

**19 APRIL 2010****ELPH RESPONDS TO COOTE'S TARGET'S STATEMENT**

Elph Pty Ltd ('Elph') considers there is nothing in the Target's Statement issued by Coote Industrial Limited ('Coote') that justifies the rejection of Elph's offer by Coote's directors. Further, Elph believes the Target's Statement glosses over the fundamental issues facing Coote and defends its position with an Independent Expert Report which shows a massive loss in Coote value over the past few months.

Coote states that Elph's offer provides no material benefit to Coote shareholders. With due respect, Elph disagrees. Elph is providing Coote shareholders the ability to de-risk their exposure to Coote at a premium to the pre-offer announcement share price in the context of Coote's history of underperformance and ongoing share price risk following the impending close of the offer.

Elph makes the following points in relation to the Target's Statement:

- **COOTE REMAINS IN A PRECARIOUS FINANCIAL POSITION**
 - Coote acknowledges that it is in the hands of its bank and requires the ongoing support of its bank to meet its financial obligations.
 - Coote acknowledges that it needs to reduce its current debt, be recapitalised and that this is not solved by the proposed sale of the South Spur Rail business promised by end of April 2010. Coote also acknowledges that a future equity capital raise is likely to be at a discount to the market price.
 - Coote has flagged that FY2010 net profit after tax may be less than its most recent forecast.
 - Coote's strategy to reduce its debt is to raise additional equity in Greentrains Limited. Despite a 1 March 2010 Coote promise to lodge a prospectus for this raising by 31 March 2010, no underwriter or broker has been appointed nor is a prospectus available. Coote has been unsuccessfully attempting to recapitalise Greentrains for approximately 18 months.
 - Elph reconfirms that the present intention of Elphinstone Holdings Pty Ltd is to exercise its \$6.5 million put option to Coote in relation to its shareholding in Greentrains. Coote offered and granted this put option to induce Elph to invest in Greentrains and enable Coote to settle the first tranche of rolling stock to Greentrains. The value of the 19.8% current equity interest held by Elphinstone Holdings Pty Ltd in Greentrains is considered to be significantly less than the \$6.5m invested. The decision to exercise the put option is a commercial one which would have occurred regardless of the takeover offer. Exercising the put option prior to any Elph representatives joining the Coote Board also removes any of the perceived conflicts raised in Coote's Target's Statement.

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- **THE TARGET'S STATEMENT CONTINUES TO GLOSS OVER THE UNDERPERFORMANCE OF COOTE'S UNDERLYING BUSINESSES**
 - Coote has significantly underperformed its peers and the broader market over a prolonged period. Coote's Board refuses to accept responsibility for this. Minimalistic changes to the Coote Board are insufficient to address this, and one Elph Board seat out of five is not acceptable to Elph.
 - The jury is still out as to whether the financial impact and ongoing terms of sale of the South Spur Rail Services business are indeed a positive outcome for Coote shareholders as Coote has asserted. Elph wrote to Coote raising a number of questions in relation to the highly conditional sale, and Coote promised to respond to some of these as well as provide a more detailed response in the Target's Statement. Contrary to this, Elph has not received any such response, and the Target's Statement does not address many of these questions.
 - **SHAREHOLDERS SHOULD CONSIDER THE FOLLOWING WHEN READING THE INDEPENDENT EXPERT REPORT**
 - The *same* Independent Expert has now valued Coote at a level which is approximately *one third less* than it valued Coote only seven months ago.¹ This is consistent with the dramatic recent deterioration in the value of Coote shares prior to the announcement of Elph's bid.
 - The *same* Independent Expert seven months ago regarded an Elph investment in Coote at 17 cents as being reasonable. Now it regards the 26 cents Elph offer as not being reasonable, despite this dramatic value deterioration in the interim. You should form your own view in relation to this logic.
 - The Independent Expert has confirmed that the Elph offer of 26 cents falls within its valuation range of 25.4 cents to 33 cents using a quoted market price with a control premium methodology.
 - **COOTE'S SHARE PRICE CONTINUES TO TRADE AT OR BELOW THE ELPH OFFER PRICE**
 - The Offer price is 26 cents per share in cash which represents an attractive premium of 33.3% over the closing price of Coote shares prior to announcing the Offer.
 - Since the announcement of the Elph Offer, the Coote share price has not closed above the Offer price and continues to trade at or below the Offer price.
 - Since the announcement of Elph's Offer there has been no other offer or proposal put forward by any other party nor is any expected.
 - There is a significant risk that Coote's share price will fall following the close of the Offer if Elph's Offer is not successful.

¹ We refer you to the Independent Expert Report dated 17 September 2009 that was commissioned in relation to the proposal to issue convertible notes to Elph at a conversion price of approx. 17 cents per share. This report was announced to the ASX by Coote on 21 September 2009.

▪ **THE STATEMENT MADE IN THE TARGET'S STATEMENT THAT ELPH'S OFFER DOES NOT PROVIDE ANY BENEFITS TO COOTE SHAREHOLDERS IS FUNDAMENTALLY MISLEADING**

- Elph is providing Coote shareholders the ability to de-risk their exposure to Coote at a premium to the pre-offer announcement share price in the context of Coote's history of underperformance and ongoing share price risk following the impending close of the offer.
- By increasing its ownership interest in Coote, Elph plans to exert more influence on Coote's future direction. This should assist Elph in bringing about changes at Coote aimed at delivering improved performance, corporate governance and shareholder returns.
- There appears to be an assumption by Coote that Elph's Chairman Mr. Dale Elphinstone will accept an offer to join the Coote Board regardless of the outcome of the Elph Offer. Mr. Elphinstone will reconsider his desire to join the Coote board if the Elph offer is unsuccessful and the Board changes outlined in the Bidder's Statement cannot be implemented.
- Elph will need to reconsider its investment in, and support for Coote if its offer is not successful.

▪ **COOTE'S TARGET'S STATEMENT CONTAINS A RANGE OF INACCURACIES**

It is not constructive for Elph to correct every claim or inaccuracy stated by Coote in its Target's Statement. A few examples below indicate why Coote shareholders should regard that document with scepticism:

- Coote says that Elph's offer is timed to coincide with "short term weakness" in the Coote share price. There is nothing "short term" about the downwards slide in Coote's share price.
- Coote dismisses the influence that Elph may be able to have on the Caterpillar/Progress Rail Services relationship which Coote itself says is of strategic importance to its rail business. This is quite astonishing.
- Coote states that the takeover premium offered by Elph is only two to three cents per share. This is not borne out by the facts.

If shareholders have any queries regarding how to accept the offer, they should call 1300 733 145 for callers within Australia and +612 8256 3362 for callers outside Australia. For further enquiries, please contact either:

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