



April 24, 2007
ASX/MEDIA ANNOUNCEMENT

POSSIBLE MERGER TRANSACTION

Further to previous announcements and to clarify recent media comment, the Board of HFA Holdings Ltd wishes to confirm it continues in discussions with a United States fund manager with a view to a possible merger.

At this stage no definite terms have been agreed and the Board believes it is premature to say how, if and when an agreement might be concluded.

ESCROW AGREEMENTS & INDEMNITY

The expenses incurred by HFA in examining a possible merger amounted to \$2.7m at 31 December 2006 and were recognised in the company's balance sheet. Further costs are anticipated in the next few months if merger discussions are continued.

The Board of HFA has therefore been pleased to receive an indemnity offer from the company's major shareholder, MFS Ltd, to reimburse HFA for up to \$5m of these expenses if the merger is not agreed to and approved by 31 December 2007.

MFS is seeking an opportunity for a partial (50%) release of its escrow arrangements in consideration for this indemnity.

MFS owns 78,124,516 shares in HFA of which 78,076,173 shares are currently subject to escrow until April 2008. These shares were voluntarily escrowed at the time of the HFA float in April 2006 to provide some comfort on the post-float performance of the company. Since that time HFA has performed well and the Board is in a position to confirm the guidance it has given the market concerning the financial year ending 30 June 2007. This is reflected in the share price which has increased substantially from the issue price of \$1.10. The price was \$2.50 at the close of trading on 20th April, 2007.

The Board believes that the release from escrow of significant holdings needs to be appropriately managed from a market viewpoint in terms of the company's future share price performance. The MFS escrowed shares represent approximately 38% of the total HFA shares on issue. The Board considers that measures to enhance the current liquidity of HFA shares, and a more staged release of the escrow arrangements, would be desirable. It is envisaged this should assist the balance of the company's register and assist in managing market impacts or uncertainties that could otherwise arise in the lead-up to a single escrow release date. To the extent the possible merger may involve any share transactions, proper management of this issue would also seem desirable.

Accordingly, the Board of HFA has today reached agreement with MFS that it will release from escrow 50% or 39,038,087 shares owned by MFS. MFS has proposed that its remaining escrowed HFA shares will remain subject to escrow on the current terms until April 2008 and that MFS will continue supporting merger negotiations.



For separate reasons, the Board has also contemplated the partial release from escrow of HFA shares issued to staff. A total of 16,548,502 are held in escrow for staff and these shares are subject to escrow until April 2009. To assist staff with tax commitments, the Board has agreed to release of up to 4,000,000 shares. The balance of HFA Staff shares will remain subject to escrow until April 2009.

After the release of shares subject to this announcement, approximately 77,000,000 shares or 38% of the issued shares will remain subject to escrow.

The HFA Board believes a release on these terms will:

- allow for a more diverse and liquid register of HFA shareholders,
- facilitate a more manageable staged release of escrow shares as indicated above;
- provide HFA Holdings with a significant indemnity in respect of merger expenses;
- provide ongoing incentive for the major shareholder of HFA to support the successful conclusion of a merger proposal.

It is anticipated that MFS will seek to sell down some or all of the shares released from escrow. MFS has advised the HFA Board that any such sale would be conducted with a focus on institutional investors and the objective of achieving greater diversity across the HFA register.

It is the intention of the HFA Staff to sell down all of the released shares in the coming months.

ENDS

Media Enquiries:
Paul Jensen
Chief Executive Officer
HFA Holdings
(02) 8302 3300