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UPDATE ON ELPH OFFER

The Board of Coote Industrial Ltd ("Coote") (ASX: **CXG**) provides the following update in relation to the proportional takeover offer by Elph Pty Ltd ("Elph") for 35% of the shares in Coote ("Elph Offer").

Changes in Circumstances

Coote has previously disclosed a marked deterioration in general trading conditions since the release of its Target's Statement (see ASX announcement dated 12 May 2010). The Board notes that as a result of this deterioration, and notwithstanding the extension of time for the payment of the Greentrains put option (see ASX announcement dated 19 May 2010), the working capital position of the company remains constrained.

In addition to Coote specific matters, broader market conditions have also weakened considerably, with the S&P ASX300 index declining from 4950 at the date of the Target's Statement to 4298 as at the close of market today, a fall of approximately 13%.

Revised Expert's Opinion

In light of the changes in circumstances noted above, BDO Corporate Finance (WA) Pty Ltd, the Independent Expert, has prepared a supplementary report.

After consideration of the supplementary target statements issued by the Company and additional information supplied by Coote, the Independent Expert has revised its opinion on the Elph Offer:

- The Independent Expert has reduced its assessed future maintainable EBITDA for Coote to \$28 to \$31 million, compared to the range of \$32 to \$36 million in the original Report.
- As a consequence of adverse operating performance, the Independent Expert considers that Coote requires additional working capital.
- The Independent Experts' revised valuation range is \$0.23 to \$0.34 per share.

As the Elph Offer of \$0.26 per share is within the revised valuation range, the Independent Expert has concluded that the Elph Offer is fair and reasonable.

Change in Directors' Recommendation

The Board is of the view that the company's recent weakness has been caused by the confluence of a number of short term factors, and that its longer term prospects remain sound. However, the Board is cognizant of the benefits provided by the unconditional Elph Offer, which enables shareholders to realize certain value for 35% of their shareholding, against the background of short term uncertainties and the potential for the Coote share price to fall when the Elph Offer closes.

The Board also notes that it is likely that additional capital required for working capital purposes will need to be raised in the form of equity, and that in the circumstances, any such equity raising is likely to be by rights issue priced at a material discount to both the current share price and the price under the Elph Offer. Shareholders who accept the Elph Offer may therefore have the opportunity to reinvest the proceeds in Coote shares at a lower price.

Given the above, and the revised opinion of the Independent Expert, the Board now recommends that shareholders **accept** the Elph Offer in respect of 35% of their shares, in the absence of a superior proposal.

Coote's Chairman Donald Hector said: "Although we have been encouraged by the support shown by our shareholders throughout the Elph Offer, as a Board we must deal with the significant short-term challenges before us."

"It is clear that the company needs additional working capital to restore its competitive position and return to profitability. While we have made significant progress in simplifying our business model and disposing of non-core businesses, it will be some time before the benefits of these initiatives can be realized and reflected in more robust operational cash-flow."

"The Board will continue its discussions with Elph over the terms of funding support, as previously announced. However, in our view, given a further capital raising is likely to be required, shareholders should take the opportunity to lock in 26 cents of value for 35% of their shares by accepting the Elph Offer."

Although the Board has amended its recommendation in relation to the Offer, shareholders should note that if they accept that offer, their overall position in Coote will be diluted and as a result they will have less exposure to any recovery in the fortunes of the company, in particular if an alternative proposal is agreed with Elph.

It should also be noted that discussions with Elph are still at a preliminary stage and there can be no assurance that any binding transaction will be entered into.

Coote will keep its shareholders informed of material developments as they occur.

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