

## **SOVEREIGN FOOD INVESTMENTS LIMITED**

Incorporated in the Republic of South Africa

Registration Number: 1995/003990/06

JSE Code: SOV

ISIN Number: ZAE000009221

("Sovereign" or the "Company")

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### **UPDATE REGARDING THE PROPOSED BEE TRANSACTION, SHARE REPURCHASE, CHANGES TO THE EXECUTIVE AND NON-EXECUTIVE REMUNERATION POLICIES; POSTING OF THE TRANSACTION CIRCULAR AND NOTICE OF GENERAL MEETING**

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#### **1. INTRODUCTION**

Shareholders are referred to the announcement published on SENS on Monday, 12 October 2015 ("**Announcement**") regarding the proposed implementation of:

- an acquisition of approximately 10% of the issued Shares in Sovereign from Shareholders other than members of the Company's executive committee, the Sovereign Food Investments Limited Share Trust ("**ESOP Trust**") and Crown Chickens Proprietary Limited (collectively, the "**Participating Shareholders**"), by way of a joint offer by Sovereign and the ESOP Trust ("**Offer**") to Participating Shareholders, at a cash consideration of R8.50 per Share ("**Offer Consideration**");
- a sustainable, long-term broad based black economic empowerment transaction;
- changes to the Company's short and long-term incentive scheme policies applicable to Sovereign's executive committee; and
- a new non-executive director fee policy.

Unless otherwise indicated, capitalised words and terms contained in this announcement shall bear the same meaning ascribed thereto in the Announcement.

#### **2. CASH CONFIRMATION**

As previously stated in the Announcement, the proposal of the Scheme (pertaining to the Repurchase) was subject to the Company first securing a cash confirmation to the satisfaction of the Panel.

In compliance with regulations 111(4) and 111(5) of the Regulations, ABSA Bank Limited has issued a guarantee to the Panel, in a form and substance acceptable to the Panel, to satisfy the Offer Consideration payable by Sovereign and the ESOP Trust in respect of the Acquisition Shares acquired pursuant to the Share Acquisition.

Accordingly, the Board will proceed to propose the Scheme.

#### **3. POSTING OF THE TRANSACTION CIRCULAR**

Shareholders are advised that the Transaction Circular will be posted to Shareholders today, 11 December 2015. The Transaction Circular is also available on the Company's website: [www.sovereignfoods.co.za](http://www.sovereignfoods.co.za).

To obtain a thorough understanding of the Proposed Transactions and the NED Fee Policy, Shareholders are advised to refer to the full terms and conditions pertaining thereto, as set out in the Transaction Circular.

#### 4. BOARD AND INDEPENDENT BOARD OPINION AND RECOMMENDATION

The Board, having considered the reports provided by Mazars Corporate Finance Proprietary Limited (“**Mazars**”), has carefully considered the terms, conditions and rationale for the Proposed Transactions and is of the opinion that the Proposed Transactions are fair in so far as Shareholders are concerned, and accordingly recommends that Shareholders vote in favour of the resolutions pertaining to the Proposed Transactions to be proposed at the General Meeting.

The Independent Board, having considered the reports provided by Mazars, is unanimously of the opinion that the terms and conditions of the Repurchase and the Redemption Repurchase are fair and reasonable in so far as the Shareholders are concerned, and accordingly recommends that Shareholders vote in favour of the resolutions pertaining to the Repurchase and the Redemption Repurchase to be proposed at the General Meeting.

Mazars’ reports are included in the Transaction Circular.

#### 5. REVISED *PRO FORMA* FINANCIAL INFORMATION

The summary *pro forma* financial information as included in the Announcement illustrated the impact of the Proposed Transactions and the introduction of the NED Fee Policy (collectively, the “**Transactions**”) on the audited, consolidated financial statements of Sovereign for the year ended 28 February 2015.

Following the publication on SENS of the unaudited financial results of Sovereign for the six months ended 31 August 2015, revised *pro forma* financial information is required to be presented, to illustrate the effect of the Transactions on the most recent published results of Sovereign.

The table below sets out the summary *pro forma* financial effects of the Transactions on Sovereign’s basic earnings, headline earnings, diluted earnings, diluted headline earnings, net asset value and net tangible asset value per Share, both inclusive and exclusive of once-off costs. Once-off costs include a BEE share based payment charge in terms of IFRS 2: Share-based payment and transaction costs.

The summary *pro forma* financial effects have been prepared to illustrate the impact of the Transactions on the unaudited, published financial information of Sovereign for the six months ended 31 August 2015, had the Transactions occurred on 1 March 2015 for purposes of the statement of comprehensive income and on 31 August 2015 for purposes of the statement of financial position.

The summary *pro forma* financial effects have been prepared using the accounting policies that comply with International Financial Reporting Standards and that are consistent with those applied in the audited, published financial statements of Sovereign for the year ended 28 February 2015.

The summary *pro forma* financial effects set out below are the responsibility of the directors of Sovereign and have been prepared for illustrative purposes only and because of their nature may not fairly present the financial position, changes in equity and results of operations or cash flows of Sovereign after the Transactions.

	Before the Transactions	After the Repurchase and ESOP Acquisition	% change	After the Proposed Transactions	% change	After the Transactions	% change	Overall % change
	Actual	Pro forma	Pro forma	Pro forma	Pro forma	Pro forma	Pro forma	Pro forma
Notes	1,9	2	3	4	5	6	7	8
<b><u>Excluding once-off costs</u></b>								
Earnings per Share (cents)	89.6	97.6	8.9%	99.9	2.4%	100.9	1.0%	12.6%
Diluted earnings per Share (cents)	89.6	97.6	8.9%	99.9	2.4%	100.9	1.0%	12.6%
Headline earnings per Share (cents)	89.7	97.7	8.9%	100.0	2.4%	101.0	1.0%	12.6%
Diluted headline earnings per Share (cents)	89.7	97.7	8.9%	100.0	2.4%	101.0	1.0%	12.6%
Net asset value per Share (cents)	1 000.7	1 017.1	1.6%	1 051.0	3.4%	1 052.0	0.1%	5.1%
Net tangible asset value per Share (cents)	1 000.7	1 017.1	1.6%	1 051.0	3.4%	1 052.0	0.1%	5.1%
<b><u>Including once-off costs</u></b>								
Earnings per Share (cents)	89.6	96.4	7.5%	67.0	(30.5%)	67.6	0.8%	(24.6%)
Diluted earnings per Share (cents)	89.6	96.4	7.5%	67.0	(30.5%)	67.6	0.8%	(24.6%)
Headline earnings per Share (cents)	89.7	96.4	7.5%	67.1	(30.4%)	67.6	0.8%	(24.6%)
Diluted headline earnings per Share (cents)	89.7	96.4	7.5%	67.1	(30.4%)	67.6	0.8%	(24.6%)
Net asset value per Share (cents)	1 000.7	1 013.2	1.2%	1 025.2	1.2%	1 025.8	0.1%	2.5%
Net tangible asset value per Share (cents)	1 000.7	1 013.2	1.2%	1 025.2	1.2%	1 025.8	0.1%	2.5%
Number of Shares in issue	76 222 266	69 636 098		94 271 484		94 271 484		
Number of Shares in issue less treasury Shares	74 662 466	67 326 298		66 025 503		66 025 503		
Weighted average number of Shares in issue	75 218 838	67 882 670		66 581 875		66 581 875		

Notes:

1. The “Before the Transactions” basic earnings, headline earnings, diluted earnings, diluted headline earnings per Share have been extracted without adjustment from the unaudited, published financial information of Sovereign for the six months ended 31 August 2015. The “Before the Transactions” net asset value and net tangible asset value per Share have been calculated from the financial information presented in the unaudited, published financial information of Sovereign as at 31 August 2015.
2. The financial information included in the “After the Repurchase and ESOP Acquisition” column has been prepared based on Sovereign’s unaudited, published financial information for the six months ended 31 August 2015 and taking into account the following:
  - a. The repurchase of 6 586 168 Shares.
  - b. The acquisition of 750 000 Shares by the ESOP Trust.
  - c. Payment of once-off transaction costs attributable to the Repurchase and ESOP Acquisition amounting to R2 485 589.
  - d. Net finance costs incurred amounting to R1 602 933 in respect of the net cash amount paid relating to the Repurchase and ESOP Acquisition, which adjustment is expected to have a continuing effect on the financial information of Sovereign.
  - e. Recognition of taxation at a rate of 28%.
  - f. Once-off recognition of securities transfer tax at a rate of 0.25%.
3. The percentage change is measured as the difference between the “After the Repurchase and ESOP Acquisition” column and the “Before the Transactions” column as a percentage of the “Before the Transactions” column.
4. The financial information included in the “After the Proposed Transactions” column has been prepared based on Sovereign’s unaudited, published financial information for the six months ended 31 August 2015, taking into account those adjustments set out in point 2 above and the following:
  - a. The acquisition by the BEE Trust of 1 300 795 Contributed Shares from Exco, which Shares will be recognised as treasury Shares.
  - b. The subscription by the BEE Trust of 758 031 Exco Funded Shares, which Shares will be recognised as treasury Shares.
  - c. The subscription by the BEE Trust of 23 877 355 Notionally Funded Shares, which Shares will be recognised as treasury Shares, funded through the subscription by Sovereign of 23 877 355 preferent units in the BEE Trust, in terms of the Notional Loan and the consolidation of the BEE Trust in terms of IFRS 10: Consolidated Financial Statements.
  - d. Termination of the LTIS in terms of the New Executive Remuneration Policy and the consequent reversal of costs and an accrual relating thereto in an amount of R2 801 250, arising in terms of the LTIS awards which vest on 1 March 2016, which adjustment is expected to have a continuing effect on the financial information of Sovereign.
  - e. Amendment to the STIS in terms of the New STIS as it relates to Exco by reversing costs and an accrual relating thereto in an amount of R2 801 250 and recognising costs and an accrual of R1 834 200 (based on the maximum of 30% of the total cost to company), which adjustments are expected to have a continuing effect on the financial information of Sovereign.
  - f. Recognition of a once-off and recurring share based payment charges in terms of IFRS 2: Share-Based Payments, amortised for the six months ended 31 August 2015. The recurring share based payment charge will have a continuing effect on the financial information of Sovereign.
  - g. Payment of once-off transaction costs attributable to the BEE Transaction amounting to R14 011 803.
  - h. Once-off payment in cash of a maximum of R500 000 in respect of capital gains tax or income tax payable by Exco as a result of the disposal of the Contributed Shares.

- i. Net finance costs incurred amounting to R323 015 in respect of the net cash amount paid relating to the BEE Transaction. The net finance costs are expected to have a continuing effect on the financial information of Sovereign.
  - j. Recognition of taxation at a rate of 28%.
  - k. Once-off recognition of securities transfer tax at a rate of 0.25%.
5. The percentage change is measured as the difference between the "After the Proposed Transactions" column and the "After the Repurchase and ESOP Acquisition" column as a percentage of the "After the Repurchase and ESOP Acquisition" column.
6. The financial information included in the "After the Transactions" column has been prepared based on Sovereign's unaudited, published financial information for the six months ended 31 August 2015, taking into account those adjustments set out in point 2 and 4 above and the following:
  - a. Deduction of the fees paid to non-executive directors of an amount of R1 871 000 and the recognition of an amount paid to non-executive directors of R948 000 in terms of the introduction of the NED Fee Policy, which adjustments are expected to have a continuing effect on the financial information of Sovereign.
  - b. Payment of once-off transaction costs attributable to the introduction of the NED Fee Policy amounting to R300 000.
  - c. Net finance costs incurred amounting to R12 000 in respect of the net cash amount paid relating to the NED Fee Policy. The net finance costs are expected to have a continuing effect on the financial information of Sovereign.
  - d. Recognition of taxation at a rate of 28%.
7. The percentage change is measured as the difference between the "After the Transactions" column and the "After the Proposed Transactions" column as a percentage of the "After the Proposed Transactions" column.
8. The percentage change is measured as the difference between the "After the Transactions" column and the "Before the Transactions" column as a percentage of the "Before the Transactions" column.
9. There are no other post balance sheet events that require adjustments and *pro forma* financial information.

The financial effect of the Redemption Repurchase has not been included in the above summary *pro forma* financial information, however if the Redemption Repurchase were to be implemented in the future the effect would be a cash payment of a total of R1 for all the Notionally Funded Shares repurchased by Sovereign and the reduction in the number of Shares in issue by such number of Notionally Funded Shares repurchased in terms of the Redemption Repurchase.

The summary *pro forma* financial effects have been reviewed and reported on by the reporting accountants and auditors of Sovereign.

## 6. UPDATE ON IRREVOCABLE UNDERTAKINGS

Sovereign is pleased to announce that it has received further irrevocable undertakings from Shareholders to vote in favour of the resolutions required to approve the Transactions at the General Meeting ("**Resolutions**").

The directors who, directly or indirectly, hold Shares in Sovereign and who are able to vote on the Resolutions, have undertaken to vote in favour of such Resolutions in respect of such shareholdings.

In addition to the aforementioned Irrevocables, the following Shareholders holding approximately 56.4% of the Shares exercisable at the General Meeting as at the date of such Shareholders

providing such Irrevocables, have provided irrevocable undertakings to vote in favour of the Resolutions.

<b>Shareholder</b>	<b>Number of Shares held at the date of providing the Irrevocables</b>	<b>Percentage of eligible Shares</b>
Prudential Investment Managers	15 446 776	21.1%
Sanlam Investment Management	9 350 000	12.7%
RECM and Calibre Limited	8 646 024	11.8%
Old Mutual Investment Group	5 572 741	7.6%
Personal Trust International Management Company	2 386 574	3.2%
<b>Total</b>	<b>41 402 115</b>	<b>56.4%</b>

## 7. GENERAL MEETING

The General Meeting will be held in the Company's boardroom, 9 Kruis River Road, Uitenhage at 10:00 on Thursday, 14 January 2016, to consider and, if deemed fit, pass the Resolutions set out in the notice of General Meeting forming part of the Transaction Circular, with or without modification.

## 8. SALIENT DATES AND TIMES

	<b>2015 / 2016</b>
Record date to determine which Shareholders are entitled to receive the Transaction Circular on	Friday, 4 December
Posting of the Transaction Circular to Shareholders on	Friday, 11 December
Last day to trade in Shares in order to be recorded in the register and thereby be able to attend, participate and vote at the General Meeting on	Thursday, 31 December
Record date to be eligible to attend, participate in and vote at the General Meeting on	Friday, 8 January
Forms of proxy to be received by the transfer secretaries by 10:00 on	Tuesday, 12 January
General Meeting to be held at 10:00 on	Thursday, 14 January
Results of General Meeting, as well as confirming dates pertinent to the Offer and Scheme, published on SENS on	Thursday, 14 January
Offer opening date at 09:00 on	Friday, 15 January
Expected date of receipt of the compliance certificate from the Panel on or about	Thursday, 11 February
Finalisation announcement published on SENS on or about	Friday, 12 February
Last day to trade in Shares in order to be registered as a Shareholder in the register at the Offer and Scheme record date, on or about	Friday, 19 February
Shares trade "ex" the right to participate in the Offer and Scheme, on or about	Monday, 22 February
Expected date for the closing of the Offer at 12:00 on or about	Friday, 26 February
Offer and Scheme record date, being the expected date by which a Shareholder must be recorded as such in the register in order to be entitled to participate in the Offer and Scheme, on or about	Friday, 26 February

Expected date on which the Share Acquisition will be implemented in terms of the Offer and the Offer Consideration will be paid to the relevant Participating Shareholders, on or about	Monday, 29 February
Expected date on which the Share Acquisition will be implemented in terms of the expropriation provisions of the Scheme and the date on which the Offer Consideration will be paid to the Participating Shareholders, on or about	Tuesday, 1 March

**Notes:**

1. All of the above dates and times are subject to change, with the approval of the JSE Limited and the Panel, if required. The dates have been determined based on certain assumptions regarding the date by which certain regulatory approvals will have been obtained and that Shareholders will not exercise their rights in terms of section 115(3) of the Companies Act. Any change in the dates and times will be released on SENS.
2. All times given in this announcement are local times in South Africa.
3. Shareholders should note that as transactions in shares are settled in the electronic settlement system used by Strate Proprietary Limited, settlement of trades takes place 5 business days after such trade, therefore:
  - a. persons who acquire Shares after the last day to trade in order to be eligible to vote at the General Meeting, namely, Thursday, 31 December 2015, will not be entitled to vote thereat, but may, nevertheless, provided the Repurchase is approved and they acquire the Shares on or prior to the last day to trade in respect of the Offer and Scheme, expected to be Friday, 19 February 2016 ("**Offer and Scheme LDT**"), participate in the Offer and Scheme; and
  - b. persons who acquire Shares after the Offer and Scheme LDT will not be entitled to participate in the Offer and thus will not be entitled to receive payment of the Offer Consideration.
4. A Shareholder may appoint a proxy to represent the Shareholder at the General Meeting by completing the form of proxy attached to the Transaction Circular in accordance with the instructions contained therein and delivering it to the transfer secretaries by no later than 48 hours before the General Meeting. Should the form of proxy not be delivered to the transfer secretaries by this time, the Shareholder will be entitled to furnish the form of proxy to the chairman of the General Meeting before the appointed proxy exercises any of the shareholder rights at the General Meeting (or any adjournment or postponement thereof).
5. If the General Meeting is adjourned or postponed, forms of proxy submitted for the initial General Meeting will remain valid in respect of any such adjournment or postponement.
6. Dematerialised Shareholders, other than those with "own name" registration, must provide their CSDP or broker with their instructions as to how they wish their Shares to be voted at the General Meeting by the cut-off time stipulated in their respective custody agreements.
7. Shareholders who wish to exercise their appraisal rights in terms of section 164 of the Companies Act, are referred to the Transaction Circular for details of their appraisal rights and the timing for the exercise of their appraisal rights.
8. No dematerialisation or rematerialisation of Shares may take place between the Offer and Scheme LDT and the Offer and Scheme record date.
9. Shareholders should exercise caution when dealing in Shares between the Offer and Scheme LDT and the Offer and Scheme record date.

**9. RESPONSIBILITY STATEMENT**

Each member of the Independent Board and the Board, collectively and individually, accepts full responsibility for the accuracy of the information given in this announcement and the Announcement (collectively, the "**Transaction Announcements**") and certifies that to the best of

his knowledge and belief there are no facts that have been omitted that would make any statement in the Transaction Announcements false or misleading and that all reasonable enquiries to ascertain such facts have been made and that the Transaction Announcements contain all information required by law and the Listings Requirements.

Port Elizabeth  
11 December 2015

**Corporate advisor and Sponsor**  
One Capital

**Attorneys to Sovereign**  
Cliffe Dekker Hofmeyr Inc.

**Independent auditors and reporting accountants**  
Deloitte & Touche

**Independent Expert**  
Mazars