

FREEWORLD COATINGS LIMITED

Freeworld Coatings Limited
(Incorporated in the Republic of South Africa)
(Registration number 2007/021624/06)
Share code: FWD ISIN: ZAE000109450
(*Freeworld*)

Saphirefield Investments (Proprietary) Limited
(Incorporated in the Republic of South Africa)
(Registration number 2008/027236/07)
(*Bidco*)

Joint announcement relating to a notice of firm intention by Bidco to make an offer to acquire all of the shares in Freeworld other than those shares already held by Bidco and/or its holding company by way of a scheme of arrangement in terms of section 311 of the Companies Act, 61 of 1973, as amended

1. Introduction

Shareholders of Freeworld are advised that the board of directors of Freeworld ("board") has received an offer from a private equity consortium, led by private equity funds under the management of Brai Private Equity ("Brai Private Equity"), to acquire all of the shares in Freeworld (other than those shares already held by Bidco's holding company, V/T Infrastructure Investments (Proprietary) Limited ("Holdco"), representing 16.86% of the entire issued share capital of Freeworld) ("scheme shares") for an amount equal to R10.45 per share (subject to adjustment in terms of paragraphs 4.2.2 and 4.2.4) ("offer"), by way of a scheme of arrangement ("scheme") in terms of section 311 of the Companies Act, 61 of 1973, as amended ("Companies Act").

2. Rationale for the offer

The offer represents an opportunity for Freeworld shareholders (other than Holdco) ("scheme members") to dispose of their Freeworld shares at a fair premium to the price at which Freeworld shares have historically traded on the securities exchange operated by the JSE Limited ("JSE"). The offer represents a premium of 34.6% to the closing 30-day volume weighted average traded price ("VWAP") and a premium of 29.8% to the 60-day VWAP of Freeworld shares on the JSE on Tuesday, 16 February 2010 being the date of publication by Freeworld of the cautionary announcement on the Securities Exchange News Service of the JSE ("SENS") and a premium of 20.1% to the closing price of Freeworld shares on the JSE on Monday, 23 March 2010, being the last business date prior to the delivery of the notice of firm intention by Bidco.

3. Shareholders of Holdco and Bidco

Freeworld is advised that private equity funds under the management of Brai Private Equity currently hold 100% of the entire issued share capital of Holdco at the date of this announcement, and that Bidco is a wholly-owned subsidiary of Holdco.

Freeworld is further advised that, following the implementation of the scheme, the shareholders of Holdco will comprise:

- private equity funds under the management of Brai Private Equity;
- ADP I Holding 3 ("ADP"), a private company limited by shares incorporated in Mauritius being a subsidiary of the African Development Partners I Fund, whose investment advisor is Development Partners International LLP, a limited liability partnership established in accordance with the laws of the United Kingdom;
- African Paints Investments, L.P. ("African Paints"), a Cayman Islands exempted limited partnership, the General Partner of which is Citigroup Venture Capital International Africa Fund, G.P. Limited, a company organised under the laws of Jersey, Channel Islands and a wholly-owned subsidiary of Citigroup Incorporated;
- the Décor Trust ("Décor Trust"), a trust established to house the interests of Freeworld's executive management;
- the Kidrumny Trust ("Kidrumny Trust"), a trust established to house the interests of black economic empowerment ("BEE") beneficiaries, which beneficiaries have not yet been finalised but will include a Black Employee Staff Trust and Skills Development Trust, amongst other parties ("BEE Shareholding") and Sanlam Life Insurance Limited ("Sanlam") as a funding beneficiary;
- Sanlam Private Equity, a division of Sanlam, the private equity division of a South African based life insurer; and
- Standard Chartered Private Equity (Mauritius) III Limited ("Standard Chartered"), the private equity division of the global emerging markets investment bank.

4. The offer

Bidco intends that the offer be implemented, subject to the terms and conditions set out below, by way of the scheme pursuant to which Freeworld will become a subsidiary of Bidco, thereby enabling Bidco to acquire control and ownership of the underlying assets and business of Freeworld.

The scheme will result in the delisting of the entire issued share capital of Freeworld from the JSE.

4.1 The Holdco shareholding structure

Freeworld is advised that the equity shares in Holdco will, upon implementation of the scheme ("operative date"), be held as follows:

- 28.0% by private equity funds under the management of Brai Private Equity;
- 19.7% by ADP;
- 5.3% by African Paints;
- 10.0% by the Décor Trust;
- 10.0% by the Kidrumny Trust (the BEE Shareholding);
- 6.0% by Sanlam; and
- 18.0% by Standard Chartered.

As at the date of this announcement:

- Holdco holds 38 448 095 shares (18.86%) in the issued share capital of Freeworld; and
- the executive directors of Freeworld collectively hold 125 864 shares in the issued share capital of Freeworld.

4.2 Scheme consideration

4.2.1 Based on there being 203 871 930 Freeworld shares in issue, Bidco will be bound to pay an aggregate consideration in cash equal to R10.45 per scheme share, prior to the deduction of the amounts referred to in paragraph 4.2.4, if applicable, and prior to any adjustment in terms of paragraph 4.2.2. This amounts to an aggregate consideration of R1 728 879 170 (prior to any adjustments) payable to the scheme members ("scheme consideration").

4.2.2 The scheme consideration will be reduced if and to the extent that the consolidated net interest-bearing debt (ignoring the impact of the payment of any dividend or tax as contemplated in 4.2.4, prior to the date of determination) of the Freeworld Coatings South Africa (Proprietary) Limited group is greater than R921 000 000 as at the last day of the calendar month immediately preceding the month during which the scheme is voted on by the scheme members.

4.2.3 All eligible Share Appreciation Rights will be settled in cash prior to the operative date by Freeworld.

4.2.4 The scheme consideration will be decreased by an amount equal to the sum of: (i) the aggregate of any dividend declared and paid or distribution made after 1 February 2010 and before the settlement of the scheme consideration, and (ii) any amount for which Freeworld itself is liable to pay by way of taxes on such dividends or distributions (that is, excluding any obligation on Freeworld to withhold any amount payable by any shareholder).

4.3 BEE transaction

For various reasons, including the recent constraints in the debt market, Freeworld has not yet implemented its black economic empowerment ("BEE") equity ownership transaction. Bidco has stated its support for BEE and that it intends to enhance the BEE profile of Freeworld after the implementation of the scheme.

It is intended that in time shares comprising 15% of the entire issued share capital of Holdco will be held by BEE parties, with 10% initially being held by the Kidrumny Trust and, subsequent to the scheme being implemented, a further 5% being made available to BEE parties.

The offer is predicated upon an dilutionary impact associated with the implementation of the BEE shareholding being borne by Holdco and its shareholders.

5. Funding and guarantee

Nedbank Limited ("Nedbank") has provided the Securities Regulation Panel ("SRP") with a guarantee in respect of the scheme consideration and the SRP has approved that guarantee in terms of Rule 2.3.2(b) and Rule 2.1.7 of the SRP Code on Takeovers and Mergers and the rules of the SRP.

6. Market and financial information

The table below sets out information regarding the price at which Freeworld shares traded prior to the publication of the cautionary announcement and this announcement in relation to the scheme consideration, as well as a comparison of the scheme consideration to the net asset value and net tangible asset value per Freeworld share at 30 September 2009, Freeworld's financial year-end.

| | Rand per share (R) | Scheme consideration per share (R) | Premium/ (Discount) (%) |
|--|--------------------|------------------------------------|-------------------------|
| Closing market price per share on Monday, 23 March 2010 ¹ | 8.70 | 10.45 | 20.1 |
| 30-day VWAP prior to Tuesday, 16 February 2010 ² | 7.77 | 10.45 | 34.6 |
| 60-day VWAP prior to Tuesday, 16 February 2010 ³ | 8.05 | 10.45 | 29.8 |
| Net asset value per share at 30 September 2009 ⁴ | 14.12 | 10.45 | (26.0) |
| Net tangible asset value per share at 30 September 2009 ⁴ | 0.93 | 10.45 | 1 023.7 |

- Notes:**
- Closing price of a Freeworld share on the JSE on Monday, 23 March 2010, being the day prior to the delivery of the notice of firm intention by Bidco.
 - 30-day and 60-day VWAPs as at Tuesday, 16 February 2010, being the date of publication by Freeworld of the cautionary announcement on SENS.
 - Net asset value per share at financial year-end of 30 September 2009.
 - Net tangible asset value per share at financial year-end of 30 September 2009.

7. Conditions precedent

The scheme will be subject to the fulfilment (or, where possible, the waiver thereof, wholly or partially, by agreement in writing between Freeworld and Bidco) of the following conditions precedent:

- by not later than 17:00 on the day preceding the date on which the scheme is voted on by the scheme members ("test date") the acquisition by Bidco of all of the scheme shares pursuant to the scheme, is approved in terms of the merger control provisions of the Competition Act, 89 of 1998, as amended ("Competition Act"), either unconditionally or subject to such conditions as Freeworld and Bidco may agree in writing, which approval shall not unreasonably be withheld;
- to the extent not received at the time of the dispatch of the circular, by not later than 17:00 on the test date, the receipt of all other required regulatory approvals in relation to the scheme and its implementation (which shall be required to be unconditional or subject to such conditions as the boards of directors of each of Bidco and Freeworld may reasonably agree in writing, such approval not to be unreasonably withheld) from, inter alia, the JSE, the SRP and the Exchange Control Division of the South African Reserve Bank;
- by not later than 9 August 2010, the approval of the scheme by the requisite majority of scheme members registered as voters on the voting record date, in terms of section 311(2) of the Companies Act, is obtained;
- by not later than 17 August 2010, the scheme is sanctioned by the Court in terms of section 102 of the Companies Act ("scheme sanction");
- by not later than 19 August 2010, the Order of Court sanctioning the scheme having been registered with the Registrar of Companies in terms of section 311(6)(a) of the Companies Act;
- by no later than 17:00 on the test date, there having been no valid termination of the agreement entitled "Transaction Process Agreement", entered into between Bidco, Holdco, Brai Private Equity and Freeworld ("the parties"), on or about 24 November 2009, as amended and restated on 18 February 2010, in terms of which agreement the parties have agreed the process which they shall follow in implementing the scheme ("Transaction Process Agreement");
- no material adverse change, being either:
 - the occurrence after 30 September 2009 of any act/s or event/s which individually or in aggregate has or has resulted, or is/are, with at least the threshold probability, likely to result, in either (i) a reduction by R50 million or more of Freeworld's adjusted EBITDA¹, in any consecutive 12 calendar month period commencing within 12 months after 30 September 2009 or (ii) a loss or liability to Freeworld (or to any subsidiary company of Freeworld) resulting in a reduction at the end of any calendar month falling within 24 months after 30 September 2009 in the NTAV² of the Freeworld group on a consolidated basis in an amount exceeding R50 million; or
 - Freeworld's adjusted EBITDA for the six-month period ending 31 March 2010 being less than 75% of Freeworld's group EBITDA reported for the six-month period ending 31 March 2009;
 having come to the attention of Bidco at any time prior to 17:00 on the test date, provided that in the event that any material adverse change comes to the attention of Bidco and/or Holdco, this condition shall be capable of waiver by Bidco by notice in writing to Freeworld prior to 17:00 on the test date:
 - the all-in borrowing rate³, measured as at 11:00 on the test date, not exceeding 17%; and
 - the all-in borrowing rate³, measured as at 12:00 on the date of scheme sanction for Bidco or any of the subsidiaries or affiliates of Bidco to comply with its obligations under the long-term funding documents and the bridge finance documents as defined in the bridge loan facility agreement⁴ entered into by Bidco to fund the scheme consideration.

- Notes:**
- Adjusted EBITDA is EBITDA excluding any net non-cash adjustments as may otherwise result from marking to market the values of foreign exchange exposures on the procurement of finished goods, raw materials or packaging in the ordinary course of business; and any impairments of goodwill of the Freeworld group's brands and trademarks.
 - The net tangible asset value of the Freeworld group on a consolidated basis (that is, excluding any net non-cash adjustments as may otherwise result from marking to market the values of foreign exchange exposures on the procurement of finished goods, raw materials or packaging in the ordinary course of business), calculated by applying the same accounting principles and conventions as applied by Freeworld in its financial statements.
 - Details on defined terms are reflected in the Transaction Process Agreement which will be open for inspection at the registered offices of Freeworld and its sponsors, Rand Merchant Bank, and such details will be further set out in the circular to be posted to shareholders.
 - Shareholders are advised that the all-in borrowing rate as at 11:00 on the day prior to this announcement was 13.99%. An announcement will be published on SENS and in the press immediately should the all-in borrowing rate move in excess of 0.5% from 13.99% up until the test date.

The signed bridge loan facility agreement will be open for inspection at the registered offices of Nedbank. Should all of the conditions precedent referred to above not be fulfilled or waived, as the case may be, the scheme shall not become operative and shall be of no force or effect. Should this occur, Freeworld will remain listed on the JSE.

An announcement will be released on SENS and published in the South African press as soon as practicable after the last of the conditions precedent referred to above has been fulfilled or waived, as the case may be.

8. Independent professional expert

Deutsche Securities (SA) (Proprietary) Limited ("Deutsche") has been appointed to act as an independent professional expert for the purposes of providing independent advice to the board on the terms of the offer.

In this regard, Deutsche provided a favourable preliminary fairness opinion ("preliminary opinion") to the board based on information available to 29 March 2010. The preliminary opinion will be formalised at the last practicable date prior to the publication of the circular to be posted to scheme members on the date set out in paragraph 10.

Deutsche's detailed opinion will be included in the scheme circular to be sent to scheme members as set out in paragraph 11 below.

9. Recommendation of the board

The board of directors of Freeworld has considered the terms and conditions of the offer and the preliminary opinion provided by Deutsche and, in light of the assurances given to the board, including those set out in the Transaction Process Agreement, is of the opinion that the offer is fair and reasonable to Freeworld shareholders and that Freeworld shareholders should vote in favour of the offer at the scheme meeting.

10. Salient dates and documentation

The anticipated salient dates and times of the scheme are set out in the table below. A circular containing details of the offer and the scheme will be posted to Freeworld shareholders on or about Wednesday, 21 April 2010.

| | 2010 |
|--|---------------------|
| Circular sent to Freeworld shareholders and notice convening scheme meeting published in the South African press on | Wednesday, 21 April |
| Last day to trade in Freeworld shares on the JSE in order to be recorded on the register to vote at the scheme meeting. | Thursday, 26 May |
| Register of Companies to be closed for inspection from Record date to vote at the scheme meeting | Wednesday, 2 June |
| Last day to lodge forms of proxy (pink) for the scheme meeting (refer to note 5 below) for use by certificated and dematerialised shareholders with own name registration) by 10:00 on | Thursday, 3 June |
| Test date for the conditions precedent to the scheme as per paragraph 7 above | Sunday, 6 June |
| Scheme meeting to be held at 10:00 on | Monday, 7 June |
| Results of the scheme meeting released on SENS on | Tuesday, 8 June |
| Scheme Shareholders Report to be open for inspection from Results of the scheme meeting published in the South African press on | Tuesday, 8 June |
| Court hearing to sanction the scheme expected at 10:00 (or as soon thereafter as counsel may be heard) on | Tuesday, 15 June |
| If the scheme is sanctioned: | |
| Subject to the fulfilment or waiver of all the conditions precedent, the Order of Court sanctioning the scheme registered by the Registrar of Companies on or about | Thursday, 17 June |
| Fulfilment of the conditions precedent anticipated to be released on SENS on | Thursday, 17 June |
| Fulfilment of the conditions precedent anticipated to be published in the South African press on | Friday, 18 June |
| Expected last day to trade in Freeworld shares on the JSE in order to be recorded on the register on the record date of the scheme on | Friday, 18 June |
| Expected suspension of listing of Freeworld shares on the JSE at the commencement of trade on the JSE on | Monday, 21 June |
| Expected record date of the scheme on which Freeworld shareholders must be recorded as such in the register to receive the scheme consideration by 17:00 on | Friday, 25 June |
| Expected operative date of the scheme at the commencement of trade on the JSE on | Monday, 28 June |
| Payment expected to be transferred electronically or posted to certificated scheme participants (if documents) or title are received on or prior to 12:00 on the operative date) on or about | Monday, 28 June |
| Expected termination of listing of Freeworld shares on the JSE at the commencement of trade on the JSE on | Tuesday, 29 June |

- Notes:**
- Any material change to the above dates and times will be advised to Freeworld shareholders by announcement on SENS and in the South African press.
 - Freeworld shareholders should note that, as trade in Freeworld shares on the JSE is settled through STRATE, settlement for trade takes place 5 (five) business days after any such trade. Therefore, Freeworld shareholders who acquire Freeworld shares on the JSE after Wednesday, 26 May 2010 will not be eligible to vote at the scheme meeting.
 - Dematerialised scheme participants, other than those with own name registration, must provide their CSDP or broker with their instructions for voting at the scheme meeting by the cut-off time and date advised by the CSDP or broker for instructions of this nature.
 - No dematerialisation or rematerialisation of Freeworld shares may take place after Friday, 18 June 2010.
 - Forms of proxy for the scheme meeting (pink) may also be handed to the chairperson of the scheme meeting by no later than 10 minutes before the commencement of the scheme meeting.

11. Circular to shareholders and notice of scheme meeting

The scheme meeting is intended to be held at 10:00 on Monday, 7 June 2010 at 1st Floor, Balmien Building, Kidrumny Office Park, Umhlanga Drive, Paarlhof, 2101, or such other venue as may be announced on SENS. The South Gauteng High Court, Johannesburg, will be requested to grant an Order that, inter alia, the chairperson of the scheme meeting shall be obliged to adjourn the scheme meeting from time to time so as to ensure that the scheme is not voted on by the scheme members prior to the implementation of the scheme having been approved as a merger under the Competition Act, either unconditionally or subject to such conditions as may be approved in writing by Freeworld and Bidco. A circular providing additional information on the scheme and containing, inter alia, a notice of scheme meeting and a form of proxy will be posted to scheme members on or about Wednesday, 21 April 2010.

Johannesburg
31 March 2010

Merchant Bank and Sponsor to Freeworld



Lead Private Equity Sponsor



Investment Bank to Bidco



Attorneys to Freeworld



Attorneys to Bidco



Independent Advisor



Equity Consortium Partners



Bankers to Bidco



Attorneys to Nedbank



Financial PR Advisers to Freeworld



Citi Venture Capital International
Citi Capital Advisors



Transaction Communications Advisor to Bidco

