquisition of GPML is not approved, the simplification proposal will not proceed.

Section 208 of the Law provides that for a public company to give a financial benefit to a related party, other than in certain prescribed circumstances, the company must first obtain approval from the non-associated shareholders of the company (ie. those shareholders not associated with the related party). Mr James Graham, a director of Wesfarmers, is also a director of GPHL and has a material beneficial interest in GPHL and, as such, will indirectly receive a financial benefit from the GPML Acquisition. While there is no explicit legal requirement to provide shareholders with an expert's report in relation to the GPML Acquisition, given that the acquisition of GPML forms an integral part of the overall simplification proposal, the Independent Directors of Wesfarmers have determined that an expert's report should be made available to shareholders to assist them in their consideration of the GPML Acquisition in the context of the overall simplification proposal.

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Accordingly, the purpose of our report is to provide opinions as to whether or not:

- the simplification proposal is in the best interest of the Public Shareholders of Wesfarmers; and
- the GPML Acquisition is fair and reasonable to the Public Shareholders of Wesfarmers.

In addition to this introduction, our report has been set out under the following sections and appendices:

2. Summary and Conclusions
3. Overview of the Simplification Proposal
4. Background to the GPML Acquisition
5. Basis of Assessment
6. Impact of the Simplification Proposal
7. Valuation Considerations of the GPML Acquisition
8. Opinions

Appendix 1 Share Trading History of Wesfarmers

Appendix 2 Sources of Information and Declarations

Appendix 3 Glossary

2. Summary and conclusions

Based on the detailed discussion and analysis throughout this report of the various advantages and disadvantages associated with the simplification proposal, in our opinion, the simplification proposal is in the best interests of the Public Shareholders of Wesfarmers.

In our opinion the primary benefit to Wesfarmers shareholders arising from the simplification proposal, in its entirety, is the potential for a re-rating of Wesfarmers shares by the sharemarket over the longer term. The potential for the re-rating results from the following outcomes of the simplification proposal (discussed in Section 6):

- The improved liquidity of Wesfarmers shares that results from the removal of WFCLI's strategic 46.2% (after dilution arising from the February Placement) shareholding;
- Removal of the existing complex shareholding structure and the positive effects that this is likely to have on demand for Wesfarmers shares;
- The improved likelihood that Wesfarmers shares will maintain their full weighting in the ASX Indices;
- The simplification proposal should ensure that Wesfarmers continues to maintain its full weighting in the MSCI Australia Index, when MSCI move to a 'free float' methodology; and
- The removal of the takeover protection mechanism that exists from WFCL being the ultimate controlling entity of Wesfarmers.

Whilst Wesfarmers shares are already highly rated, it is reasonable to expect that in the longer term the sharemarket will rate Wesfarmers shares higher following the simplification proposal than would be the case in the absence of the simplification proposal.

However, it is noted that the simplification proposal can proceed without the successful completion of the WFCL Scheme. As discussed in Section 6, if the simplification proposal was to proceed without the WFCL Scheme occurring, it is unlikely that all of the benefits outlined above would accrue to Wesfarmers shareholders.

Based on the detailed discussions and analysis throughout this report, in our opinion, the GPML Acquisition, in the context of the simplification proposal, is fair and reasonable to the Public Shareholders of Wesfarmers.

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We have compared the likely advantages and disadvantages for the Public Shareholders if the GPML Acquisition is agreed to, with the advantages and disadvantages to those shareholders if it is not.

The value of the consideration being paid to GPHL for GPML, which is attributable to shareholders other than Wesfarmers, is $11.02 million.

In our opinion it is not possible to accurately determine the value to Wesfarmers of the assets being acquired, however we have reviewed the price of the GPML Acquisition, other relevant funds management transactions and the alternative courses of action available to the Company in completing the simplification proposal and have concluded that:

- The effective price of the Wesfarmers shares being issued is at a substantial premium to Wesfarmers historical share price as Wesfarmers shares are trading at an all-time high;
- The valuation multiples implied by the consideration being paid are reasonable having regard to observed market transactions, the expected returns to GPHL in the absence of the simplification proposal and our understanding of GPML's business; and
- The GPML Acquisition appears to reflect the rights and interests associated with the Trustee Unit which GPML holds in FIF and GPML's role as the Manager of FIF and represents the lowest risk alternative in relation to dealing with the Trustee Unit as part of the simplification proposal.

Inclusion of the GPML Acquisition within the overall simplification proposal should ensure that CGT rollover relief is available to all FIF unit holders, without which the simplification proposal would be less likely to proceed (the benefits of which are discussed above).

In our view the key disadvantage of the GPML Acquisition is the reduction in the value of the benefits that accrue to Wesfarmers shareholders from the simplification proposal as a result of undertaking the GPML Acquisition. However, the reduced value of these benefits must be balanced against the increased likelihood of successfully completing the simplification proposal. We note that the net consideration being paid of $11.02 million represents less than 0.3% of the current market capitalisation of Wesfarmers.

In addition, it should be noted that while the majority of the value of GPML relates to its role in the simplification proposal and in particular the FIF Unit Conversion, the GPML Acquisition is conditional on the approval of the FIF Unit Conversion and the simplification proposal (being the WFCL Scheme, the FIF Unit Conversion and the FIF Option Conversion) is conditional on the GPML Acquisition being approved. Regardless of whether the GPML Acquisition is approved by the Public Shareholders, if the FIF Unit Conversion fails then the acquisition of GPML will not proceed. However, should the other elements of the simplification proposal fail, but the FIF Unit Conversion proceeds, the GPML Acquisition will still take place. As discussed in Section 6, if the simplification proposal was to proceed without the WFCL Scheme occurring, it is unlikely that all of the benefits outlined above would accrue to Wesfarmers shareholders.

In summary, our assessment indicates that, although the GPML Acquisition does give rise to the above noted cost to Wesfarmers shareholders, this is reasonable in the context of the anticipated benefits of the simplification proposal.

It is important that the Public Shareholders of Wesfarmers consider our opinion in the context of this entire report, including the sources of information and declarations contained in Appendix 2 of this report, taking into account relevant advantages and disadvantages of both the GPML Acquisition and the simplification proposal.

3. Overview of the simplification proposal

3.1 Background

WFCL was incorporated in 1914 as a co-operative with the aim of providing services and merchandise to the rural community of Western Australia. In 1984, as a result of the limitations that the co-operative structure placed on the business of WFCL, the operating assets of WFCL were transferred into a wholly owned subsidiary, being Wesfarmers, via a Scheme of Arrangement between WFCL and its stockholders. At the same time Wesfarmers was listed on the ASX. The Co-operative retained an approximate 60% interest in the ordinary shares of Wesfarmers with the remaining 40% being distributed to WFCL stockholders. In addition to the ordinary shares WFCL holds the Founders Share, which entitles it to cast a majority vote on any resolution at a shareholders meeting of Wesfarmers in which it believes a person is attempting to obtain control of the Company.

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In its initial years as a listed company, although Wesfarmers achieved significant dividend and capital growth in its shares, the co-operative nature of WFCL continued to limit the ability of the WFCL stockholders to fully participate in the appreciating value of a Wesfarmers share. In a move to rectify this, a further restructure was undertaken in 1988 with the establishment of WFCLI and FIF.

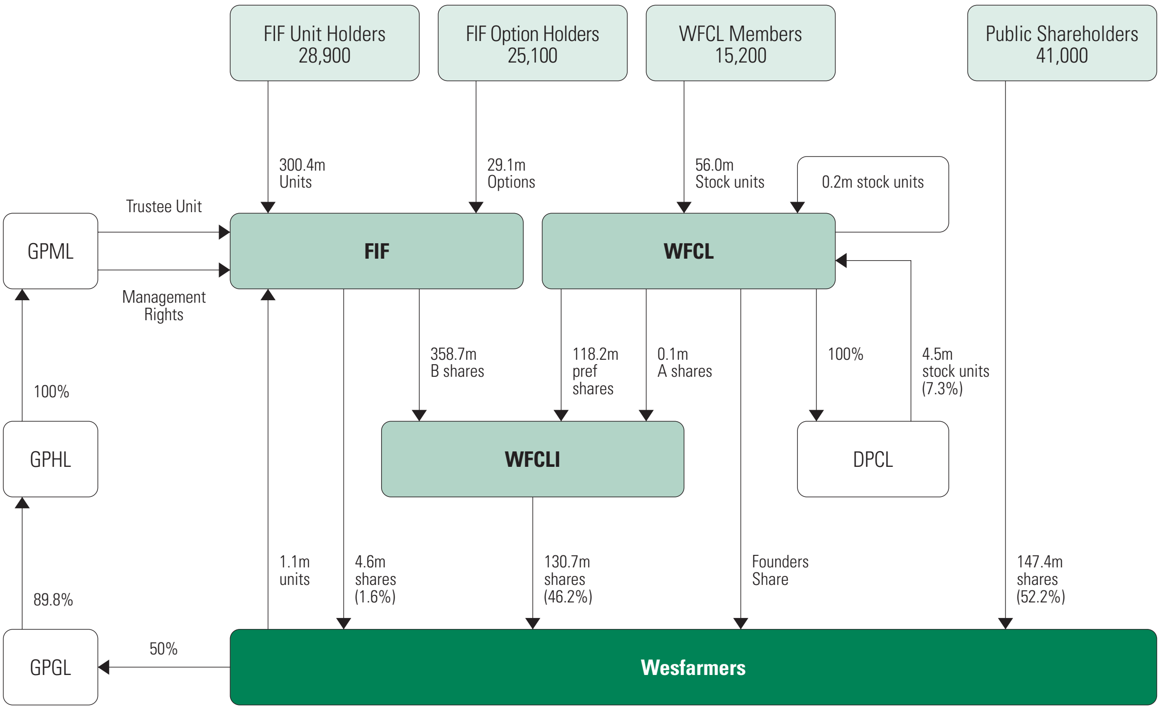
Through a second Scheme of Arrangement, WFCL transferred to WFCLI ordinary shares in Wesfarmers, which represented approximately 45% of the issued ordinary capital of Wesfarmers, in return for 100,000 "A" Ordinary Shares and 118,213,000 redeemable preference shares in WFCLI. As a result WFCL became essentially entitled to a preferential dividend, a preferential return of capital of $118,213,000 and 100% of the voting rights in WFCLI.

At the same time FIF was allotted 100,000 "B" Ordinary Shares in WFCLI with each WFCL stockholder receiving two fully paid units in FIF for every WFCL stock unit held. Subsequently FIF was listed on the ASX. FIF's interest in WFCLI entitles it to the remaining profits of WFCLI following the preferred dividend payment to WFCL and the ability to appoint 50% of the Board of WFCLI in the event that any person became entitled to more than 10% of WFCL. On winding up of WFCLI, FIF is also entitled to a capital payment following the preferential capital repayment to WFCL. As part of the establishment of FIF, GPML was appointed as the Manager, with FIF's Trustee allotting the "Trustee Unit" to GPML at an issue price of $1.00.

The key outcomes of this restructure process included:

- WFCL continued as the ultimate holding company of Wesfarmers through its 100% control of the voting rights in WFCLI and the voting right attached to the Founders Share;
- Wesfarmers was afforded some protection from a takeover by FIF's ability to participate on the WFCLI Board in the event that someone was to obtain a substantial stake in WFCL;
- The dividends paid by Wesfarmers could be distributed to WFCL stockholders in a tax effective manner; and
- Through the distribution of FIF units, WFCL stockholders were able to realise some of the appreciation of WFCLI's investment in Wesfarmers.

An overview of the current shareholding structure is provided as follows:



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On 13 February 2001 Wesfarmers undertook the February Placement to raise a net amount of approximately $206 million through the issue of 11.0 million ordinary shares in the Company. The shares to be issued pursuant to the February Placement are reflected in the shareholdings shown throughout this report.

3.2 The Simplification Proposal

As can be seen from Section 3.1, the existing shareholding structure of the Company was created from a desire to ensure the continued growth and success of the Wesfarmers business and to allow the stockholders of WFCL to participate in, and realise the benefits of, that success in a tax effective manner. At the same time, WFCL was able to maintain a high degree of control over the ownership of Wesfarmers. While the structure has largely been successful in achieving these objectives, the Directors of the Company believe that for a number of reasons the existing structure is no longer warranted. Specifically these reasons include:

- the relative illiquidity of Wesfarmers shares and the effect this has on the level of demand for the Company's shares;
- the perceived negative impact that the complexity of the current ownership structure has on the level of demand for the Company's shares;
- the significant discount at which the stock market values FIF relative to the value of the underlying Wesfarmers shares;
- the potential for the ownership structure to become ineffective from a tax perspective; and
- the limitations that the current structure presents in the event Wesfarmers wishes to conduct a major capital raising.

Accordingly, the Directors are recommending the simplification proposal as a means of simplifying the current shareholding structure and releasing the value that this creates to shareholders. The simplification proposal involves a series of events that are designed to remove WFCL, WFCLI and FIF as shareholders in Wesfarmers and replace them with the underlying equity holders, being WFCL stockholders and the unit and option holders of FIF. The transactions to be undertaken as part of the simplification proposal involve Wesfarmers:

- acquiring all the issued stock units in WFCL under a court approved scheme of arrangement;
- acquiring all the issued units in FIF through the FIF Unit Conversion;
- acquiring all the issued options over FIF units through the FIF Option Conversion;
- acquiring GPML, the Manager of FIF and holder of the Trustee Unit; and
- subsequently buying back the Wesfarmers shares held by WFCL, DPCL, WFCLI and FIF at a time when these entities are wholly owned subsidiaries of the Company.

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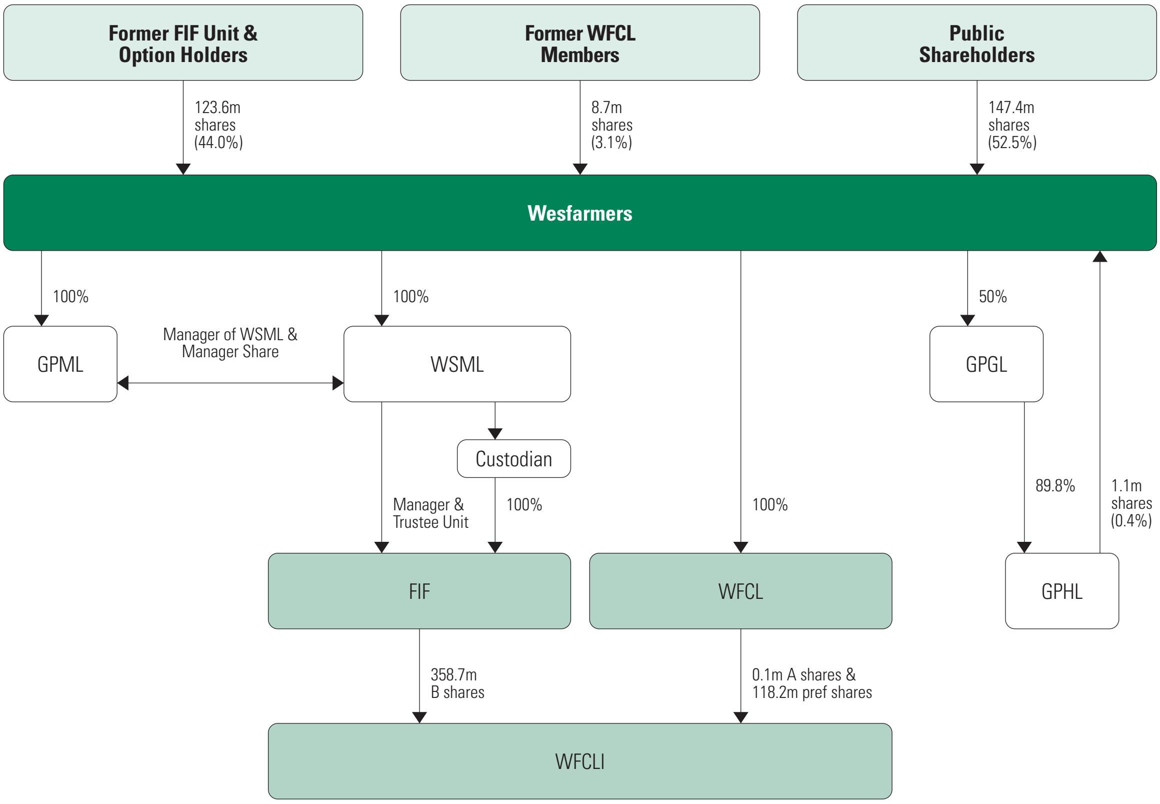
Following the completion of the simplification proposal, Wesfarmers would become the ultimate holding company with all interested parties directly holding shares in the Company. An overview of the intended structure after the simplification proposal is as follows:



The acquisition of WFCL, WFCLI and FIF and the Buy-back are discussed below. Further details regarding the acquisition of GPML are included in Section 4 of this report.

WFCL Scheme of Arrangement

WFCL is the ultimate holding company of Wesfarmers. Its principal assets consist of its shareholding in WFCLI, which in turn holds approximately 46.2% of Wesfarmers, and the Founders Share.

In addition to the WFCL stockholders, DPCL is also a stockholder in WFCL. Due to the nature of WFCL as a co-operative its stockholders were not able to easily trade their WFCL stock units. Recognising this WFCL used a wholly owned subsidiary, DPCL, to act as a trading mechanism through which WFCL stockholders could sell their stock units by transacting with DPCL. At the date of this report, DPCL currently holds 4.45 million WFCL stock units. WFCL also holds 0.17 million stock units in itself directly.

Pursuant to the WFCL Scheme, it is proposed that Wesfarmers will acquire all of the issued stock units in WFCL and, as consideration, WFCL stockholders will be issued a total of 9,413,414 shares in Wesfarmers (including the 718,633 shares to be issued to DPCL). Approval of the WFCL Scheme is being sought at a meeting of WFCL stockholders to be held on 6 April 2001 and requires at least 75% of the votes cast by stockholders and at least 50% of the number of stockholders voting to vote in favour of the WFCL Scheme in order for it to be approved. The Wesfarmers shares that DPCL and WFCL receive as part of the WFCL Scheme will be cancelled via the Buy-back discussed below.

Following the completion of the WFCL Scheme, Wesfarmers will own 100% of WFCL including its interest in WFCLI, the Founders Share and DPCL. The Founders Share is to be retained by WFCL and redeemed subsequent to the completion of the simplification proposal.

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Amongst other matters the completion of the WFCL Scheme is conditional upon the successful completion of the FIF Unit Conversion and the acquisition of GPML.

FIF Unit and Option Conversions

FIF is a unit trust listed on the ASX. As at the date of this report there are approximately 300.4 million units on issue and approximately 29.0 million options on issue. Each option is convertible into one fully paid unit at an exercise price of either $5.30 or $5.80 depending on interest rate levels. FIF's principal asset consists of its shareholding in WFCLI, which in turn holds approximately 46.2% of Wesfarmers issued capital. This interest in WFCLI entitles FIF to the residual net income and capital of WFCLI after any preferential dividend and capital payments to WFCL. FIF also has a direct interest in approximately 4.6 million Wesfarmers shares representing a further 1.6% of Wesfarmers issued capital.

On 13 February 2001 GPML, as the Manager of FIF, announced that a combined meeting of both FIF unit holders and option holders would be held on or about 6 April 2001 to consider, and if thought fit to pass, resolutions seeking to exchange ownership interests in FIF for ownership interests in a new holding company, WSML, by:

- appointing WSML, a wholly owned subsidiary of Wesfarmers, as the responsible entity of FIF; and
- altering the FIF constitution to permit the compulsory transfer of FIF units, other than the Trustee Unit, to a bare trustee on behalf of WSML and FIF options to Wesfarmers.

Upon the appointment of WSML as the responsible entity the Trustee Unit will be transferred from GPML to WSML in accordance with the FIF constitution. In return GPML will receive a "Manager Share" in WSML that gives GPML rights in WSML equivalent to those given by the Trustee Unit in FIF and enter into a management agreement to manage WSML. As a result, 100% of the FIF units will be held by WSML.

As consideration for allowing the compulsory transfer of their units to WSML, FIF unit holders are being offered one share in WSML for every FIF unit that they hold pursuant to the FIF Unit Conversion. Similarly, FIF option holders are being offered one share in Wesfarmers for every 10.5614 options over FIF units that they hold pursuant to the FIF Option Conversion. Both offers have several conditions attached including:

- approval by FIF unit holders and option holders of the appointment of WSML as the responsible entity for FIF and the amendments to the FIF constitution;
- approval by FIF unit holders and option holders of the acquisition by WSML of more than 20% of the issued units in FIF under section 611 (item 7) of the Law; and
- Wesfarmers shareholder approval of the simplification proposal and the GPML Acquisition.

The offers are also conditional upon each other, however it is noted that the condition relating to the successful completion of the FIF Option Conversion is waivable by WSML. In addition, while the WFCL Scheme is conditional upon the FIF Unit Conversion, the FIF Unit Conversion is not conditional upon the WFCL Scheme. Therefore, in the event that the FIF Option Conversion is unsuccessful both the WFCL Scheme and the FIF Unit Conversion may proceed, and similarly if the WFCL Scheme is unsuccessful the FIF Unit Conversion will still proceed, subject to the required approvals and other conditions being satisfied.

Following the successful completion of the FIF Unit Conversion and the acquisition of GPML, Wesfarmers will then acquire all the newly issued shares in WSML via an exchange provision in the constitution of WSML. The exchange provision allows Wesfarmers to require WSML shares to be exchanged for Wesfarmers shares on a set basis, and in specified circumstances including the simplification proposal. The basis is set such that each shareholder in WSML (who was originally a FIF unit holder) will receive one Wesfarmers share for every 2.4851 WSML shares they hold. As a result the existing FIF unit holders will become direct shareholders in Wesfarmers.

Selective Buy-back of Wesfarmers Shares

Collectively WFCL, WFCLI and FIF currently hold approximately 135.3 million ordinary shares in Wesfarmers. Following the completion of the simplification proposal Wesfarmers will undertake a selective buy back of its shares held by entities that it will control. Immediately following the buy-back these shares will be cancelled.

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3.3 Effect of the Simplification Proposal on the Existing Wesfarmers Shareholding Structure

As outlined above the simplification proposal involves Wesfarmers issuing its shares to the beneficial owners of various entities involved in the restructure and then buying back the shares in Wesfarmers that those entities hold. Set out below are the relevant shareholdings in the Company before and after the simplification proposal:

	At Present*		After the Simplification Proposal	
	Fully Paid Shares 000's	Voting Rights %	Fully Paid Shares 000's	Voting Rights %
WFCLI	130,739	46.2	-	-
FIF	4,573	1.6	-	-
Public Shareholders	147,439	52.2	147,439	52.5
Ex WFCL stockholders	-	-	8,694	3.1
Ex FIF unit & option holders	-	-	123,628	44.0
GPHL	-	-	1,107	0.4
	282,751	100.0	280,868	100.0

* Adjusted for the February Placement

The total number of Wesfarmers shares on issue will fall from 282,751,889 to 280,868,277 or approximately 0.67% as a result of the number of shares being issued as part of the simplification proposal being less than the number of shares to be bought back. Consequently the simplification proposal, in its entirety, does not result in any dilution to the Public Shareholders of Wesfarmers, but rather their collective interest increases slightly from 52.2% to 52.5%.

4. Background to the GPML acquisition

4.1 Taxation Consequences of the FIF Unit Conversion

As part of the FIF Unit Conversion, unit holders of FIF are being offered shares in WSML, which are then to be exchanged for shares in Wesfarmers pursuant to the constitution of WSML. The acceptance by FIF unit holders of the FIF Unit Conversion, will give rise to a disposal of FIF units for CGT purposes. Ordinarily each FIF unit holder would realise a capital gain or loss determined by reference to the difference between the capital proceeds received in respect of the disposal and the cost base of the FIF units. The capital proceeds received will be the market value of the WSML shares received, which in effect will be the market value of the FIF units at the time of disposal.

However, in certain circumstances the unit holder is eligible for optional CGT rollover relief. Where rollover relief applies any capital gain which otherwise would have been realised on disposal of the FIF units can be disregarded if the unit holder chooses. In general, in the case of the FIF Unit Conversion, the unit holder will be eligible for rollover relief if:

- the unit holders owning **all** the units in FIF at the time of disposal (exchanging unit holders) dispose of their units in FIF to WSML in exchange for shares in WSML only;
- WSML owns **all** the FIF units immediately after **all** the exchanging unit holders have disposed of their FIF units (completion time);
- immediately after completion time, allowing for the insignificant number of WSML shares held by Wesfarmers, each exchanging unit holder's percentage ownership in WSML is equal to the percentage ownership they had in FIF; and
- the ratio of the market value of each exchanging unit holder's shares in WSML, immediately after completion time, to the market value of the shares in WSML issued to all exchanging unit holders, must be equal to the ratio of the market value of that unit holder's units in FIF that were disposed of to WSML to the market value of all the units in FIF that were disposed of to WSML, just prior to the first disposal.

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Without CGT rollover relief the FIF Unit Conversion is less attractive to FIF unit holders. In order to satisfy these conditions it is necessary for the Trustee Unit either to be acquired by WSML or eliminated. As part of the simplification proposal, GPML is to be replaced as the responsible entity of FIF and the Trustee Unit is to be transferred to WSML in accordance with the constitution of FIF. GPML will be allotted the "Manager Share" and enter into a management agreement to manage WSML. GPML will then be acquired by Wesfarmers pursuant to the GPML Acquisition. The Manager Share to be allotted to GPML essentially confers to GPML similar rights and obligations in WSML as it had in FIF as the holder of the Trustee Unit. Similarly GPML will attain management rights in WSML which correspond with the management rights GPML had as the Manager of FIF.

4.2 Trustee Unit and FIF Manager

On establishment of FIF, the Trustee issued to the Manager the Trustee Unit for an issue price of $1.00. The Trustee Unit and the management rights confer special rights and obligations upon the Manager as specified in the Constitution of FIF. The more significant of these include:

- the Manager shall not dispose of, create any right or interest in or grant any encumbrances over the Trustee Unit;
- the Trustee Unit is not transferable with the following exceptions:
  - upon removal or retirement of the Manager the Trustee Unit is to be transferred to the new Manager or redeemed;
  - the Manager may redeem the Trustee Unit at any time for consideration of $1.00.
- the Trustee Unit does not carry any voting rights;
- the holder of the Trustee Unit is entitled to the Trustee's Distribution, equal to:
  - 0.175% of the value of FIF's investment in WFCL, WFCLI and Wesfarmers; and
  - 0.5% of the value of FIF over and above the value of FIF's investment in WFCL, WFCLI and Wesfarmers.
- on winding up of FIF, the Trustee is entitled to any arrears in distributions plus the issue price of the Trustee Unit of $1.00, but is not entitled to any further distributions in respect of the Trustee Unit;
- if for any reason the Trustee's Distribution is not made in a distribution period or the Trustee's Distribution is not fully franked, the Trustee is entitled to a fee equal to the Trustee's Distribution, grossed up for 100% franking, less the actual 'grossed up' Trustee's Distribution; and
- the Trustee's remuneration has priority over all other claims by FIF unit holders.

4.3 Relationship with Gresham Partners Group

Wesfarmers has had a successful and profitable relationship with Gresham Partners which it expects will continue. The Company began its association with Gresham Partners as a founding shareholder in 1985 when it contributed $2.75 million in return for a 50% shareholding in GPGL. Since then GPGL has been a regular contributor to the after-tax earnings of the Wesfarmers Group. In recent times this profit contribution including and excluding Wesfarmers share of GPML's net profit after tax has been as follows:

	Year Ended 30 June			
After Tax Profit Contribution ($000's)	**2000**	**1999**	**1998**	**1997**
Profit contribution from GPGL	2,356	2,819	2,216	1,773
Less: Share of GPML's earnings*	(1,301)	(1,433)	(1,171)	(1,019)
Adjusted profit contribution	1,055	1,386	1,045	754

* GPML has a 30 September year end

We understand that although Wesfarmers is a client of Gresham Partners, the majority of the adjusted profit contribution is generated from non-Wesfarmers business. While GPML has made a significant direct contribution to the profits of Gresham Partners it has also enabled GPGL to gain experience in funds management and expand this part of its business to the point where it now manages five other investment funds.

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4.4 GPML

GPML was incorporated in 1987 and is a wholly owned subsidiary of GPHL. GPHL is owned 89.83% by GPGL, a company in which Wesfarmers has a 50% ownership interest. The principal activity of GPML since its incorporation has been to manage FIF as the Manager/responsible entity of FIF. GPML also has a treasury function for the Gresham Group. GPML has been the only Manager of FIF. With the introduction of the Managed Investment Act in 1999, GPML was appointed the responsible entity of FIF, with the role of the independent Trustee becoming obsolete.

The financial position of GPML as at 30 September 2000 was as follows:

BALANCE SHEET ($000's)	Audited 30 Sep 2000
Cash	2,322
Accrued Income	1,426
Current Assets	3,748
Investments	5,206
Non Current Assets	5,206
Total Assets	8,954
Borrowings	9
Provisions	3,405
Current Liabilities	3,414
Other	452
Non Current Liabilities	452
Total Liabilities	3,866
Net Assets	5,088

The assets and liabilities of GPML relate primarily to its position as Manager of FIF. In addition to the Trustee Unit, GPML also holds a number of units in FIF. It is our understanding that prior to completion of the GPML Acquisition, GPHL is to ensure that GPML's only remaining net assets will be the Trustee Unit or Manager Share, any associated rights to receive remuneration as the Manager of FIF and sufficient cash to pay all liabilities that have not already been paid or satisfied in full. Consequently, following the transfer of the Trustee Unit to WSML, the net assets of GPML at the time of acquisition by Wesfarmers will be represented by the Manager Share and GPML's management rights in relation to WSML, which will have a combined book value of $1.00. While WSML will become the responsible entity/Manager of FIF and will hold the Trustee Unit, the issue of the Manager Share to GPML will have the effect of providing GPML with essentially the same rights and obligations it has as the current holder of the Trustee Unit. Similarly, the execution of the agreement under which GPML will manage WSML will confer essentially the same rights and obligations on GPML as those it has as the Manager of FIF.

Provided below is a summary of the after tax distributions received by GPML as Manager of FIF over the past four years:

	Year Ended 30 November			
Manager's Distribution ($000's)	**2000**	**1999**	**1998**	**1997**
After tax distribution income	3,127	2,932	2,805	2,369

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5. Basis of assessment

The Simplification Proposal

As noted in Section 1, while the approval of the simplification proposal by the Public Shareholders is a condition of the ASX waiving the need for shareholder approval of the shares to be issued as part of the simplification proposal under ASX Listing Rules 7.1 and 10.11, there is no explicit legal requirement for an expert's report. However, the Independent Directors of Wesfarmers have determined that an expert's report should be made available to shareholders to assist them in their consideration of the simplification proposal. Accordingly, the purpose of our report is to provide an opinion as to whether or not the simplification proposal is in the best interest of the Public Shareholders of Wesfarmers.

The Law does not define the term 'best interest'. In assessing whether or not the simplification proposal is in the best interest of the Public Shareholders, we have considered the overall commercial effect of the simplification proposal and whether the expected advantages outweigh any disadvantages that might result. We would consider the simplification proposal to be in the best interest of the Public Shareholders of Wesfarmers if they are better off, or at least no worse off, if the simplification proposal is implemented. Accordingly, in our assessment of whether or not the simplification proposal is in the best interest of the Public Shareholders, we have considered the simplification proposal in its entirety, including such matters as:

- the overall terms of the simplification proposal;
- the likely effect on Wesfarmers share market rating;
- the impact on key financial ratios;
- the consequences of the simplification proposal only proceeding in part; and
- other significant matters.

The GPML Acquisition

As noted in Section 1, Section 208 of the Law does not explicitly require an expert's report to be prepared in relation to the GPML Acquisition, however the Independent Directors of Wesfarmers have determined that an expert's report should be made available to shareholders to assist them in their consideration of the GPML Acquisition in the context of the overall simplification proposal. Accordingly, the purpose of our report is to provide an opinion as to whether or not the GPML Acquisition is fair and reasonable to the non-associated shareholders of Wesfarmers.

The Law does not define the term 'fair and reasonable'. However, in assessing whether the GPML Acquisition is fair and reasonable to the non-associated shareholders of the Company, we have had regard to Australian Securities and Investments Commission Policy Statement 74 "Acquisitions Agreed to by Shareholders". In consideration of what is 'fair and reasonable', Policy Statement 74 states that:

> *"what is fair and reasonable for non-associated shareholders should be judged in all the circumstances of the proposal. The report must compare the likely advantages and disadvantages for the non-associated shareholders if the proposal is agreed to, with the advantages and disadvantages to those shareholders if it is not. Comparing the value of the shares to be acquired under the proposal and the value of the consideration is only one element of this assessment."*

As part of determining whether or not the GPML Acquisition is fair and reasonable, we have attempted to compare the assessed 'value' of the consideration being paid with the assessed 'value' of the assets being acquired. In considering these values we have assessed 'value' on a fair market basis. The definition of fair market value is generally accepted as the price that a willing but not anxious buyer, acting at arm's length, with adequate information, would be prepared to pay, and a willing but not anxious seller would be prepared to accept.

Under the GPML Acquisition, the issue of the Vendor Shares forms the consideration being paid by Wesfarmers for the acquisition of GPML. Part of the assessment of the value of the consideration is the determination of the value of the Vendor Shares. In assessing the value of the Vendor Shares it is relevant to value a Wesfarmers share prior to the GPML Acquisition and the simplification proposal. With respect to the value of the Vendor Shares, we have considered the market trading of Wesfarmers shares.

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Ordinarily in considering the fair value of GPML it would be appropriate to apply a suitable capitalisation multiple to the assessed maintainable earnings to assess the fair market value of the Company. This method is known as the capitalisation of earnings approach and is applied where the entity being valued has ongoing trading operations which generate a fair return on a going concern basis. This method capitalises the maintainable earnings of the business by a rate of return which is based on open market expectations and current industry conditions, with the rate of return being expressed as a capitalisation multiple. The capitalisation multiple is a measure both of perceived risk and growth expectations.

However, in assessing the value of GPML to Wesfarmers it is necessary to consider the intentions of Wesfarmers in relation to the assets being acquired. At the completion of the simplification proposal, it is the intention of Wesfarmers to wind up WSML and FIF. Should the Manager redeem the Manager Share or WSML be wound up, GPML would be entitled to receive from WSML an amount equal to the issue price of the share, ie. $1.00.

In this instance however, we do not consider the liquidation value recognises the full value of the asset being acquired. The remainder of GPML's value to Wesfarmers is linked to the future opportunities that are available as a result of implementing the simplification proposal and the enhanced likelihood of the simplification proposal being implemented. Because the majority of this value is linked to the potential for a market re-rating of Wesfarmers shares following the completion of the simplification proposal it is, in our opinion, not possible to accurately assess the fair value of the assets being acquired at this time. On this basis we have considered the value of the GPML Acquisition in light of the fair value of the consideration being paid and the alternatives available to the Company.

Because the GPML Acquisition is an integral part of the simplification proposal of Wesfarmers, in assessing whether or not the acquisition of GPML is fair and reasonable we have considered the GPML Acquisition in the context of the overall simplification proposal. This extends to our consideration of the 'value' of GPML and the importance of the GPML Acquisition to the simplification proposal. The GPML Acquisition is conditional on the approval of the FIF Unit Conversion and the simplification proposal (being the WFCL Scheme, the FIF Unit Conversion and the FIF Option Conversion) is conditional on the GPML Acquisition being approved.

Furthermore, in evaluating the GPML Acquisition, we have also considered the likely advantages and disadvantages which may accrue to the Public Shareholders if the GPML Acquisition is approved and the simplification proposal proceeds and compared them with the likely advantages and disadvantages which may accrue if the GPML Acquisition is not approved and the simplification proposal does not proceed. The Public Shareholders will be better off if the expected benefits of the GPML Acquisition, in the circumstances of the simplification proposal, outweigh the expected disadvantages. Accordingly, in our assessment of whether or not the GPML Acquisition is fair and reasonable we have also considered the simplification proposal, including such matters as:

- the overall terms of the GPML Acquisition;
- the alternatives to acquiring GPML in undertaking the simplification proposal;
- the effects of the simplification proposal; and
- other significant matters.

6 Impact of the simplification proposal

6.1 Effect on Wesfarmers Earnings Per Share

The cash costs of the simplification proposal have been estimated at $47.7 million. Following the addition of non cash costs and the consolidation of FIF, WFCLI and WFCL into Wesfarmers the after tax accounting effect of the simplification proposal is estimated to be a $5.9 million gain.

However, as the net gain relates to the restructure of shareholders' interests in Wesfarmers, this gain will be offset against the share capital account. Consequently the only effect on earnings used in the EPS calculation as a result of the simplification proposal will be the reduction caused by eliminating Wesfarmers share of the Trustee's Distribution from the equity accounted earnings of GPGL. In addition there is a slight reduction in the number of shares on issue as a result of the simplification proposal. The overall effect is that the simplification proposal is expected to have a relatively neutral impact on EPS.

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If there were no change to Wesfarmers price earnings ratio as a result of the simplification proposal then we would expect a corresponding neutral effect on the market valuation of the Company's shares. Based on the discussion in the remainder of Section 6 below, it is reasonable to anticipate that (all other factors remaining constant) the Company's price earnings ratio may increase over time as a result of the simplification proposal.

6.2 Effect on Wesfarmers Share Trading Liquidity Generally

Wesfarmers shares are listed on the ASX. The ASX provides a market place where the Company's shares can be bought and sold at a market determined price. Market forces reflecting the level of demand and level of supply ultimately determine the number of shares and the price at which they are traded. The simplification proposal will directly alter the supply parameters of Wesfarmers shares and is also expected to have an effect on demand, ultimately resulting in a potential change in the market price of the Company's shares. To understand the possible effect that the simplification proposal is likely to have on the trading of Wesfarmers shares we have examined the effect on both the supply and demand for the Company's shares.

Supply of Tradeable Wesfarmers Shares

Following the February Placement Wesfarmers will have some 282.7 million shares on issue, 46.2% of which are held by WFCLI and represent the strategic block of shares controlled by WFCL. WFCL as the ultimate parent entity of Wesfarmers is not a natural trader of Wesfarmers shares and as such these shares have not historically been traded. Consequently the 'tradeable' supply or 'free float' of Wesfarmers shares is limited to the 152.0 million shares not held by WFCLI. WFCLI's shareholding not only limits the number of shares that are 'tradeable' but it also reduces the number of potential sellers in the market. Wesfarmers currently has approximately 41,000 direct shareholders. The simplification proposal would see FIF unit holders, FIF option holders and WFCL stockholders become direct shareholders in Wesfarmers as well, increasing the number of shareholders to in excess of 60,000.

While both FIF unit and FIF option holders have historically been able to trade their securities on the ASX, as a result of the co-operative structure of WFCL its stockholders have not had this opportunity. To the extent that some FIF unit and option holders and in particular WFCL stockholders, may be sellers of Wesfarmers shares the volume of shares traded and therefore the liquidity of Wesfarmers shares should increase following the completion of the simplification proposal.

Effect of Structural Complexity on Demand

A significant amount of the capital available through global equity markets is sourced from institutional investors who have a wide range of investments to choose from when making their asset allocation decisions. When faced with two similar asset investment opportunities issues such as shareholder structure and marketability become important differentiators. The current shareholding structure of Wesfarmers is complex compared to other major Australian and international companies with which the Company competes for investors funds. The complexity of the capital structure provides a marketing hurdle in attracting investors from both Australia and, more particularly, overseas.

The more complex a company's structure, the more time that is required by investors to understand the company and the greater the level of uncertainty that is created. By removing the complexity caused by the WFCLI structure and improving the transparency of the shareholdings, potential investors should become more comfortable with investing in Wesfarmers.

Effect of Liquidity on Demand

An important consideration of large equity funds is marketability. Increased marketability improves investors ability to change the assets in their investment portfolio with increased certainty as to the price at which this can be achieved, reducing the investors required rate of return and increasing the attractiveness of the asset. The importance of liquidity in the asset allocation decision is highlighted by the existence of institutional investors requiring minimum levels of liquidity before acquiring securities in listed investments and the role it plays in market index weightings.

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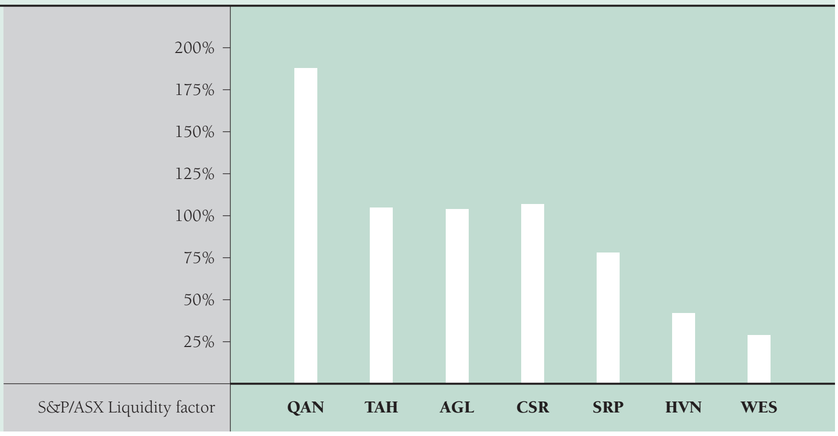
The following chart shows the average liquidity over the last six months for a selection of Australian companies, including Wesfarmers, as a percentage of the average liquidity of the ASX 100. The companies selected are of a similar size to Wesfarmers by full market capitalisation.

Six month relative liquidity (ASX 100)



The chart illustrates that the overall liquidity of Wesfarmers shares has generally been below that observed for similar sized Australian companies. As at 9 February 2001 Wesfarmers was the 24th largest company by market capitalisation in the ASX 100 but ranked 97th in terms of relative liquidity.

Given the relatively low liquidity of Wesfarmers shares historically it is likely that there exists excess demand for the Company's shares that cannot be met by volumes at current price levels. Consequently there may exist potential buyers of the shares who are either precluded (by investment mandate) from purchasing Wesfarmers shares or who cannot enter the market without paying a premium for the Company's shares and therefore refrain from buying. To the extent that increasing the supply of 'tradeable' shares will result in a larger volume of shares being available at a given price, a proportion of this demand should be able to be met.

6.3 Effect on Inclusion of Wesfarmers in Share Indices

A market index measures the weighted average performance of a set of companies within a market. Movements in an index reflect the movements in the closing share prices of the companies comprising the index, weighted for their importance as measured by their relative size (market capitalisation). Wesfarmers currently forms part of several Australian and global indices. The more significant indices that the Company is included in are the ASX 100, ASX 200 and the MSCI Australia Index. The ASX 100 and ASX 200 indices represent approximately 86% and 89% respectively of the total market capitalisation of companies listed on the ASX, while the MSCI Australia Index currently consists of 55 Australian companies representing 60% of the capitalisation of the Australian listed companies. The MSCI Australia Index, along with similar indices for 52 other countries make up the MSCI Global Index.

The inclusion or exclusion of a company from one of these major indices can have a significant impact on the level of interest that local and global equity funds will have in a company. Index weighted funds attempt to construct their portfolio to mirror or remain closely aligned to the weightings of their chosen index so that the fund performs in line with the particular market. It is estimated that approximately A$80 billion of funds under management in Australia are index weighted funds representing around 14% of total funds under management. In addition, most other fund managers use these indices as a benchmarking tool for their portfolios and use the companies that make up particular indices as their 'radar screen' of investible stocks.

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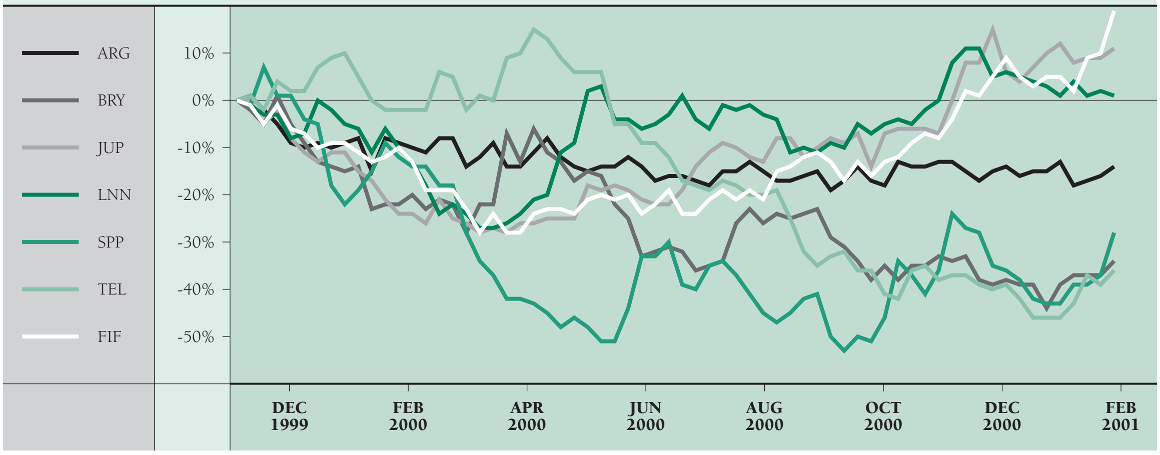
The following graph shows the share price performance for those companies (excluding Fletcher Challenge) excluded from the ASX 100 by S&P effective from 1 April 2000. It should be noted that the graph starts six months prior to the effective date to capture the effect of the markets anticipation of the downgrade. The exclusions were announced by S&P three weeks prior to the effective date. Whilst there has invariably been other 'news' affecting the performance of these companies over this period it is likely that exclusion from the ASX 100 has played some part in their underperformance.

Relative performance versus ASX 100



The weighting of companies within an index is initially based on the market capitalisation of a company relative to the market capitalisation of the companies comprising the particular index. Adjustments to the weightings by market capitalisation are then made according to the index compiler's preferred methodology. The ASX indices previously compiled by the ASX are now compiled by S&P. S&P calculate the composition of their indices based on a ranking of companies by their index capitalisation. Index capitalisation is market capitalisation multiplied by a company's liquidity factor. The object of the liquidity factor is to reduce the weighting of those companies whose liquidity is low so that the index better reflects the investability of the relevant index group. A company's market capitalisation and therefore its weighting is multiplied by the following percentages based on their liquidity factor.

S&P/ASX Liquidity Factor	Weighting Factor
< 12.5%	0%
12.5% > 16.6%	25%
16.6% > 25.0%	50%
25.0% > 33.3%	75%
> 33.3%	100%

The liquidity factor is based upon a company's median liquidity over the last six month period relative to the median liquidity of the companies comprising the index. Wesfarmers is currently included in the S&P/ASX 100 Index at 100% of its market capitalisation and represents 0.59% of the index. However, as indicated in the chart above (Six Month Relative Liquidity (ASX 100)) the liquidity of Wesfarmers is relatively low placing the Company in danger of being downgraded from a weighting factor of 100% to 75%. This would have a negative impact on the demand for Wesfarmers shares. The simplification proposal is expected to improve the liquidity of Wesfarmers shares thereby reducing the risk that the Company's weighting factor will be reduced in the future.

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Furthermore major index compiler, MSCI, announced on 10 December 2000 that it would adjust its equity indices for free float with the objective of enhancing the investablility of the indices. MSCI defines a company's free float as that percentage of total shares outstanding excluding shares held by strategic investors such as governments, corporations, controlling shareholders, management and shares subject to foreign ownership restrictions. For a constituent to be included its free float must be equal to or exceed 15%. Under MSCI's free float-adjustment methodology, a constituent's Inclusion Factor is equal to its estimated free float rounded up to the closest 5%. At present Wesfarmers free float after adjusting for the 46.2% held by its controlling shareholder, WFCL, is 53.8%.

If the present shareholding structure were to remain the weighting of the Company's shares in the revised MSCI Australia Index would be reduced from 100% of its market capitalisation to 55%. If the simplification proposal were to proceed, eliminating the direct holding of WFCLI, the Company would become 100% free floating and would maintain its full weighting in the MSCI Australia Index.

Other index compilers such as FTSE, S&P and Deutsche Bourse have announced their intention to include free float adjustments to their indices. FTSE International indices will be adjusted in June 2001.

6.4 Removal of Takeover Protection Mechanism

The current shareholding structure provides a mechanism to restrict the ability of any person other than WFCL from controlling Wesfarmers. WFCL holds all the voting interests in WFCLI, which in turn has a 46.2% direct interest in Wesfarmers. WFCL also holds the Founders Share, which entitles it to defeat any resolution in which it believes any person is trying to obtain control of Wesfarmers. In addition the Articles of Association of WFCL prevent any one person from becoming entitled to more than 10% of the Co-operative. Furthermore, should the shareholding restrictions in WFCL be removed or otherwise relaxed and a shareholder increases above the 10% threshold, GPML, as the Responsible Entity of FIF is able to elect 50% of the Board of WFCLI.

Following the successful completion of the simplification proposal Wesfarmers will obtain control of WFCL and WFCLI and cancel their respective shareholdings in the Company, thereby becoming the ultimate holding company of the Wesfarmers Group. As a result there will no longer exist a controlling shareholder or a mechanism to prevent a takeover of the Group.

The acquirer of a takeover target will usually ascribe a higher value to the underlying assets of a company than that reflected in the company's share price due to their ability to control the assets. In order to gain control of the assets an acquirer would generally need to offer existing shareholders a greater price for their shares than that at which they currently trade. The price paid by the acquirer, over and above the prevailing market price of the shares is known as the "premium for control".

Stock markets are acutely aware of the benefits that typically transfer to existing shareholders in the event of a takeover and as such the probability of a successful takeover offer being made is generally factored into investment decisions. Several companies have in the past indicated their intention to remove various takeover protection mechanisms as their shareholders become increasingly aware of the potential value that these structures may prohibit from being realised. For example, in October 2000 Australian Gas Light Company announced that discussions had commenced with the NSW Government regarding the removal of the company's 5% shareholding limit. AGL's share price rose 10% in the two weeks preceding the announcement and then fell 3% on the day. The 3% fall is believed to be as a result of the announcement not being as positive on the timing of the removal of the ownership restriction as anticipated.

Given the Company's current shareholding structure it is likely that the stock market has attributed little value to the probability of a successful takeover in pricing a Wesfarmers share. However another contributing factor may be the diversified nature of the Company's operations and the perception that the inherent probability of a takeover offer may be low in these circumstances.

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6.5 Effect on Wesfarmers Net Assets Per Share

Included below is a summary of the adjusted Wesfarmers audit reviewed balance sheet as at 31 December 2000 and the pro-forma balance sheet. The adjusted 31 December 2000 balance sheet makes adjustments for:

- the issue of shares pursuant to the Company's employee share plan;
- the sale of Wesfarmers Dalgety Limited ("Dalgety") to IAMA Limited ("IAMA") for a 60% interest in IAMA; and
- the February Placement.

The pro-forma balance sheet makes a further adjustment to the adjusted 31 December 2000 balance sheet for the effects of the simplification proposal.

It is our understanding that other than the adjustments noted above, the overall financial position of the Company has not changed significantly between 31 December 2000 and the date of this report.

BALANCE SHEET ($000's)	Pro-forma 31 Dec 2000	Actual Adjusted 31 Dec 2000
CURRENT ASSETS		
Cash	107,001	96,703
Receivables	646,785	645,190
Inventories	730,489	730,489
	1,484,275	1,472,382
NON-CURRENT ASSETS		
Receivables	190,907	190,907
Investments	332,486	326,557
Property, plant and equipment	1,513,924	1,513,924
Intangibles	206,881	206,881
Other	94,809	94,809
	2,339,007	2,333,078
TOTAL ASSETS	3,823,282	3,805,460
CURRENT LIABILITIES		
Accounts payable	531,452	526,944
Borrowings	385,486	351,898
Provisions	191,569	183,834
Other	139,418	139,418
	1,247,925	1,202,094
NON-CURRENT LIABILITIES		
Accounts payable	2,165	2,165
Borrowings	759,430	759,430
Provisions	166,268	166,204
Other	25,167	25,167
	953,030	952,966
TOTAL LIABILITIES	2,200,955	2,155,060
NET ASSETS	1,622,327	1,650,400
Outside Equity Interest	(97,433)	(97,433)
NET ASSETS attributable to Wesfarmers shareholders	1,524,894	1,552,977
Number of shares on issue (000's)	280,868	282,751
Net assets per share after OEI ($)	**5.43**	**5.49**

As can be seen, the simplification proposal does not significantly alter the balance sheet or net assets per share of the Company.

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6.6 Effect of the WFCL Scheme Not Proceeding

As outlined in Section 3.2 above, while the WFCL Scheme is conditional upon the FIF Unit Conversion, the FIF Unit Conversion is not conditional upon the WFCL Scheme. Therefore, in the event that the WFCL Scheme is unsuccessful the FIF Unit Conversion will still proceed, subject to the required approvals and other conditions being satisfied. Should this situation arise some steps in the simplification proposal would change:

- Wesfarmers would not acquire all the issued stock units in WFCL; and
- the Company would not be able to buy back the Wesfarmers shares held by each of WFCL and WFCLI. However the 4.6 million shares held by FIF would be bought back pursuant to a separate buy back agreement.

Consequently WFCLI would continue to hold the 130.7 million shares it owns in Wesfarmers. Following the issue of shares to FIF unit and option holders WFCLI's interest in Wesfarmers will be diluted from 46.2% to 32.4%. While WFCLI's, and therefore WFCL's, voting interest in Wesfarmers is diminished WFCL would continue to hold the Founders Share and maintain a degree of control over Wesfarmers.

The voting interests of existing Wesfarmers shareholders would also be reduced to approximately two thirds of their current levels as a result of the issue of shares under the FIF Unit and FIF Option Conversions, however there would not be a material change in earnings per share or net assets per share of the Company. It is anticipated by Wesfarmers management that the level of dividends received by Wesfarmers shareholders would also be maintained. This is due to dividends previously distributed to FIF unit holders being retained in the Group through the WSML structure and then redistributed to shareholders subsequently. To maintain the dividend received by shareholders other than WFCLI, Wesfarmers would need to 'gross up' the dividend payments to allow for the dividends that are retained within the Group. It is likely that this mechanism would affect investors perception of the complexity of the shareholding structure relative to the simplified structure that would eventuate if the simplification proposal were to succeed in full.

While the supply of tradeable shares in Wesfarmers would increase as a result of shares issued to FIF unit and option holders there would still exist a large non-trading block of shares held by WFCLI which would limit the effect that the simplification proposal would have on Wesfarmers share trading liquidity generally. Additionally, not all of the benefits of full index weighting would be realised by shareholders as Wesfarmers weighting in the MSCI Australia Index would decline to 70% of its market capitalisation as opposed to 100% if the WFCL Scheme and the simplification proposal were completed. It is noted that if the simplification proposal is completely unsuccessful the Company's MSCI weighting is likely to fall to 55%. The possibility of a reduction in weighting of Wesfarmers shares in the ASX indices would also be higher under this scenario as it is likely that any improvement in the trading volumes of the Company's shares would be offset by the increased number of shares on issue.

7. Valuation considerations of the GPML acquisition

7.1 Indicative Valuation of the Consideration Being Paid

Wesfarmers is a major diversified Australian public company with interests in fertilisers and chemicals manufacture; gas processing and distribution; coal mining and production; building materials, hardware retailing and forest products; rural merchandise and services; transport; and insurance.

The Company was admitted to the Official List of the ASX in November 1984 and now ranks amongst the top 30 Australian listed companies by market capitalisation. At the date of this report and after adjusting for the February Placement, Wesfarmers has on issue 282,751,889 fully paid ordinary shares held by approximately 41,000 shareholders. The 20 largest shareholders hold approximately 63.7%, with WFCLI holding 46.2%. Based on the closing share price on 12 February 2001 of $19.52, Wesfarmers has a market capitalisation in excess of $5 billion.

As part of the GPML Acquisition, the consideration to be paid to GPHL of 1,107,420 Wesfarmers shares has been determined by reference to the number of Wesfarmers shares that would equal $20 million based on the weighted average closing price of the Company's shares for the 30 days preceding the third day before the announcement of the simplification proposal. However, as Wesfarmers owns 50% of GPGL which in turn owns 89.83% of GPHL, the Company has a 44.92% beneficial ownership interest in GPHL. Accordingly the consideration attributable to GPHL shareholders other than Wesfarmers is 55.08% of $20 million or $11.02 million.

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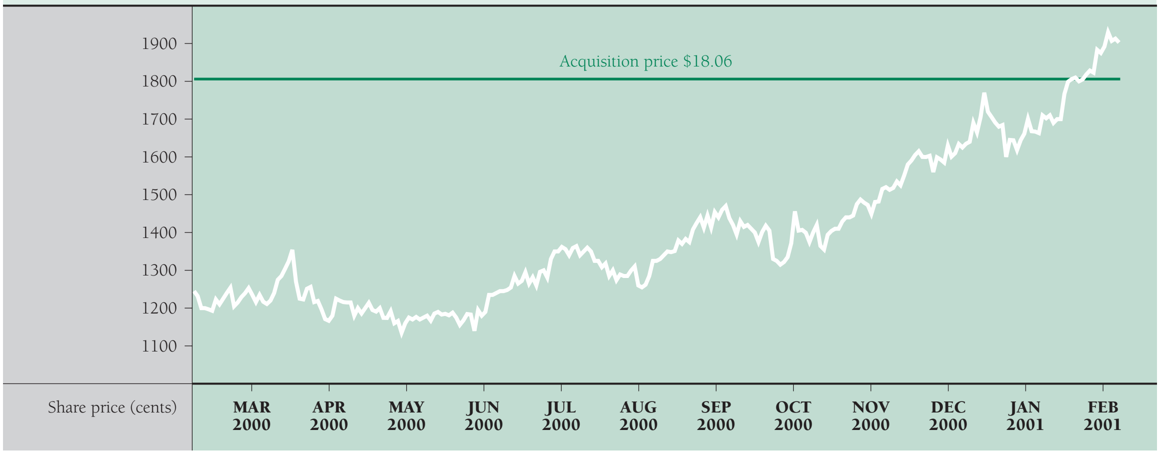
In considering the current share price of Wesfarmers as a measure of the Company's underlying value it is recognised that the market price of a company's shares generally reflects the buying and selling of small parcels that are usually traded on a short to medium term basis. The size of the parcels traded do not carry a controlling interest and represent the 'portfolio value' of Wesfarmers rather than the value of the company as a whole. Assuming the GPML Acquisition was to proceed, the 1.11 million shares that GPHL would receive as consideration would represent approximately 0.4% of the shares on issue post the simplification proposal. Accordingly, in determining an indicative value of the consideration being paid to GPHL we have not applied a control premium to the portfolio value of the Company.

The share trading history of Wesfarmers is discussed in Appendix 1. While the level of liquidity in Wesfarmers shares is considered to be low, having regard to volumes traded over the past six months and the comparatively small number of shares to be issued pursuant to the GPML Acquisition, it would not be expected that the selling of the Vendor Shares on market would have a material negative impact on Wesfarmers share price. Accordingly, in assessing the indicative value of the consideration being paid to GPHL we have not applied any liquidity discount to the portfolio value of the Company. Therefore, in our opinion, the basis of value used (weighted average closing price of the Company's shares for the 30 days preceding third day before the announcement of the simplification proposal) does not require any adjustment. Consequently our assessed value of the consideration being paid to the beneficial shareholders of GPML, other than Wesfarmers, is approximately $11.02 million.

7.2 Pricing of the Consideration

As discussed in Section 7.1 the pricing of the shares to be issued as consideration for the acquisition of GPML is based on the weighted average share price of Wesfarmers shares for the 30 days preceding the third day before the announcement of the simplification proposal, being $18.06. While this represents a small discount to the current market price, the shares are being issued at a substantial premium in comparison to Wesfarmers historical share price as Wesfarmers shares are trading at an all-time high.

Wesfarmers - Share price - *10 February 2000 to 9 February 2001*



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The following table illustrates the discount or premium at which the GPML Acquisition is being priced relative to the weighted average share price of Wesfarmers shares:

	Weighted Average Share Price $	Premium/(Discount) to Weighted Average Share Price %
Closing Price on 12 February	19.52	(7)%
Weighted Average for Previous Month	18.01	0%
Weighted Average for Previous 3 Months	16.94	7%
Weighted Average for Previous 12 Months	13.95	29%

7.3 Consideration of the Value of GPML to Wesfarmers

The assessment of the GPML Acquisition requires us to consider the value of the consideration being paid by Wesfarmers in comparison with the value of GPML. Generally in considering the fair value of GPML it would be appropriate to apply a suitable capitalisation multiple to the assessed maintainable earnings to assess fair market value of the Company, though, as discussed in Section 5, in these circumstances, the value of GPML to Wesfarmers consists of the liquidation value of the Manager Share and the value of gaining control of the Trustee Unit as a means of maximising the probability of completing the simplification proposal. Whilst the liquidation value of the Manager Share is only $1.00, in our opinion, this does not fully reflect the fair value of gaining control of the Trustee Unit because the majority of GPML's value to Wesfarmers is linked to the potential for a market re-rating of Wesfarmers shares following the completion of the simplification proposal.

We have considered the implied multiples that would need to be applied to the historical results of GPML in order to calculate a value for the assets of GPML which would equate to the fair value of the consideration being paid by Wesfarmers of $11.02 million to acquire the remaining 55.08% beneficial interest in GPML. Common valuation techniques that are applied specifically to comparisons of transactions involving 'funds management' companies and 'management rights' assets are:

- % of FUM (measured by consideration as a % of funds under management);
- Earnings multiple (measured by consideration/net profit after tax).

Given the passive nature of FIF's investment in WFCLI and in Wesfarmers, GPML's role as Manager of FIF is a passive one. Accordingly it is our view that GPML's characteristics are more akin to those of a property fund manager rather than a typical equity fund manager. Included in the table below are details of selected transactions involving the acquisition of property fund managers or property fund management rights.

Date	Target	Acquirer	Consideration $M	% of FUM	Historical Earnings Multiple
Aug 2000	Christie Retail Mgt Ltd/ Christie Retail Property Mgt Ltd	Homemaker Retail Property Trust	10.5	4.4%	6.5
Aug 2000	Macquarie Industrial Mgt Ltd*	Triden Corp Ltd	17.6	4.5%	n/a
July 2000	HRL Morrison & Co (Aust)	Hastings Fund Mgt	16.2	4.5%	n/a
Sept 1999	Heine Management Ltd	Mercantile Mutual	111.6	4.1%	n/a
Aug 1999	Schroders Property Funds Mgt Ltd	AMP Ltd	112.5	3.8%	n/a
June 1999	Goodman Hardie Mgt Ltd	Triden Corp Ltd	19.5	4.0%	n/a

* Provision existed in the constitution of the Trust for compensation to be paid to the manager in the event of a takeover.

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The following table summarises the historical FUM percentages and earnings multiples for GPML that are implied by the fair value of the consideration being paid.

	Year Ended 30 November			
Implied FUM %	**2000**	**1999**	**1998**	**1997**
Funds Under Management* ($M)	2,026	1,459	1,549	1,385
Consideration as a % of FUM	1.0%	1.4%	1.3%	1.5%

* Market value of investments in WFCLI/Wesfarmers

	Year Ended 30 September			
Implied Earnings Multiple	**2000**	**1999**	**1998**	**1997**
Net Profit After Tax ($000)	2,915	3,214	2,626	2,286
Earnings Multiple	6.9	6.2	7.6	8.7

The implied FUM percentages are considerably lower than those observed in the abovementioned comparable transactions. Given the passive nature of GPML's role as Manager we would expect a lower implied FUM percentage than the 3.8% to 4.5% noted in the above transactions, however it is noted that the implied FUM percentages are particularly low and represent an approximate 65% discount to the observed FUM percentages.

Earnings multiples were not readily available for the majority of the selected transactions as fund managers are typically privately held companies. We do however note that the implied earnings multiples are low in the current economic environment and that the increase in Wesfarmers share price in recent months may well result in a material increase in GPML's earnings this year.

7.4 Alternatives to the GPML Acquisition

Wesfarmers considered alternatives to the GPML Acquisition in effecting the simplification proposal, however we have been advised that these alternatives gave rise to legal and taxation risks. As noted in Section 7.3 above, it is common for fund managers to be compensated for foregoing management and other rights. However, as the following recent examples illustrate, in some cases, control of management rights has been gained through removal of a manager without compensation.

- In August 2000 both the Stockland Group Trust and the Mirvac Group announced takeover bids for the Australian Property Fund ("APF"). In bidding for APF neither bidder was offering any consideration to the external manager.
- In October 2000 Consolidated Press Holdings Ltd ("CPH") called a unit holders meeting to remove MTM Funds Management as the manager of the MTM Office Trust (in which CPH has a significant interest) on the grounds of underperformance and replace them with James Fielding Investments. The meeting approved the change without offering any consideration to the outgoing manager.

In this instance, GPML has fulfilled its obligations as the responsible entity of FIF and, whilst Wesfarmers could seek to be appointed as the responsible entity of FIF without the consent of GPML, such a move might threaten the progress of the simplification proposal. The GPML Acquisition provides Wesfarmers with a means of enhancing the probability that it will successfully complete the simplification proposal.

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8. Opinions

Based on the detailed discussion and analysis throughout this report on the various advantages and disadvantages associated with the simplification proposal, in our opinion, the simplification proposal is in the best interest of the Public Shareholders of Wesfarmers.

Based on the detailed discussion and analysis throughout this report, in our opinion, the GPML Acquisition, in the context of the simplification proposal, is fair and reasonable to the Public Shareholders of Wesfarmers.

It is important that the Public Shareholders of Wesfarmers consider our opinions in the context of the entire report, including the sources of information and declarations contained in Appendix 2 of this report, taking into account relevant advantages and disadvantages of both the simplification proposal and the GPML Acquisition.

Yours faithfully

Martin Alciaturi

Director

Ken Pendergast

Authorised Representative

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APPENDIX 1

Share trading history of Wesfarmers

The following table summarises the share market trading of Wesfarmers for the eight month period up to 31 January 2001.

Share Prices

Month	High $	Low $	Close $	Volume 000's	% on Issue Traded
June 2000	13.35	11.55	13.30	3,581	1.4%
July	13.98	12.73	12.85	3,448	1.3%
August	14.69	12.52	14.13	4,245	1.6%
September	14.70	13.04	13.35	3,078	1.2%
October	15.05	13.35	14.73	2,944	1.1%
November	16.49	14.30	16.30	3,960	1.5%
December	17.70	16.00	16.18	3,388	1.3%
January 2001	18.30	16.20	18.23	3,106	1.1%

Other than the lodgement of standard half-yearly and annual reports, the only significant announcements made by or in relation to the Company during the period covered in the table were as follows:

- On 5 July 2000, the Company announced that a subsidiary, Dalgety, had teamed with Rural Press Limited and McKinsey & Company to create a 'one stop' Internet portal network for agriculture.
- On 7 July 2000, IAMA announced that it had made a placement of 12,896,134 shares to Wesfarmers to raise approximately $16.4 million. IAMA also announced that it had entered into discussions with Wesfarmers concerning a potential merger between IAMA and Dalgety.
- On 8 August 2000, Wesfarmers announced a record after-tax profit (before abnormals and goodwill amortisation) of $201.8 million for the year ended 30 June 2000. This represented growth on the 30 June 1999 year of 9%. A fully franked dividend of 48 cents per share increased the full year distribution to 73 cents per share, compared to 67 cents per share in fiscal 1999. The Company also confirmed its positive profit outlook for the 2001 financial year.
- On 22 August 2000, Sotico Pty Ltd, a subsidiary of Wesfarmers, announced an agreement to sell its woodchip, plantation services operations and plantation assets to Marubeni Corporation for $58 million.
- On 22 August 2000, IAMA announced that subsidiaries of Futuris Corporation Limited ("Futuris") were seeking court action to reverse the placement made to Wesfarmers and terminate the agreement between IAMA and Wesfarmers for the parties to work towards a merger proposal between IAMA and Dalgety.
- On 30 October 2000, Wesfarmers advised that the Australian Railroad Group ("ARG"), in which it has a 50% interest, had been successful in acquiring the business of Westrail Freight and a 49 year lease on the rail network for $585 million. ARG was expected to be earnings per share positive for Wesfarmers immediately.
- On 6 November 2000, the Company announced an operating profit after-tax of $42.6 million for the first quarter ended 30 September 2000. This represented growth on the 30 September 1999 quarter of 48%. The Company confirmed its positive profit outlook for the 2001 year.
- On 28 November 2000, Wesfarmers and IAMA announced their intention to merge the IAMA and Dalgety businesses. Under the proposal IAMA would acquire Dalgety in return for the issue of 116 million shares in IAMA, representing approximately 60% of the expanded issued capital of IAMA. The merger proposal is conditional upon IAMA shareholder approval and Futuris ceasing all legal action against IAMA and Wesfarmers.

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- On 11 December 2000, the Company announced that agreement had been reached with Futuris regarding legal actions in relation to the IAMA merger proposal.
- On 9 January 2001, the Company announced its intention to make a takeover offer for the remaining shares in IAMA that it would not own following the completion of the IAMA merger proposal. The consideration offered was $1.65 cash for each share.

Wesfarmers shares have traded in the range of $11.55 to $18.30 during the eight month period to 31 January 2001, with the high of $18.30 being recorded on 31 January 2001. On 12 February 2001, the share price closed at $19.52. The Company's share price has in general risen over this period with the month end closing price gaining 37% since June 2000. The steady appreciation in the share price has coincided with positive announcements concerning industry rationalisation in rural services, the successful bid for Westrail Freight and the continued strong profit performances.

The volume of trading over the period has been consistent with an average monthly volume of 3.47 million shares. It is however noted that the stock is fairly illiquid with only 1% to 2% of the total issued shares being traded on a monthly basis. WFCLI's 46.2% interest is a major contributing factor to the illiquidity of Wesfarmers shares.

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APPENDIX 2

Sources of information and declarations

1. Sources of Information

In preparing this report we have relied on the following principal sources of information:

- the draft Notice of General Meeting and the Explanatory Memorandum prepared in relation to the Meeting;
- the financial statements of GPML for the year ended 30 September 2000;
- the FIF Constitution and various legal opinions regarding the interpretation thereof;
- advice provided by Ord Minnett Corporate Finance ("JP Morgan") in relation to the financial terms of the simplification proposal;
- the draft Notice of Meeting and Explanatory Memorandum prepared in relation to the FIF unit and option holders meeting;
- the Constitution of WSML;
- the Explanatory Memorandum prepared in relation to the WFCL Scheme;
- the Explanatory Memorandum prepared in relation to the Scheme of Arrangement between WFCL and its stockholders dated 14 October 1988;
- the Memorandum and Articles of Association of GPML;
- the annual report of Wesfarmers for the year ended 30 June 2000;
- the annual reports of FIF for the years ended 30 November 1997 to 2000;
- various stockbrokers industry and company research reports;
- various other publicly available information; and
- discussions with the management of Wesfarmers.

2. Declarations

This report has been prepared at the request of the Independent Directors of Wesfarmers specifically for the Wesfarmers shareholders not associated with the simplification proposal or the GPML Acquisition. It is not intended that this report be used for any purpose other than to accompany the Notice of Meeting and Explanatory Statement to be sent to Wesfarmers shareholders. In particular it is not intended that this report should be used for any purpose other than as an expression of our opinions on whether or not the simplification proposal is in the best interest of the Public Shareholders and whether or not the GPML Acquisition is fair and reasonable to the Public Shareholders.

Neither EYCF, nor Ernst & Young, nor any member or employee thereof undertakes responsibility to any person, other than the Public Shareholders of Wesfarmers, in respect of this report, including any errors or omissions howsoever caused. EYCF holds a Dealers Licence issued pursuant to the Corporations Law and is authorised to provide the opinions presented within this report.

Mr Martin Alciaturi and Mr Ken Pendergast have assumed overall responsibility for this report. Mr Alciaturi is a director of EYCF and a partner of Ernst & Young, and has over 12 years experience in providing commercial, financial and valuation advice. Mr Pendergast is an authorised representative of EYCF and a principal of Ernst & Young, and has over nine years experience in corporate finance and valuation. Both have the professional qualifications appropriate to the advice being offered. Other EYCF and Ernst & Young staff have been consulted in the preparation of this report where appropriate.

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Ernst & Young are Auditors and Tax Advisors of Wesfarmers and WFCL and are the Auditors of the Food & Agribusiness Investment Fund, a fund managed by Gresham Rabo Management Limited. EYCF was involved in some preliminary conceptual discussions in relation to the simplification proposal and Ernst & Young has provided Wesfarmers with some advice with regard to the accounting implications of the simplification proposal. However, neither EYCF nor Ernst & Young have provided advice to any party on the specific terms of the simplification proposal or the terms and conditions of the GPML Acquisition.

We have held discussions with the management of Wesfarmers regarding the factual accuracy of the information contained in this report. We did not change the methodology used in our assessment as a result of these discussions.

In the preparation of this report we have considered the accuracy and appropriateness of the information and explanations given to us. We emphasise that we have not carried out an independent confirmation of the information nor have we conducted anything in the nature of an audit. We do not imply, nor should it be construed that our assessment has revealed all the matters which an audit or more detailed examination might disclose. We have however evaluated information provided to us by Wesfarmers, as well as other parties through enquiry, analysis and review and nothing has come to our attention to indicate the information provided was materially mis-stated or did not afford reasonable grounds upon which to base our opinion. We have no reason to believe that any information relied on by us is incorrect.

The statements contained in this report are given in good faith and have been derived from information believed to be reliable and accurate. We have no reason to believe that any information has been withheld from us.

EYCF will receive a professional fee based on the time spent in the preparation of this report. EYCF will not be entitled to any other pecuniary or other benefit, whether direct or indirect, in connection with the making of this report.

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APPENDIX 3

Glossary

ASX means Australian Stock Exchange Limited.

February Placement means the fully underwritten placement of 11.0 million ordinary shares in the Company to raise a net amount of approximately $206 million, announced by Wesfarmers on 13 February 2001.

Buy-back means the proposed buy back by Wesfarmers of all the shares in Wesfarmers held by its subsidiaries following the completion of the WFCL Scheme, the FIF Unit Conversion, the FIF Option Conversion and the GPML Acquisition.

CGT means capital gains tax.

DPCL means Dairy Properties Co-operative Limited.

EPS means earnings per share.

EYCF means Ernst & Young Corporate Finance Pty Ltd.

FIF means The Franked Income Fund.

FIF Option Conversion means the offer being put forward to FIF option holders to convert their existing options into ordinary shares in Wesfarmers at the ratio of one Wesfarmers share for every 10.5614 FIF options held.

FIF Unit Conversion means the offer being put forward to FIF unit holders to convert their existing units in FIF to ordinary shares in WSML.

GPGL means Gresham Partners Group Limited.

GPHL or the Vendor means Gresham Partners Holdings Limited.

GPML means Gresham Partners Management Limited.

GPML Acquisition means the acquisition by Wesfarmers of all the issued shares in GPML from GPHL for a consideration of $20 million to be satisfied through the issue of 1,107,420 Wesfarmers shares.

Law means the Corporations Law.

Manager means the manager of FIF as defined in the FIF constitution.

Meeting means a meeting of Wesfarmers shareholders to be held on or about 6 April 2001 to consider the simplification proposal.

Public Shareholders means those Wesfarmers shareholders who are not associated with GPHL, FIF, WFCLI or WFCL.

simplification proposal means the proposal being put forward by Wesfarmers to simplify its current shareholding structure through the completion of the WFCL Scheme, the FIF Unit Conversion, the FIF Option Conversion, the GPML Acquisition and the Buy-back.

S&P means Standard & Poor's.

Vendor Shares means the number of ordinary shares in Wesfarmers, based on the weighted average share price for the 30 days prior to the third day before the announcement of the simplification proposal, equal to $20 million, being 1,107,420.

Wesfarmers or the Company means Wesfarmers Limited.

WFCL or the Co-operative means Westralian Farmers Co-operative Limited.

WFCL stockholders means the members of WFCL.

WFCL Scheme means the proposed scheme of arrangement between WFCL and Wesfarmers.

WFCLI means WFCL Investments Pty Ltd.

WSML means Wesfarmers Securities Management Limited.

Corporate directory

Directors

CH Perkins, A.O. (Chairman)
KP Hogan, O.A.M. (Deputy Chairman)
MA Chaney (Managing Director and Chief Executive Officer)
E Fraunschiel (Finance Director)
DJ Asimus, A.O.
TR Eastwood, A.M.
TJ Flugge, A.O.
LA Giglia
JP Graham
RD Lester
DEW Nuttall
JM Paterson
DC White

Company Secretary

PJ Johnston

Registered Office

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Telephone: (08) 9327 4211
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Share Registry

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Stock Exchange Listing

Wesfarmers Limited is listed on Australian
Stock Exchange Limited.
ASX Code – WES

Solicitors to Wesfarmers

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Expert

Ernst and Young Corporate Finance Pty Ltd
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Independent Accountant

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OWNERSHIP - SIMPLIFICATION PLAN