



Rainbow Chicken Limited
 (Incorporated in the Republic of South Africa)
 (Registration number 1966/004972/06)
 Share code JSE: RBW ISIN: ZAE000019063
 ("Rainbow" or "the company")

Announcement regarding a Black Economic Empowerment transaction and withdrawal of cautionary

1. INTRODUCTION

Shareholders are advised that, as part of Rainbow's broad-based black economic empowerment ("BEE") initiative, the company is pleased to announce that it proposes introducing a strategic BEE shareholding into Rainbow ("the BEE transaction").

The participants in the BEE transaction will comprise the Imbewu Consortium ("Imbewu"), Ikamva Labantu (a Corporate and Social Investment Community Trust), the Rainbow employee trust and Mrs M Nhlanihla, a non-executive director of Rainbow (collectively referred to as "the BEE partners").

The BEE transaction will result in 15% of Rainbow's entire issued share capital being owned by the BEE partners, equivalent to R915.6 million. The accounting impact of the BEE transaction will result in a charge to the income statement, estimated to be R95.7 million, or 2.0% of Rainbow's market capitalisation of R4 727.1 million at 18 February 2008.

2. THE BEE TRANSACTION

2.1 Principles underlying the BEE transaction

- 2.1.1 Rainbow is committed to BEE and the BEE transaction is being implemented in the context of Rainbow's overall BEE strategy. The BEE transaction will result in 15% of the entire issued ordinary share capital of Rainbow being owned by Eagle Creek Investments 620 (Proprietary) Limited ("BEECo") the issued share capital of which will be held by the BEE partners.
- 2.1.2 The BEE transaction has been structured to give effect to the following principles:
 - 2.1.2.1 BEE as contemplated in the Broad-Based Black Economic Empowerment Act, No. 53 of 2003 ("the BEE Act"), together with the "Codes of Good Practice" issued by the Minister of Trade and Industry in terms of the BEE Act; and
 - 2.1.2.2 the inclusion of the BEE partners in Rainbow's shareholder base will contribute to Rainbow's growth and the achievement of its transformation goals.

2.2 Terms of the BEE transaction

- 2.2.1 The BEE transaction initially requires the establishment of BEECo and the Rainbow employee trust.
- 2.2.2 The entire issued ordinary share capital of BEECo will be held as follows:
 - as to 40.00% by Imbewu;
 - as to 16.67% by Ikamva Labantu;
 - as to 42.66% by the Rainbow employee trust; and
 - as to 0.67% by Mrs M Nhlanihla.
- 2.2.3 The relationship of the BEE partners is regulated by a shareholders agreement in terms of which, *inter alia*, Imbewu will be entitled to appoint three directors to the board of BEECo, and Ikamva Labantu and the Rainbow employee trust one director each. Voting rights of the BEE partners will be proportionate to the ordinary shares held as per paragraph 2.2.2. Material decisions, whether at a shareholder or director level, will require the affirmative vote of 75% of ordinary shareholders as well as the approval of Rainbow as the holder of the BEECo preference shares referred to below. Subject to restrictions on alienations stipulated in paragraph 2.2.6, Rainbow has been given pre-emptive rights should any BEE partner wish to sell its shares in BEECo.
- 2.2.4 Rainbow will, subject to shareholder approval, issue 51 177 217 Rainbow ordinary shares ("the BEE shares") to BEECo, which shares will represent 15% of the entire issued ordinary share capital of Rainbow, after the issue of BEE shares. The issue of the BEE shares will take place after the payment of any dividends to Rainbow shareholders for the financial year ending 31 March 2008. BEECo will accordingly not participate in any such dividends.
- 2.2.5 The BEE shares will be issued for a consideration of R17.89 per share. This represents the 30-day volume-weighted average price of Rainbow ordinary shares for the 30 trading days preceding 19 February 2008, being the date of conclusion of the agreements relating to the BEE transaction.
- 2.2.6 The BEE shares will be subject to restrictions on alienation and encumbrance for a period of 10 years commencing on the subscription date of the BEECo preference shares referred to in paragraph 2.3.2. Similarly the ordinary share capital of BEECo will be subject to restrictions on alienation and encumbrance for a 10-year period.
- 2.2.7 Following implementation of the BEE transaction, Imbewu will be entitled to appoint two directors to the Rainbow board. Their appointments will be Mr J B Magwaza, an existing non-executive director of Rainbow and Mr Gcina Zondi, the Chief Executive of Imbewu Capital Partners.

2.3 Funding of BEECo

- 2.3.1 In order to raise the funds necessary to subscribe for the BEE shares, BEECo will obtain a bridging loan from ABSA Bank in the amount of R915 560 412.
- 2.3.2 Immediately upon the issue of the BEE shares to BEECo, Rainbow will subscribe for preference shares in BEECo upon the following terms:
 - 2.3.2.1 Rainbow will subscribe for a total of 51 177 217 BEECo preference shares ("the BEECo preference shares") for a total subscription price of R915 560 412, which is equivalent to R17.89 per BEECo preference share;
 - 2.3.2.2 BEECo preference shares will yield an annual cumulative dividend equal to a rate based on the Consumer Price Index (excluding interest on mortgage bonds) ("CPI-X") plus 6%; and
 - 2.3.2.3 BEECo preference shares will be redeemed by no later than the 10th anniversary of the subscription date. However they may be redeemed, at the election of BEECo, at any time after date of subscription or, at the election of Rainbow, at any time after the 8th anniversary of the date of subscription.
- 2.3.3 BEECo is obliged to apply the entire issue price of the BEECo preference shares to settle the bridging loan referred to in paragraph 2.3.1.
- 2.3.4 Should BEECo be unable to pay the full redemption amount which is payable on the date of redemption of the BEECo preference shares ("the redemption date"), Rainbow is entitled to effect a buy-back in terms of Section 85 of the Companies Act (No. 61 of 1973) as amended ("specific repurchase"), of such number of the BEE shares which, at a price per share equal to the volume-weighted average price of Rainbow ordinary shares as traded on the JSE Limited ("JSE") over the 30 trading days ending on the redemption date, is equal to the outstanding redemption amount, on the basis that the consideration owing by Rainbow to BEECo in terms of the buy-back will be set-off against and be in full and final settlement of the outstanding redemption amount.

2.4 Approval required

- 2.4.1 In order to afford the company the requisite authority, the Rainbow board proposes that, in accordance with the company's articles of association and subject to the company satisfying the requirements stipulated in the Companies Act (No. 61 of 1973) as amended and (where applicable) the JSE Listings Requirements:
 - 2.4.1.1 Rainbow shareholders vote in favour of a special resolution approving the provision of financial assistance to BEECo through the subscription of BEECo preference shares as provided in paragraph 2.3.2; and
 - 2.4.1.2 at the time of the specific repurchase (including in respect of the working capital requirements of the Rainbow group of companies), Rainbow shareholders approve by special resolution the specific repurchase by Rainbow (utilising cash resources available to it at the time) at the price set in paragraph 2.3.4.
- 2.4.2 Under the JSE Listings Requirements:
 - 2.4.2.1 the proposed issue of the BEE shares by Rainbow constitutes a specific issue of shares for cash;
 - 2.4.2.2 as a consequence of the participation in the BEE transaction by:
 - 2.4.2.2.1 Mrs M Nhlanihla, a non-executive director of Rainbow, who will have an indirect shareholding in Rainbow of 0.1% via her 0.67% shareholding in BEECo; and
 - 2.4.2.2.2 Mr J B Magwaza, a non-executive director of Rainbow, who will have an indirect shareholding in Rainbow of 0.75% via his 12.5% shareholding in Imbewu Consortium,
 the issue of the BEE shares to BEECo will constitute a specific issue of shares to related parties; and
 - 2.4.2.3 if Rainbow ever exercises its right to buy-back some or all of the BEE shares and/or to acquire any shares in the issued share capital of BEECo as provided above, such buy-back or acquisition would be a specific repurchase of shares.

- 2.4.3 Accordingly, the issue of the BEE shares, the subscription of the BEECo preference shares, the specific repurchase and any acquisition of shares in BEECo by Rainbow, require the prior approval by way of resolutions to be passed by 75% of Rainbow shareholders present or represented by proxy at a general meeting of Rainbow shareholders, excluding any party and its associates participating in such issue of shares.

3. BEE PARTNERS

Details of the BEE partners are provided below:

3.1 Imbewu

Imbewu is a broad-based consortium led by Imbewu Capital Partners and comprises the following key parties:

Imbewu Capital Partners

Imbewu Capital Partners is an established black owned and controlled private equity and investment holding company based in KwaZulu-Natal ("KZN"). Mr Gcina Zondi is the Chief Executive of Imbewu Capital Partners and has extensive private equity and investment banking experience. Mr Zondi also serves on the boards of Imbewu Capital Partners investee companies.

Strategic Partners

The strategic partners are Mr J B Magwaza, who currently serves on the Rainbow board, as well as Mr Patrick September, who held an executive management position at Rainbow from 1995 to his retirement on 31 December 2006.

Mr Magwaza has an interest of 12.5% in Imbewu, which in turn will have an indirect interest of 6% in the issued share capital of Rainbow. Mr Magwaza's effective interest in Rainbow after the BEE transaction will be 0.75% and accordingly, he will not be entitled to vote on the resolutions relating to the BEE transaction.

Women's groupings

The women's groupings comprise high profiled black professional women and Omame Investments, a group of black multi-skilled women with strong entrepreneurial experience.

Broad-based groupings

The broad-based groupings' participants comprise non-profit organisations, trusts and Section 21 companies whose objectives are to contribute to the upliftment of the communities in KZN and include the following organisations:

- The Siyazisiza Trust;
- Ekukhanyeni Training Centre;
- Thandanani Children Foundation;
- The Mehlesizwe Trust; and
- KZN based Co-operatives.

3.2 Ikamva Labantu

Ikamva Labantu (meaning "the future of our nation") is a non-profit, non-government organisation.

Ikamva Labantu functions as a development catalyst for community-based social service programmes in South Africa. Working in partnership with the community, the multi-cultural staff strive to improve the quality of life in South Africa's underprivileged communities. They provide a holistic approach to capacity building, social development and other services. Each project that is initiated by the organisation is the brainchild of the community, which is what makes Ikamva Labantu unique.

Ikamva Labantu works with and assists programmes serving various sectors of the population – children, youth, families, seniors and the disabled. The four core services are health, education and capacity-building, poverty alleviation and food security, and land and buildings.

3.3 The Rainbow employee trust

The Rainbow employee trust will be established by Rainbow to benefit all Rainbow employees on a non-discriminatory basis (excluding senior management who participate in the existing Rainbow share incentive trust). The Rainbow employee trust will hold 42.66% of the issued share capital of BEECo and will issue units to such Rainbow employees that are reflective of 42.66% of the BEE shares held by BEECo.

Rainbow has a total of 7 611 employees, 90.6% of whom are black and 41.2% are women. As such it is appropriate that all employees participate on a non-discriminatory basis in the Rainbow employee trust.

3.4 Mrs M Nhlanihla

Mrs M Nhlanihla, a non-executive director of Rainbow, who will have an indirect shareholding in Rainbow of 0.1% via her 0.67% shareholding in BEECo and accordingly, will not be entitled to vote on the resolutions relating to the BEE transaction.

4. UNAUDITED PRO FORMA FINANCIAL EFFECTS

- 4.1 The unaudited *pro forma* financial effects of the BEE transaction are set out below. The unaudited *pro forma* financial effects have been prepared for illustrative purposes only to provide information on how the proposed BEE transaction might have affected the reported historical financial information of Rainbow. The unaudited *pro forma* financial effects are presented in a manner consistent with the basis on which the historical information has been prepared in terms of accounting policies. Because of its nature, the unaudited *pro forma* financial effects may not fairly present Rainbow's financial position, changes in equity, results of operations or cash flows after the BEE transaction. The directors of Rainbow are responsible for the preparation of the unaudited *pro forma* financial effects.
- 4.2 The tables below set out the unaudited *pro forma* financial effects on Rainbow of the BEE transaction based on the published financial results of Rainbow for the six-month period ended 30 September 2007 and the financial year ended 31 March 2007. The *pro forma* earnings "After the BEE transaction" include an up front IFRS 2 (Share based payments) charge and fees in respect of the BEE transaction which are non-recurring. The IFRS 2 charge and fees, being up front, have a more significant impact on the *pro forma* results for the six-month period ended 30 September 2007 compared to the impact on the *pro forma* results for the year ended 31 March 2007.

Six-month period ended 30 September 2007

	Before the BEE transaction	After the BEE transaction	Percentage change
Earnings per share (cents)	73.1	52.0	(28.9)
Headline earnings per share (cents)	72.4	51.2	(29.3)
Net asset value per share (cents)	699.3	698.0	(0.2)
Net tangible asset value per share (cents)	600.2	598.9	(0.2)

Notes:

1. Earnings per share ("EPS"), headline earnings per share ("HEPS"), net asset value per share ("NAV") and net tangible asset value per share ("NTAV") "Before the BEE transaction" are based on the published financial results of Rainbow for the six-month period ended 30 September 2007.
2. The consolidated weighted average number of Rainbow ordinary shares in issue for the period ended 30 September 2007 and the actual number of Rainbow ordinary shares in issue at 30 September 2007 "Before the BEE transaction" are 287 898 137 and 290 004 228 respectively.
3. EPS and HEPS "After the BEE transaction" are based on the assumption that the BEE transaction was implemented on 1 April 2007.
4. NAV and NTAV "After the BEE transaction" are based on the assumption that the BEE transaction was implemented on 30 September 2007.
5. Earnings "After the BEE transaction" have been reduced by charges in respect of IFRS 2 (refer to paragraph 4.3 below).
6. The consolidated weighted average number of Rainbow ordinary shares in issue (net of treasury shares) for the period ended 30 September 2007 and the actual number of Rainbow ordinary shares in issue (net of treasury shares) at 30 September 2007 "After the BEE transaction" are assumed to be 287 898 137 and 290 004 228 respectively (refer to paragraph 4.3 below).
7. Transaction and other administrative fees of R3.9 million are assumed.
8. The impact on interest income or expense of the transaction costs has not been disclosed as it is assumed to be immaterial.

Financial year ended 31 March 2007

	Before the BEE transaction	After the BEE transaction	Percentage change
Earnings per share (cents)	168.5	146.2	(13.2)
Headline earnings per share (cents)	169.5	147.2	(13.2)
Net asset value per share (cents)	679.5	678.1	(0.2)
Net tangible asset value per share (cents)	577.8	576.4	(0.2)

Notes:

1. EPS, HEPS, NAV, and NTAV "Before the BEE transaction" are based on the published financial results of Rainbow for the financial year ended 31 March 2007.
2. The consolidated weighted average number of Rainbow ordinary shares in issue for the year ended 31 March 2007 and the actual number of Rainbow ordinary shares in issue at 31 March 2007 "Before the BEE transaction" are 281 393 342 and 282 712 022 respectively.

3. EPS and HEPS "After the BEE transaction" are based on the assumption that the BEE transaction was implemented on 1 April 2006.
4. NAV and NTAV "After the BEE transaction" are based on the assumption that the BEE transaction was implemented on 31 March 2007.
5. Earnings "After the BEE transaction" have been reduced by charges in respect of IFRS 2 (refer to paragraph 4.3 below).
6. The consolidated weighted average number of Rainbow ordinary shares in issue (net of treasury shares) for the year ended 31 March 2007 and the actual number of Rainbow ordinary shares in issue (net of treasury shares) at 31 March 2007 "After the BEE transaction" are assumed to be 281 393 342 and 282 712 022 respectively (refer to paragraph 4.3 below).
7. Transaction and other administrative fees of R3.9 million are assumed.
8. The impact on interest income or expense of the transaction costs has not been disclosed as it is assumed to be immaterial.

4.3 Accounting principles and assumptions relating to adjustments

- 4.3.1 The terms of issuance of the BEE shares and funding thereof are deemed for accounting purposes to constitute the issuance of an option in Rainbow shares granted to BEECo. Accordingly, the issuance of the BEE shares, and the subscription by Rainbow of the BEECo preference shares, are not recognised for accounting purposes.
- 4.3.2 In terms of IFRS 2, the fair value of the deemed option is an expense which will be charged through the income statement of Rainbow. For the purposes of preparation of the *pro forma* financial effects, the fair value of the deemed option is assumed to be R95.7 million (2.0% of market capitalisation of R4 727.1 million on 18 February 2008). The option valuation is based on the Monte Carlo call option valuation technique. Various assumptions, including the price at which Rainbow's shares traded on the JSE, are taken into consideration.
- 4.3.3 The deemed option value is assumed to be charged at the date of the BEE transaction. The portion of the deemed option value attributable to the BEE partners other than the Rainbow employee trust is expensed up front. The portion of the deemed option value attributable to the Rainbow employee trust is amortised equally over the assumed vesting period of 10 years.
- 4.3.4 The portion of the deemed option value attributable to the BEE partners, which is charged up front through headline earnings, is assumed to be R54.9 million. The balance of the deemed option value of R40.8 million attributable to the Rainbow employee trust is assumed to be expensed through headline earnings over 10 years.
- 4.3.5 The deemed option value relating to the BEE partners other than the Rainbow employee trust recognised at the date of the BEE transaction is carried in the balance sheet as a share based payment reserve as part of capital and reserves. The interest of beneficiaries in the Rainbow employee trust is assumed to be equity settled. Under these circumstances the deemed option value attributable to the Rainbow employee trust will also be carried in the balance sheet as a share based payment reserve.
- 4.3.6 The actual deemed option value will be finally determined based on assumptions applying on the date that there is a shared understanding of the terms and conditions of the transaction between Rainbow and the BEE participants, subsequent to approval by the Rainbow shareholders and the date on which the BEE transaction becomes unconditional. Accordingly, the actual deemed option value charged to the income statement of Rainbow will differ from the *pro forma* calculation.
- 4.3.7 The effect of the specific repurchase by Rainbow has not been included in the *pro forma* financial effects as it is a future event of which the financial effects are uncertain.

5. CONDITION PRECEDENT

The implementation of the BEE transaction is subject to fulfilment of the condition precedent that the requisite majority of Rainbow shareholders vote in favour of all the resolutions necessary to implement the BEE transaction.

6. IRREVOCABLE UNDERTAKINGS

The Rainbow board has received irrevocable undertakings from Industrial Partnerships Investments Limited and certain directors of Rainbow, holding 74.1% and 0.43% of the issued share capital of Rainbow respectively in terms of which such shareholders have undertaken to vote in favour of the resolutions necessary to implement the BEE transaction.

7. GOVERNMENT ENDORSEMENT

Rainbow has consulted various Government departments, namely KwaZulu-Natal's Department of Finance and Economic Development and on a national basis the Department of Agriculture and Department of Trade and Industry. The Department of Trade and Industry in principle believes that the proposed BEE transaction is broadly in line with the "Codes of Good Practice".

8. PROSPECTS, OPINIONS AND RECOMMENDATIONS

- 8.1 As per the Rainbow interim results announcement released on SENS on 21 November 2007 and in the press on 22 November 2007, the Rainbow board expects that:
 - "Consumer spending is expected to soften over the next six months as a consequence of the higher inflation and interest rate environment, although the impact on chicken consumption is likely to be limited.
 - Maize and soya prices are likely to remain at the current higher levels, translating into higher feed input costs for the balance of the financial year.
 - Earnings growth for the full year on a pre- and post-IAS 39 basis is expected to be lower than the first six months."
- 8.2 The Rainbow board has considered both the terms and conditions of the BEE transaction, and is of the opinion that the BEE transaction is in the best interests of all of Rainbow's stakeholders. Accordingly, the board recommends that shareholders vote in favour of the resolutions required to approve and implement the BEE transaction.
- 8.3 The directors of Rainbow who, directly or indirectly, beneficially own Rainbow shares, intend to vote in favour of the resolutions required to implement the BEE transaction.

9. FURTHER DOCUMENTATION AND IMPLEMENTATION

A circular, containing full details of the BEE transaction, will be posted to Rainbow shareholders on 25 February 2008.

The general meeting will be held at 16:00 on Tuesday, 18 March 2008 and the proposed BEE transaction will be implemented after the payment of any dividends to Rainbow shareholders for the financial year ended 31 March 2008.

10. SALIENT DATES AND TIMES

The salient dates and times are:

	2008
Circular posted to Rainbow shareholders	Monday, 25 February
Last day to lodge forms of proxy (in respect of general meeting of Rainbow Shareholders) by 16:00	Friday, 14 March
General meeting of Rainbow shareholders to be held at 16:00	Tuesday, 18 March
Results of general meeting published on SENS	Tuesday, 18 March
Results of general meeting published in the press	Wednesday, 19 March

All times indicated are South African times. The above dates and times are subject to change. Any change will be notified in the press in English and Afrikaans and on SENS.

Dematerialised shareholders are required to notify their CSDP or broker as to the manner in which they wish to vote their Rainbow shares at the general meeting in the manner and time stipulated in the agreement governing the relationship between the shareholder and their CSDP or broker.

11. WITHDRAWAL OF CAUTIONARY

Given that full details of the proposed BEE transaction have now been provided to the market, caution is no longer required to be exercised by shareholders when dealing in their Rainbow securities.

Durban
20 February 2008

Corporate advisor



Attorneys to Rainbow



Independent reporting accountants and auditors



Sponsor



Attorneys to Imbewu

