

NOTICE 506 OF 2011**COMPETITION COMMISSION****NOTIFICATION TO CONDITIONALLY APPROVE THE TRANSACTION INVOLVING:****ASTRAL OPERATIONS LTD****AND****THE ABBATOIR BUSINESS CURRENTLY BEING OPERATED BY
CORPCLO 2410 (PTY) LTD****CASE NUMBER: 2011APR0016**

The Competition Commission hereby gives notice, in terms of Rule 38 (3)(c) of the 'Rules for the Conduct of Proceedings in the Competition Commission, that it has approved the transaction involving the above mentioned firms subject to the conditions as set out below.

The Primary acquiring firm is Astral Operations Limited ("Astral Operations"), a public company listed at the Johannesburg Stock Exchange ("JSE"). Astral Operations is wholly controlled by Astral Foods Limited ("Astral Foods"), a public company listed at the JSE. Astral Foods is not controlled by any firm. In South Africa, Astral Operations controls in excess of about 11 firms. Astral Operations is an integrated poultry producer that is active in the following: animal feed pre-mixes, manufacturing of animal feeds, broiler genetics, production and sale of day-old chicks and hatching eggs, integrated breeder and broiler production operations, abattoir and sale and distribution of various poultry brands.

The primary target firm is the abattoir business currently being operated by Corpclo 2410 (Pty) Ltd ("Corpclo"). Corpclo is not controlled by any firm. Its shareholders are Mountain Valley Farms (Pty) Ltd ("Mountain Valley Farm"), R Tremeane, N Lincoln Family Trust, and A Lewis. The shareholders of Corpclo are hereafter referred to as "the Corpclo shareholders". Corpclo produces mainly fresh poultry products which it supplies into KZN region. These products include whole birds, portions of birds, value added products (such as crumbed chicken burgers, seasoned wings and Texan drumsticks) and tertiary products (including necks, livers, gizzards, mala, heads and feet).

Astral Operations is also acquiring three broiler houses from Mountain Valley Farm. The acquisition of the three broiler houses is not notified by the merging parties on the basis that it does not meet the required threshold of an intermediate merger. However, for purposes of

analysing the effect of the proposed transaction on competition, the Commission assessed the acquisition of the three broiler houses from Mountain Valley Farm.

There is a horizontal overlap in the activities of the merging parties in the following market: supply of fresh poultry products, supply of frozen poultry products, production and supply of broilers. However, there is no geographic overlap in the market for the supply of broiler and fresh poultry products.

The Commission finds that the proposed transaction is unlikely to substantially prevent or lessen competition, as accretion in market shares is less than 1% in the production and supply of frozen poultry products. Further, customers of the merging firms contacted by the Commission indicated the ability to switch service providers at any time.

There is also a vertical relationship between Astral Operations and Mountain Valley Farm in that Astral Operations supplies the three boiler houses with day old chicks and broiler feed. Another vertical overlap exist between the activities of Astral Operations and Corpclo in that once Astral Operations acquires the three broiler houses from Mountain Valley Farm, the latter will be supplying the abattoir with broilers.

With respect to the supply of broilers to Corpclo, the Commission finds that, the proposed merger does not give rise to foreclosure concerns in the broiler market. With respect to the supply of broiler feed to Corpclo shareholders, the Commission finds that Astral Operations has the ability to foreclose independent feed producers in the KZN region, however, the customer foreclosure strategy is unlikely to result in anticompetitive effects in the broiler feed market overall.

The acquisition of Corpclo raises public interest concerns in that it has an effect on a particular industrial sector or region and/or on the ability of small businesses to remain competitive. The Commission finds that Astral Operations have the ability and incentive to foreclose rivals in the day old chicks market.

In order to address competition and public interest concerns resulting from the merger, the Commission imposes the following conditions:

- (i) Subject to –
 - a. market conditions remaining substantially the same as those applicable as at the date of this merger clearance; and
 - b. Stonor Farm ("Stonor") not materially negatively altering the terms and conditions of supply (including price) from those that applied prior to the merger,

The Corpclo shareholders shall continue to source, on average over a period of 6 months from the date of the merger clearance, no less than 90 000 day old chicks per week from Stonor.

- (ii) The Corpclo shareholders shall be free to conduct their business based on their own commercial considerations. To the extent that the Corpclo shareholders do not elect to become contract growers on behalf of the Astral Group –
 - a. And in the event that the Corpclo shareholders procure broiler feed or day old chicks from the Astral Group, they shall be afforded transparent prices and terms and conditions for each product line from the Astral Group; and
 - b. All discounts and incentive schemes offered by the Astral Group will be communicated separately from the day old chick and broiler feed prices, and will not be designed so as to compel the Corpclo shareholders to source broiler feed and day-old chicks from the Astral Group to the exclusion of competitors.
- (iii) The Corpclo shareholders will report to the Commission every three months on their obligation to procure from Stonor as per paragraph (i) above.

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