

18 July 2007

SALMAT ANNOUNCES RECOMMENDED OFFER FOR HPA

Salmat Limited ("**Salmat**") today announced it had entered into a Scheme Implementation Agreement ("**SIA**") with HPAL Limited ("**HPA**") in relation to an offer to acquire all shares in HPA for \$2.725 each¹ ("**the Offer**"). The Offer values HPA at a market capitalisation of approximately \$318 million.

The Salmat offer represents a 36% premium to HPA's closing share price of \$2.00 on 9 April 2007, one day prior to the announcement of HPA's strategic review.

The HPA Board of Directors has unanimously recommended the Offer in the absence of a superior proposal and subject to receipt of an independent expert's report confirming that the Offer is in the best interests of HPA shareholders. The HPA Board recommendation, and the conditions attached to that recommendation described above, also has the support of HPA's major shareholder, Kodak (Australasia) Pty Ltd.

Peter Mattick, Joint Managing Director of Salmat, said *"The transaction is a unique opportunity to create the leading Business one-to-one communication force in Australia and benefits both sets of employees, customers and shareholders."*

"The offer price of \$2.725 per HPA share represents an attractive price, which has secured the unanimous support of the HPA Board and the support of its major shareholder. We feel this is an exciting opportunity to capitalise on the strong and complementary services that each business brings to the combined group."

Phil Salter, Joint Managing Director of Salmat, said *"The strategic and cultural fit between HPA and Salmat is excellent and we look forward to completing the sale process as quickly as possible for the benefit of all shareholders, employees, customers and suppliers."*

"Salmat's revenue streams will be strengthened through the addition of HPA's products, services and blue chip customers. From an operational view we have identified significant cost synergy and capital efficiencies which will enhance the profitability of the combined group."

The transaction is expected to be strongly EPS accretive in the first full year of ownership FY09.

Transaction Summary

The acquisition will be undertaken via a Scheme of Arrangement. Adjusting for the interim (4.75 cents per share) and special (13.25 cents per share) dividends announced by HPA today, HPA shareholders will have the choice of receiving the Scheme Consideration as:

- \$2.545 per HPA share in cash ("**Cash Consideration**") providing certain cash value;
- or

¹ Such amount to be reduced by the interim (4.75 cents per share) and special (13.25 cents per share) dividends announced by HPA today.

- Subject to the scaleback described below, between 0.5040 and 0.5784 Salmat shares (depending on the Scheme VWAP) for each HPA share (“**Maximum Share Consideration**”) providing HPA shareholders with exposure to the attractive prospects of the combined group and, potentially, capital gains tax rollover relief.

The Cash Consideration will be the default option in the absence of a valid election. The Maximum Share Consideration will be subject to a pro-rata scaleback such that the maximum number of new Salmat shares will be 33,654,415. In the event that the scrip elections by HPA shareholders exceed the maximum number of new Salmat shares, there will be a pro-rata scaleback of Salmat shares and HPA shareholders will receive the balance of the Scheme Consideration in cash.

The Scheme VWAP will be calculated based on the VWAP of Salmat shares for the 10 trading days prior to the scheme meeting.

HPA Directors have unanimously recommended the Offer in the absence of a superior proposal and subject to the opinion of the Independent Expert. HPA shareholders will receive a premium for their shares, the ability to participate in the benefits expected to flow in the enlarged Salmat group and, potentially, capital gains tax rollover relief.

As previously announced on 27 June 2007, the Australian Competition and Consumer Commission (“ACCC”) advised that it would not oppose the proposed acquisition.

The SIA provides for a break fee of \$3 million payable to Salmat in certain circumstances. Additional key terms of the SIA are attached to this announcement. A full copy of the SIA has been released to ASX by HPA.

Merger Rationale

The transaction is consistent with Salmat’s strategy to be Australia’s leading customer communications group. The merger with HPA is a unique and compelling market restructure opportunity and further strengthens and diversifies Salmat’s revenue streams with the addition of HPA’s imaging, direct marketing and full business colour capabilities.

In addition, the strategic and cultural fit between Salmat and HPA is compelling.

The transaction is likely to generate significant cost synergies through improved operational and capital efficiency. It is anticipated that it will take up to two years to fully realise these benefits. The transaction is expected to be EPS positive in FY08 and strongly EPS accretive in the first full year following the completion of the transaction (FY09).

Financing of the Transaction

The transaction will be funded via a combination of cash and the issue of new Salmat shares to HPA shareholders. Salmat has secured the necessary debt commitments to finance both the cash consideration and provide sufficient headroom to allow ongoing investment in the new, enlarged group.

Indicative Timetable

Salmat expects to announce its FY07 Preliminary Final Results on 17 August 2007. The results are expected to be consistent with previous guidance. It is anticipated that the Scheme Booklet will be sent to HPA shareholders during mid-September 2007. The Scheme meeting is expected to take place in mid-October 2007, and the transaction to be completed shortly thereafter.

Salmat is being advised by Macquarie Bank and Gilbert + Tobin.

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For further information, please contact:

Salmat Contacts:

Peter Mattick
Joint Managing Director
Salmat Limited
02 9928 6500

Philip Salter
Joint Managing Director
Salmat Limited
02 9928 6500

Ashley Fenton
Chief Financial Officer
Salmat Limited
02 9928 6500

About Salmat

Salmat is Australia's leading customer communications group. We facilitate our customer's contact with their customers – through targeted catalogue distribution, mail-outs or telephone communication.

We have three businesses, all of which are market leaders:

- Business Process Outsourcing: high security technology to process, print and mail bank and credit card statements and other customised, bulk mailings in Australia, HK, Taiwan and the Philippines
- Targeted Media: delivers over 4.3 billion advertising catalogues to homes throughout Australia and New Zealand. Detailed demographic analysis ensures that client's marketing campaigns reach the target audience in a cost effective manner
- Contact Centres: application of world-class technology to handle inbound and outbound phone, fax, email and online communications on behalf of clients in Australia and New Zealand. Superior skills and service offers clients improved customer service capability at a reduced cost

Over 27 years we have built a 4,000 + strong team, experienced in contributing to our customers' growth through helping them to communicate effectively with their customers. This experience, together with our proprietary systems and technology and our strong customer relationships, secures Salmat's position as Australia's - and increasingly the region's – leader in customer communication services.

Additional Key Terms of the Scheme Implementation Agreement

1. Overview

This summary sets out the key terms and conditions (other than those included in today's announcement by Salmat) of the Scheme Implementation Agreement (**SIA**) entered into between HPAL Limited (**HPAL**), Document Management Solutions Pty Limited (**Bidder**) and Salmat Limited (**Salmat**) under which Bidder will acquire all the shares of HPAL (**Scheme**). A full copy of the SIA has been released to ASX by HPA.

2. Conditions precedent

Implementation of the Scheme is subject to the following conditions precedent which must be satisfied before the Second Court Date:

- (a) **Court Approval:** the Court approving the Scheme;
- (b) **Shareholder Approval:** HPAL shareholders approving the Scheme at the meeting of HPAL shareholders (**Scheme Meeting**). The resolution for the Scheme must be passed by a majority in number of the shareholders present and voting (in person or by proxy), whose votes will represent at least 75% of the total votes cast at the meeting;
- (c) **Court or other orders:** there being no temporary restraining order, preliminary or permanent injunction or other order issued by any Court of competent jurisdiction or any regulatory authority or other legal restraint or prohibition preventing the consummation of the transaction or preventing or having a material adverse effect on party's ability to fulfil its obligations under the SIA;
- (d) **HPAL Prescribed Occurrence:** there being no 'HPAL Prescribed Occurrence' (which includes acquisitions or disposals in excess of \$5 million, entry into material contracts, making distributions other than the proposed interim and special dividend and corporate restructures etc);
- (e) **ASIC and ASX:** ASIC and ASX issue all consents or approvals necessary to implement the Scheme;
- (f) **Quotation of Salmat shares:** the approval for official quotation by ASX of the Salmat shares to be issued as consideration pursuant to the Scheme;
- (g) **HPAL Representations:** there being no breach of the representations and warranties given by HPAL under the SIA;
- (h) **HPAL Directors' Recommendation:** no HPAL Director changing or withdrawing his recommendation before the Scheme Meeting;
- (i) **Bidder Prescribed Occurrence:** there being no 'Bidder Prescribed Occurrence' (which means the Bidder becoming insolvent);
- (j) **Bidder Representations:** there being no breach of the representations and warranties given by the Bidder under the SIA;
- (k) **HPAL Material Adverse Change:** there being no event or series of events occurring, being announced or becoming known to Salmat, including a change of circumstances, which diminishes or is reasonably likely to diminish (whether now or in the future):

- (i) the consolidated net assets of HPAL by \$10 million or more; or
 - (ii) the consolidated EBITDA of HPAL by \$15 million or more;
 - (l) **Termination:** the SIA not being terminated; and
 - (m) **S&P/ASX 300 Index:** at no time is the average of the S&P/ASX300 Index at the close of trading for the previous 15 trading days 15% or more below its level at the close of trading on the date of the SIA.
3. Scheme obligations
- (a) **Pay Consideration:** If the Scheme becomes effective Bidder must procure that before the Scheme is implemented it pays all the cash scheme consideration into a trust account operated by HPAL for the Scheme participants and that on the implementation date Salmat issues the scrip Scheme consideration to each applicable Scheme participant.
 - (b) **Scheme Booklet:** HPAL must prepare the Scheme booklet to be despatched to HPAL shareholders and must consult with the Bidder in this respect. HPAL must also appoint an independent expert to provide a report for inclusion in the Scheme booklet stating whether in its opinion the Scheme is in the best interests of HPAL's members. The Bidder also has various obligations in respect of the Scheme booklet including providing appropriate information to be included in the Scheme booklet.
 - (c) **Scheme Meeting:** HPAL must convene the Scheme Meeting and if the HPAL shareholders approve the Scheme, apply for court orders to approve the Scheme. Subject to such court approval, HPAL must also terminate all of its executive employee incentive plans that could result in securities being granted to HPAL Group employees.
 - (d) **Financial Statements:** The Scheme booklet will contain:
 - (i) standalone financial statements (for a period to be agreed by the parties acting reasonably) for HPAL to be prepared by HPAL;
 - (ii) standalone financial statements (for a period to be agreed by the parties acting reasonably) in respect of Salmat to be prepared by Bidder; and
 - (iii) financial statements (for a period to be agreed by the parties acting reasonably) to be prepared by Bidder in respect of the combined HPAL group and Salmat group.
 - (e) **Ordinary Course of Business:** From the date of the SIA until the implementation date, HPAL must conduct its business in the ordinary course.
4. Board recommendation and reconstitution
- HPAL directors must unanimously recommend the Scheme and that HPAL shareholders vote in favour of all resolutions proposed at the Scheme Meeting (subject to the determination of the independent expert and there being no superior proposal in respect of the HPAL shares).

The Board will be reconstituted, after the implementation date, so that Salmat nominees are a majority of the Directors, and then comprise all the Directors.

5. Termination

The SIA may be terminated in certain circumstances:

- (a) **by Either Party** if:
- (i) the transaction has not been implemented by the date which is six months after the date of the SIA (other than because of a breach of the SIA by the terminating party);
 - (ii) the Scheme is not approved by the requisite majority of HPAL shareholders required under the *Corporations Act*;
 - (iii) the Court refuses to make an order approving the Scheme or convening the Scheme meeting and an appeal from such failure is unsuccessful or the parties determine not to initiate an appeal;
 - (iv) the independent expert determines that the Scheme is not in the best interests of HPAL shareholders and HPAL and the Bidder are unable to agree otherwise;
 - (v) a court or other regulatory authority has issued a final and non-appealable order which permanently restrains the transaction;
 - (vi) a condition precedent in favour of the terminating party is not satisfied following a period of consultation with the other party; and
 - (vii) the other party or any member of its group becomes subject to an insolvency event;
- (b) **by Bidder** if:
- (i) HPAL is in material unremedied breach of the SIA (other than breach of warranty or the exclusivity provisions);
 - (ii) an HPAL material unremedied adverse change has occurred;
 - (iii) an HPAL Prescribed Occurrence occurs;
 - (iv) HPAL is in breach of its No Talk & No Shop and related exclusivity obligations;
 - (v) any HPAL Director recommends, promotes or endorses a Competing Transaction (as defined below);
 - (vi) any HPAL Director fails to make or withdraws his recommendation that HPAL shareholders vote in favour of the Scheme; or
 - (vii) HPAL is in breach of warranty where the loss that could reasonably be expected to arise exceeds \$5 million or the breach has or is likely to otherwise have a material adverse impact on a party's ability to perform the SIA;
- (c) **by HPAL** if:
- (i) Bidder or Salmat is in material unremedied breach of the SIA (other than breach of warranty); or

- (ii) Bidder is in breach of warranty where the loss that could reasonably be expected to arise exceeds \$5 million or the breach has or is likely to otherwise have a material adverse impact on a party's ability to perform the SIA.

6. Representations, warranties and undertakings

Both HPAL and Bidder have given customary short form representations and warranties on an indemnities basis. HPAL and the Bidder have also given undertakings in respect of updating information to be contained in the Scheme booklet, also on an indemnity basis.

7. Exclusivity

From the date of the SIA until its termination or end date (six months from the date of the SIA);

- (a) **No Shop:** HPAL must ensure that neither it nor its representatives directly or indirectly solicit, encourage, initiate any enquiries, discussions or proposals or communicate any intention to do any such things in relation to, or which may reasonably be expected to lead to, a Competing Transaction (as defined below).
- (b) **Competing Transaction** means any proposal or offer by a third party which if it resulted in a completed transaction would mean that such a person would:
 - (i) directly or indirectly acquire an interest in or become a holder of 50% or more of HPAL's share capital (or that of its subsidiaries) or a material part of the business or assets of HPAL (where such acquisition will be material if the relevant business contributes 20% or more of the consolidated NPAT of HPAL or the assets represent 20% or more of the total consolidated assets of HPAL);
 - (ii) acquire control of HPAL; or
 - (iii) otherwise acquire or merge with HPAL.
- (c) **No Talk:** HPAL must ensure that neither it nor any of its representatives directly or indirectly participates in negotiations or discussions with any person or communicates any such intention in relation to, or which may reasonably be expected to lead to, a Competing Transaction.
- (d) **Notify Approach:** HPAL must notify Salmat and Bidder of:
 - (i) any approach or proposal made to and any attempt or any intention on the part of any person to initiate or continue any negotiations or discussions with HPAL or any of its shareholders or representatives which could reasonably be expected to lead to a Competing Transaction, whether unsolicited or otherwise;
 - (ii) any request for information relating to the HPAL Group which HPAL has reasonable grounds to suspect may relate to an Competing Transaction;
 - (iii) any provision by HPAL, its shareholders or its representatives of information relating to the HPAL Group in connection with a Competing Transaction; or

(iv) any breach of these requirements.

The notice must specify all relevant details of the approach including the identity of the person making the approach and the terms and conditions of any Competing Transaction (to the extent known).

- (e) **Right to match:** HPAL must give such notice to the Bidder at least 48 hours before HPAL's board recommends acceptance by HPAL shareholders of any offer for their shares under a Competing Transaction or otherwise recommends that HPAL shareholders approve a Competing Transaction. During this period of 48 hours Salmat and Bidder have the right to offer to amend the terms of the Scheme so that it provides at least an equivalent outcome for HPAL shareholders in all material respects when compared to the Competing Transaction, in which event the HPAL board must continue to recommend the Scheme.
- (f) **Fiduciary carve-out:** The No Talk and Notify Approach provisions do not restrict HPAL or the HPAL board from taking or refusing to take any action with respect to a Competing Transaction (which was not solicited by HPAL in breach of the No Shop restriction) provided that the HPAL board has determined:
- (i) in good faith and acting reasonably that after consultation with its financial adviser the Competing Transaction could reasonably be considered to become a superior proposal (ie. a proposal reasonably capable of being completed and more favourable to participants in the Scheme, taking into account all terms and conditions of the Competing Transaction); and
 - (ii) after receiving written legal advice from Senior Counsel that failing to respond thereto would be reasonably likely to constitute a breach of the HPAL board's fiduciary duties or statutory obligations.
- (g) **Equal access to information:** Where HPAL or any of its representatives provides information relating to the HPAL Group to any person in connection with a Competing Transaction it must promptly provide Salmat and Bidder with complete copies of the information except for questions submitted by other bidders as part of a due diligence process, answers to those questions and information provided orally.

8. Payment of costs

- (a) **Break Fee:** HPAL must pay Salmat a break fee of \$3 million (**Break Fee**) if:
- (i) a Competing Transaction is announced prior to the date of the Scheme Meeting and is publicly recommended by any HPAL Director;
 - (ii) any HPAL Director recommends the Competing Transaction or fails to make, or changes, withdraws or modifies his or her recommendation that HPAL shareholders vote in favour of the Scheme, or makes a public statement indicating that they no longer support the Scheme unless the independent expert has concluded that the Scheme is not in the best interest of HPAL shareholders for reasons not associated with a Competing Transaction;

- (iii) a Competing Transaction is announced prior to the Scheme Meeting and is completed within nine months after the date of the SIA;
- (iv) a Competing Transaction is announced prior to the Scheme Meeting and as a result a third party either:
 - (A) acquires a voting power in HPAL of 50% or more; or
 - (B) acquires control of HPAL (or an equivalent shareholding or economic interest therein); or
 - (C) acquires all or substantially all of HPAL's assets or business; or
 - (D) acquires business or assets of HPAL which contribute 50% or more of HPAL's consolidated NPAT or which represents 50% or more of HPAL's total consolidated assets,within nine months after the date of the SIA;
- (v) HPAL breaches certain obligations under the MIA (including the exclusivity provisions) and as a result thereof Bidder or Salmat terminates the SIA or the Scheme does not become effective before the date six months after the date of the SIA.

Payment of the Break Fee precludes any further liability in connection with the relevant events or circumstances.

9. Guarantee

Salmat guarantees to HPAL (in its own right and as trustee on behalf of Scheme participants) performance by the Bidder of its obligations under the SIA.