



20 February 2009

ASX RELEASE

General Manager
The Company Announcements Office
Australian Securities Exchange

Update on proposed Scheme of Arrangement - Applica Water Products LLC

HIGHLIGHTS

- Completion of the conditional A\$0.45 per share cash acquisition is now expected in July 2009 (assuming all of the relevant conditions are satisfied and the Scheme proceeds).
 - Applica has agreed to waive the A\$0.56 million break fee.
 - The parties have continued to assess the transaction, and have now extended the time in which Applica may complete its due diligence enquiries to 1 May 2009.
 - Island Sky has agreed that Applica will have the right to terminate on 1 May 2009, in its absolute discretion and without giving reasons.
 - New indicative timetable for the Scheme
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Further to the announcement on 13 February 2009 by Island Sky Australia Limited (**'Island Sky'** or **'the Company'**), the independent directors are pleased to now be able to provide a more detailed update to the market regarding the status of the transaction with Applica Water Products LLC (**Applica**).

Background

On 4 November 2008, Island Sky announced that it had entered into a conditional Merger Implementation Agreement (**MIA**) with Applica, under which (if implemented) Applica and its associates will acquire the majority of the issued ordinary shares in Island Sky for A\$0.45 cash per share (**Scheme**). The Scheme is subject to a number of conditions and termination events including shareholder approval, regulatory consent, Applica undertaking due diligence to its satisfaction, an independent expert concluding the Scheme is in the best interest of

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shareholders and various court approvals. If these conditions are not satisfied or a termination event occurs (unless waived) the Scheme will not proceed, and Applica would not make the A\$0.45 cash offer.

Revision to the Merger Implementation Agreement

Island Sky has previously announced that it anticipated that there would be some delays to the original indicative timetable for the implementation of the Scheme. Despite these delays, the parties have continued to assess the transaction, and Island Sky has now agreed to extend the time in which Applica may complete its due diligence enquiries. The parties have formally varied a number of terms and conditions of the MIA, with the following effect:

- **(Extension of timetable)** The 'End Date' for implementation of the Scheme has been extended to 31 July 2009, with the indicative timetable being updated as a result, as per the attached schedule.
- **(Due diligence extension)** Applica has been given until 1 May 2009 to complete its due diligence investigations in relation to the Company. Unless these due diligence enquiries are satisfactory to Applica, the Scheme will not proceed (since this remains a condition precedent to the MIA);
- **(Waiver of Index Decline condition)** Applica has waived the condition precedent that would have entitled Applica to withdraw from the transaction if there was a 25% decline in the S&P/ASX 200 over a specified period;
- **(Waiver of Break Fee)** Applica has waived its right to receive a A\$560,000 break fee in certain circumstances (for example, if Island Sky was to announce a competing offer or if the Scheme was not implemented by a specified date);
- **(Termination Period)** Island Sky has agreed that Applica will have the right to terminate on 1 May 2009, in its absolute discretion and without giving reasons. This is in addition to Applica's existing right to terminate the MIA, if its due diligence enquiries are not satisfactory, since this is a condition precedent to the Scheme; and
- **(Exclusivity Restrictions extended)** Applica will have the right to match any bona fide proposal concerning Island Sky (including though not limited to a proposal to acquire all or a substantial part of the assets or business of Island Sky, or acquire over 10% of the shares in Island Sky, or a takeover bid), for 6 months from termination of the MIA.

This is a summary of the provisions of the MIA (as amended), and more detailed information will be provided in the scheme documents. Please also refer to the announcement dated 4



November 2008 for more details of the provisions of the MIA. The Amendment Agreement amending the MIA was entered into on 20 February 2009.

Key Conditions

As set out in the announcement dated 4 November 2008, implementation of the Scheme is subject to a number of conditions precedent including:

- Island Sky shareholder and Court approval of the Scheme;
- the independent expert concluding that the proposed transaction is in the best interest of eligible shareholders;
- relevant regulatory approvals;
- no prescribed occurrences as defined in the MIA (eg insolvency);
- no material transactions as defined in the MIA;
- no material adverse change as defined in the MIA;
- due diligence enquiries being satisfactory to Applica; and
- the outstanding options over ordinary shares and other equity interests in Island Sky held by those USA-based shareholders who will not participate in the Scheme being acquired by Applica, or otherwise dealt with in a manner acceptable to Applica.

Additionally, Island Sky has agreed that Applica will have the right to terminate on 1 May 2009, in its absolute discretion and without giving reasons.

As noted above, Applica has waived the condition precedent that would have entitled Applica to withdraw from the transaction if there was a 25% decline in the S&P/ASX 200 over a specified period. This is a summary of the conditions precedent, and more detailed information will be provided in the scheme documents.

Island Sky is continuing to work through the implementation process with Applica. However, there can be no assurance that the conditional Scheme will be implemented.

As previously announced, shareholders should understand that unless all of the conditions in the MIA are satisfied, none of the termination events occur (unless waived) and Applica does not decide to terminate on 1 May 2009, the Scheme will not proceed, and the offer of A\$0.45 per share will not be made. Shareholders would then continue to hold their shares in Island Sky, and the share price would be subject to market conditions.

Island Sky recommends that shareholders consult their financial or other professional adviser, before making any investment decisions concerning their Island Sky shareholding.



Indicative Timetable

The indicative timetable for the Scheme is attached. The timetable is a guide only, and the final dates will depend on various matters, some of which are outside the control of Island Sky (eg obtaining court dates).

For further information, please contact:

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INDICATIVE TIMETABLE

Event	Date
Transaction announced to ASX	4 November 2008
Amendments to Merger Implementation Agreement and transaction timetable announced to ASX	20 February 2009
Finalise Scheme Booklet and Independent Expert's Report	14 May 2009
Lodge Scheme Booklet with ASIC for review	15 May 2009
Apply to court for first hearing date and lodge application with ASIC	29 May 2009
First Court Hearing Date	1 June 2009
Printing and despatch of Scheme Booklet	5 June 2009
Scheme Meeting held	6 July 2009
Second Court Hearing Date	9 July 2009
Lodge court order with ASIC (Effective Date)	10 July 2009
Record Date	20 July 2009
Implementation Date	27 July 2009

Note: these dates are indicative only and are subject to change