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Company	Code	Released	Type	Headline
Feltex Carpets Limited	FTX	1 Aug, 2006, 17:05	AQNOTICE	GODFREY HIRST TO ACQUIRE FELTEX CARPETS

Full Text of Announcement

Feltex Carpets Limited (Feltex) has entered into an Agreement which proposes the sale of its operations to Godfrey Hirst.

If the transaction is approved by Feltex shareholders and all other conditions are satisfied, the transaction should result in a return to Feltex shareholders of up to 12 cents per share.

As well as Feltex shareholder approval, the key conditions of the Agreement are execution of formal sale and purchase documentation, completion of due diligence by Godfrey Hirst, regulatory approvals by the Australian Competition and Consumer Commission and Foreign Investment Review Board, and the New Zealand Commerce Commission and the Overseas Investment Office. It is expected that due diligence will be completed by 21 August 2006 and, subject to obtaining necessary consents and approvals, settlement should occur in early October.

Key elements of the proposed transaction are:

- Godfrey Hirst will acquire the shares of Feltex Australia Holdings Pty Limited (through which Feltex Carpets Limited operates its Australian business), and will acquire the assets and assume the non-interest bearing liabilities of Feltex Carpets Limited in New Zealand;
- The consideration payable by Godfrey Hirst for the operations of Feltex will be \$141.8 million subject to movements in working capital until settlement date (expected to be early October);
- The Company's bankers have agreed to facilitate this Agreement by allowing a distribution to Feltex shareholders of up to 12 cents per share provided various conditions are met;
- The final amount that will be available for return to Feltex shareholders will be a function of the working capital adjustments, Feltex's trading cash flow until settlement with Godfrey Hirst, prevailing exchange rates and the interest bearing debt level at settlement. The maximum amount able to be returned to Feltex shareholders is 12 cents per share;
- Of the \$141.8 million to be paid by Godfrey Hirst, an amount will be held in escrow as security for the warranties to be provided by Feltex to Godfrey Hirst. The escrow arrangement is capped at \$4.5 million which equals approx 3 cents per Feltex share. The period for escrow claims ends on 31 May 2007;
- It is currently expected that an initial return of capital to shareholders will be made as soon as possible after settlement, with a second final return of capital to be made following release of any remaining escrow.

The Proposal will be reviewed by an Independent Expert. It is expected that a special meeting will be called in September for shareholders to vote on the Proposal. The Proposal will require approval by 75% vote of Feltex shareholders.

Feltex chairman Tim Saunders said the Board of Feltex has agreed to support the Proposal in the absence of any alternative proposal being presented that was more favourable to Feltex shareholders and the Company's stakeholders than the Godfrey Hirst Proposal.

Feltex is free to receive and consider any alternative proposals until the special shareholders' meeting, he said.

"We understand Feltex shareholders will be extremely disappointed with the position that the company is now in. However, the Board believes Feltex's debt levels are too high and, in the absence of alternatives, it should put the Godfrey Hirst Proposal to shareholders.

"At an operating level the business has been generating positive cash flow. However the market and profitability downturn of last year, and the subsequent restructuring costs, meant that a balance sheet restructuring had to occur in the near future.

"While the Board has worked hard on introducing new equity to the business, we have not been able to attract proposals that we believe would have resolved the concerns of the Bank."

This transaction will result in all current employee entitlements and conditions in Australia and New Zealand being taken over by Godfrey Hirst.

The Agreement provides that all trade creditors and other payables and all business contracts and operational matters will be assumed by Godfrey Hirst at settlement.

In addition, all Feltex's carpet brands and products are to continue to be made available to the market.

Godfrey Hirst will be entitled to a "break fee" of \$1 million if the transaction does not close because Feltex accepts an alternative proposal, or a fee of \$750,000 if Feltex shareholders do not vote to accept the Proposal and Godfrey Hirst is willing to complete. No break fee is payable if the transaction does not proceed due to a failure to receive regulatory approvals or if Godfrey Hirst elects not to complete.

The Agreement has the support of Feltex's bank.

ENDS

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