

Strathfield Group Limited

27 June 2000

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D00/22659



RAC0006DYK

Dear Sir,

Strathfield Group Limited Public Compliance Commitment Statement

This Public Compliance Commitment records our commitment to:

- comply with the Trade Practices Act 1974, in particular Part VB of the Act
- not engage in price exploitation in relation to the New Tax System;
- comply with the price exploitation guidelines as expanded in this commitment;
- pass on to consumers any net cost benefits realised as a result of the New Tax System changes;
- advertise and display GST - inclusive prices in a way that is not misleading or deceptive; and
- ensure there is an effective compliance program in place.

Cost Changes

Strathfield expects to receive some cost reductions from the reduction and abolition of wholesale sales tax and other indirect taxes. We are in the process of analysing our costs and requesting information from our suppliers regarding the impact of the New Tax System changes on the prices of their products. This process will provide us with estimates of the savings we might anticipate in relation to our inventory and operating costs/capital costs. This is an ongoing process both in terms of the identification and realisation of these savings, which will be reflected in our prices.

The majority of our stock is purchased tax free by our wholesale company and sales tax is calculated and paid at the time of the retail sale. For items purchased tax paid, our internal systems are able to identify the wholesale sales tax included in our inventory cost. We will therefore be able to calculate accurately the value of wholesale sales tax to be removed from individual stock lines for the purposes of repricing products for sale. Our systems are also able to accurately determine the gross margin values applicable to each individual item that Strathfield sells.

We have developed a pricing model for the purpose of determining our new retail prices to apply after 1 July 2000. A sample of the model based on actual data from our inventory management system is included as Attachment 1 to this Statement for your information on a commercial-in-confidence basis.

The model is built down to the individual product level and works as follows:

The cost price of the product excluding wholesale sales tax recorded in our inventory system

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Plus: the dollar value gross margin achieved prior to 30 June 2000

Plus: the value of any additional net compliance costs incurred as a result of implementing the New Tax System changes

Less: the value of anticipated direct operating cost savings achieved as a result of the New Tax System changes

Plus: the value of losses which flow from the sales tax effect on rebates

Equals the new selling price for Strathfield.

The 10% GST will be added to this selling price to determine the new retail price for display on price tickets and register dockets.

The final calculated retail prices will be rounded to set price points. They will be reviewed to ensure that no individual retail price has increased by more than 10%. Where this might otherwise occur, the retail price will be reduced to the appropriate lower price point and the cost recovery will be deferred.

This pricing model will be implemented for retail price changes on 1 July 2000. The new retail prices referred to will be our normal retail prices and markdowns for advertising promotions, sales, etc. will be based on these new retail prices. We plan to maintain the revised retail prices until the next review date.

The input to the model for savings achieved under the New Tax System changes will be based on the immediate direct savings in operating costs anticipated for Strathfield. The input to the pricing model for additional net compliance costs is discussed later in this Statement. Both of these factors will be allocated across all individual products as they will be calculated based on a percentage of purchases at cost.

We plan to review our retail prices again prior to 1 December 2000, being the calculated time when all existing stock on hand at 30 June 2000 will be sold. This process will take the form of several reviews rather than reviewing the entire product range at once. Each review will be category based i.e. audio, cellular and home office, and the timing of the review will be in line with our stock turnover for that category.

The pricing model will again be used, but we also plan to factor in updated information related to "upstream savings", which will be reflected in our inventory system by lower purchase prices of inventory from our suppliers, and the impact on the Company's net margins of changes in operating costs.

The pricing model will be used to determine the revised retail prices for all inventory provided by Strathfield.

Cellular handsets are not included in the price model because, being an agent, we do not set the prices of these products. The vendor pays us a commission and makes a contribution towards some of our costs. The vendor sets the retail price.

To support the sale of our cellular and audio products we also provide an installation service for these products and burglar alarms. For this installation charge, our post GST price will be capped at our current selling price plus 9.8%. Any cost recovery will be

applied against the associated products.

Supplier Program

Our Company has implemented a program to encourage suppliers to pass on to us the cost savings they achieve as a result of the New Tax System.

We have communicated in writing to each of our inventory and other suppliers, reminding them of their obligations under the New Tax System to pass on all savings to their customers in revised pricing from 1 July 2000. A copy of the letters is included as Attachment 2 to this Statement for your information on a commercial-in-confidence basis.

The gathering of revised pricing information is an ongoing process and we will continue to vigorously follow up these savings in our price negotiations with suppliers. We have also advised our Buyers and other relevant staff members who negotiate prices of goods and services on behalf of the Company to pursue tax reform from our suppliers.

Implementation and Compliance Costs

In assessing the net effect of the New Tax System on costs, we shall include only those estimated implementation and compliance costs reasonably incurred and directly attributable to the introduction of the New Tax System. The estimated loss of our present sales tax deferral benefit as well as the GST cash flow benefit, which the company will enjoy on its sales and purchases, will be included in these compliance costs. We will provide a detailed analysis of the net implementation and compliance costs on completion for your information on a commercial-in-confidence basis.

Impact of New Tax System Changes on our Business

The impact of the New Tax System changes on our product range will mean that, overall, our products will be less expensive after the GST. It is anticipated that while software and installation costs will increase, home office and audio products will decrease after the implementation of GST. The impact of reduced prices of home office and audio will be greater than the impact of the increased retail prices of software and the installation cost associated with audio and cellular.

Customer Information

We plan to provide our customers with information about the potential impact of GST on their purchase decisions. This will be achieved primarily through point of sale materials and "fact sheet" posters, which will be prominently displayed in our stores. Examples of this information are included as Attachment 3 to this Statement.

Strathfield will continue its commitment to ensuring that we will not mislead or deceive our customers in the claims we make about the goods and services we sell.

These principles are also passed onto customer service staff in our retail stores through regular training sessions and store managers' meetings.

Complaints Handling

Strathfield has an established complaints handling system, and encourages customer complaints or disappointments to be communicated and resolved directly with the store manager in the first instance, then our Customer Service Department and, if necessary, senior management of the Company.

An internal system will be implemented, and communicated to our customers through in-store signage and brochures, to handle specific queries related to the GST. Our brochure will contain frequently asked questions and, where further information is sought, will direct customers to the store manager (who will either deal with the enquiry personally or escalate it to our Customer Service Manager, Linda DeMartin) and the ATO and ACCC Websites. There will also be the facility for technical GST queries to be escalated to senior management through Linda DeMartin for resolution.

Price Display

Strathfield will be showing GST inclusive prices at all points of interaction with the customer. During the changeover period from 1 July 2000, shelf display prices in our Strathfield Car Radio, MLC Car Radio and Brisbane Car Sound Stores will be altered overnight on 30 June 2000 and register pricing will be changed immediately on 1 July 2000.

We will be adopting a dual ticketing policy, but only for software products and some home office products in our Software Today Stores. These are presently ticketed on an individual basis. We will be using coloured stickers with dual ticketing for fast moving stock, but the old sticker will be removed for the slower moving stock. All individual stock unit price tags will be progressively altered over the period to 31 July 2000, with prominent signage displayed throughout our stores to indicate whether prices on products are GST inclusive or exclusive.

Our register dockets will display all prices as GST inclusive and conform to the Tax Invoice requirements. The dockets will indicate the total GST paid by the customer included in the final aggregate sale amount and identify whether each individual item is taxable.

Pricing Policies

As mentioned previously, Strathfield has developed a pricing model to ensure that price changes are in accordance with ACCC guidelines. The pricing model will be used to document all global price changes after 30 June 2000, for individual stock items, which were in existence on 30 June 2000. At this stage, we plan to review our prices initially within five months, and then each five months thereafter until 31 December 2001, to reflect the Company's average stock turn period.

Our pricing policy for any new products added to our ranges is to achieve similar gross margins to those we have achieved for similar products in our range.

Compliance Program

Strathfield has a comprehensive compliance and customer management program, which is to be extended to cover the New Tax System.

The pricing policy component of the program is the responsibility of the National Product Group Manager and the customer management component of the programme is the responsibility of the Store Manager.

Both our Buying Department and retail customer service staff will be trained in their respective responsibilities and customers' rights.

As stated previously, we have a comprehensive complaints handling program that ensures we find solutions to consumer issues.

Liaison with the Commission

Strathfield is committed to complying with our obligations under the law. As part of this commitment, we will ensure complaints made and issues arising are dealt with expeditiously and with the full co-operation of our organisation. We have appointed Trevor Hannah, Company Secretary, to be our liaison officer responsible for providing information to, and being the first point of contact for, the Commission on this commitment.

We will co-operate with Commission representatives undertaking price monitoring and other activities in exercising its powers under the Act.

Reporting and Information Provision

Our Company will inform the Commission before making any significant price changes related to or likely to be perceived to be related the New Tax System changes. We will provide relevant information supporting the basis for those price changes.

We will ensure that reports and information provided are independently verified, where possible, and will be sufficiently detailed to enable the Commission to be satisfied that our prices reflect cost savings achieved. These reports will be provided on a six monthly basis.

Yours faithfully,



Andrew Kelly
Chief Executive Officer