



NOTICE OF EXTRA- ORDINARY GENERAL MEETING



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NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of the Members of Fan Milk Plc will be held at Moremi Meeting Room, Sheraton Hotel and Towers, 30 Mobolaji Bank Anthony Way, Ikeja Lagos on Thursday, 13th September 2018 at 12.00 noon or so soon thereafter, to transact the following businesses:

SPECIAL BUSINESS

1. To approve the conversion of the shareholder loan secured from Fan Milk International into a convertible loan

To consider, and if approved, to pass with or without modification, the following special resolution:

- 1.1 "That the directors of the Company be and are hereby authorized to convert the shareholder loan of \$10,000,000 (Ten Million US Dollars) the Company secured from Fan Milk International plus the accrued interest into a convertible loan on the terms and conditions captured in the conversion loan agreement proposed for execution and for which purpose the shareholders agree to waive their pre-emptive rights."

2. To approve the proposed conversion of the convertible loan to equity

To consider, and if approved, to pass with or without modification, the following special resolution:

- 2.1 "That subject to the approval of resolution 1 above and the execution of the conversion loan agreement and further to the recommendation of the Board of directors, the Company hereby approves the conversion of its indebtedness of N3,264,350,017.03 (Three Billion Two Hundred and Sixty Four Million Three Hundred and Fifty Thousand and Seventeen Naira and Three Kobo) to Fan Milk International into ordinary shares in the authorized capital of the Company, pursuant to the terms of the conversion loan agreement at a conversion price of N20 per share."

3. To approve an increase in the authorized share capital

To consider, and if approved, to pass with or without modification, the following special resolution:

- 3.1 "That pursuant to Article 50 of the Articles of Association of the Company and in accordance with Section 102(1) of the Companies and Allied Matters Act, Cap. C20 LFN 2004 and on the recommendation of the Board of Directors, the authorized share capital of the Company be increased from N600,000,000 (Six Hundred Million Naira) to N1,000,000,000 (One Billion Naira) by the creation of 800,000,000 (Eight Hundred Million) additional ordinary shares of 50 kobo each, ranking pari passu and in all respects with the existing ordinary shares of the Company.
- 3.2 "That the authorized share capital of the Company will now be N1,000,000,000.00 (One Billion Naira) made up of 1,800,000,000 (One Billion Eight Hundred Million) ordinary shares of 50 kobo each and 200,000,000 (Two Hundred Million) preference shares of 50 kobo each."

4. To approve an amendment of the Memorandum and Articles of Association of the Company

To consider, and if approved, to pass with or without modification, the following special resolution:

- 4.1 "That Clause 6 of the Memorandum of Association and Article 5 of the Articles of Association of the Company be and are hereby amended to reflect the new authorized share capital of N1,000,000,000.00 (One Billion Naira) divided into 1,800,000,000 (One Billion Eight Hundred

Million) ordinary shares of 50 kobo each and 200,000,000. (Two Hundred Million) preference shares of 50 kobo each.”

Notes:

SPECIAL RESOLUTION 1

The Company secured a shareholder loan of \$10,000,000.00 (Ten Million US Dollars) from Fan Milk International in December 2016. This Loan and the Company's other long-term loan obligations have led to a significant increase in its leverage level putting pressure on its cash flows. Fan Milk International has agreed to the Company's proposal to convert the loan into a convertible loan and a conversion loan agreement has been negotiated, which requires the approval of the Company's shareholders and a waiver of their rights of pre-emption. Details of the existing loan are in the financial statements contained in the 2017 Annual Report.

SPECIAL RESOLUTION 2

Subject to the approval of special resolution 1 above, the Board and Management of the Company require the approval of the Company to convert the shareholder loan into equity in accordance with the terms of the conversion loan agreement and at a price of N20 per share.

SPECIAL RESOLUTIONS 3 and 4

If the shareholders approve and authorise the directors to convert the shareholder loan into a convertible loan in terms of the conversion loan agreement and if the shareholders approve and authorise the conversion of the convertible loan into equity as proposed, the Company will need to increase its authorized share capital to accommodate the shares to be issued to Fan Milk International upon conversion of the loan.

VOTING

On a show of hands, every member present in person or by proxy shall have one vote, and on a poll, every member shall have one vote for each share of which he is the holder.

PROXY

A member of the Company entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of him/her. A proxy need not also be a member. A form of proxy is enclosed and if it is to be valid for the purposes of the Meeting, it must be completed and deposited at the Office of the Registrars, GTL Registrars Ltd. 247 Murtala Muhammed Way, Alagomeji, Yaba Lagos, not later than 48 hours before the Meeting.

Dated 14th day of August, 2018

By Order of the Board

OLAKUNLE OLUSANYA

COMPANY SECRETARY & LEGAL ADVISER

FRC/2015/NBA/00000001539

PROXY FORM

I/We

NUMBER OF SHARES

Being a member/members of Fan Milk Plc, hereby appoint ,.... as my /our proxy to act and vote for me/us and on my/our behalf at the Extraordinary General Meeting of the Company to be held at Moremi Meeting Room, Shcraton Hotel and Towers, 30 Mobolaji Bank Anthony Way, Ikeja Lagos on Thursday, 13th September 2018 at 12.00 noon

Shareholder's signature

RESOLUTION

FOR

AGAINST

1. To approve the conversion of the shareholder loan secured from Fan Milk International into a convertible loan

2. To approve the proposed conversion of the convertible loan to equity

3. To approve an increase in the authorized share capital

4. To approve an amendment of the Memorandum and Articles of Association of the Company

*Delete as necessary

1. A member (shareholder) entitled to attend and vote at the Extraordinary General Meeting is entitled to appoint a proxy in his stead.. All proxies should be deposited at the Registered Office not less than 48hrs before the time of holding the Meeting.

2. In the case of joint sharcholders any of such may complete the form, but the names of all joint shareholders must be stated.

3. If the Shareholder is a corporation, this form must be under its common seal or under the hand of an officer or attorney duly authorised.

Please indicate with an "X" in the appropriate box how you wish your votes to be cast on the resolution set out above. Unless otherwise instructed, the proxy will vote or abstain from voting at his discretion.

ADMISSION CARD

PLEASE ADMIT

To the Extraordinary General Meeting of Fan Milk Plc which will be held at Moremi Meeting Room, Sheraton Hotel and Towers, 30 Mobolaji Bank Anthony Way, Ikeja Lagos on Thursday, 13th September 2018 at 12.00 noon

This admission card must be produced by the Shareholder or his proxy in order to obtain entrance to the Extraordinary General Meeting.

Name of Shareholder

OLAKUNLE
OLAKUNLE OLUSANYA
COMPANY SECRETARY & LEGAL ADVISER
FRC/2015/NBA/00000001539

ADMISSION CARD

Name of Shareholder

Address of Shareholder

Number of shares held

This Explanatory Statement has been prepared to provide shareholders of Fan Milk Plc with information to assess the merits of the proposed resolution on the debt-to-equity conversion and to explain why the Board of Directors considers the proposed conversion to be in the best interests of the Company and its shareholders and why the Board recommends that shareholders should vote in favour of the resolution.

Background

Fan Milk Plc ("Fan Milk" or the "Company") remains the leading producer and marketer of frozen dairy products in Nigeria. The Company typically funds some of its operations through debt facilities from various available sources. Between 2015 and 2016, the Company obtained loan facilities from various financial institutions to fund its working capital requirements and other operational needs. The Company also obtained a \$10,000,000 (US\$10 million) related party loan facility (the "Loan") from Fan Milk International ("FMI") in 2016 to manage its foreign exchange related obligations for key imported production inputs which has been fully drawn down.

This Loan and the Company's other loan obligations have led to a significant increase in the Company's gearing ratio to 85%, as at 31 December 2017 (43% as at 31 December 2016), putting pressure on cash flows.

The Board of Directors have considered various alternative approaches for raising the funds required to repay the outstanding Loan amount and the conversion of the Loan into equity (the "Conversion") was selected as the optimal option for the Company. The Conversion is expected to optimise the Company's capital structure by deleveraging its balance sheet and reducing finance costs.

The Board of Directors have engaged with FMI on the terms for the Conversion which are captured in a Conversion Loan Agreement ("CLA"). These terms have been approved by the Board and is now being recommended for approval by shareholders of the Company.

Structure of the Conversion

The Conversion will involve the issuance of new ordinary shares (the "Conversion Shares") in the Company as consideration for the repayment of the naira equivalent of the Loan and all applicable accrued interest on the Loan (the "Conversion Amount") at an agreed share price of 20 per share (the "Conversion Price").

This will entail the repayment of the Conversion Amount of 3,264,350,017.03 (Three Billion Two Hundred and Sixty Four Million Three Hundred and Fifty Thousand and Seventeen Naira and Three Kobo) of the Company's borrowing, and the simultaneous issuance of 163,217,501 (One Hundred and Sixty Three million and Two Hundred and Seventeen Thousand Five hundred and One) ordinary shares of 50 kobo each to FMI. Upon allotment to FMI, the Company's total issued shares will be updated on the NASD OTC trading platform.

The Conversion was initiated by the issuance of a Conversion notice by FMI on 28 May 2018 pursuant to the terms of the CLA. Subject to the approval of shareholders, the Board will seek the approval of the Securities and Exchange Commission ("SEC") for the Conversion. Following receipt of SEC approval, the Conversion Shares will be allotted to FMI.

Effect of the Conversion

Following the Conversion, the ownership structure of the Company will be as follows:

	Number of shares held	New shares issued	Total shares held	%
FMI	992,432,817	163,217,501	1,155,650,318	99.37%
Other shareholders	7,383,031	-	7,383,031	0.63%
	999,815,848	163,217,501	1,163,033,349	100.0%

The repayment of the Loan as a result of the Conversion is expected to lead to a 39% reduction in the annual finance costs incurred by the Company to N600 million by 31 December 2018 (N991 million as at 31 December 2017).

A proxy form has been provided. For the instrument of proxy to be valid for the purpose of the meeting, it must be completed, duly stamped in accordance with the Stamp Duties Act and deposited at the office of the Company's registrars no later than 24 hours before the time of the meeting.

Recommendation

The Board of Directors of Fan Milk have considered the proposed Conversion and are convinced of the merits thereof. Accordingly, the Board recommends that shareholders vote in favour of the resolutions to approve the Conversion.

Contact for further information

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