# CONTENTS PAGE

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>BUSINESS OPPORTUNITY OVERVIEW</td>
<td>3</td>
</tr>
<tr>
<td>INVESTOR INFORMATION</td>
<td>4</td>
</tr>
<tr>
<td>AIM &amp; BACKGROUND OF SHAREHOLDERS &amp; DIRECTORS</td>
<td>5</td>
</tr>
<tr>
<td>- Aim of shareholders</td>
<td>5</td>
</tr>
<tr>
<td>- Shareholders' background</td>
<td>5</td>
</tr>
<tr>
<td>- Shareholder &amp; Divisional Structure</td>
<td>6</td>
</tr>
<tr>
<td>OVERVIEW OF THE BUSINESS OF NUTRI-FLO</td>
<td>7</td>
</tr>
<tr>
<td>- Introduction</td>
<td>7</td>
</tr>
<tr>
<td>- Origins</td>
<td>7</td>
</tr>
<tr>
<td>- Production &amp; plant facilities</td>
<td>8</td>
</tr>
<tr>
<td>- Key manufacturing processors</td>
<td>8</td>
</tr>
<tr>
<td>- Current production</td>
<td>9</td>
</tr>
<tr>
<td>- South African facilities</td>
<td>9</td>
</tr>
<tr>
<td>- Plant 1: Tinley Manor</td>
<td>9</td>
</tr>
<tr>
<td>- Plant 2: Gingindlovu</td>
<td>10</td>
</tr>
<tr>
<td>- Plant 3: Liquid Nutrient Technologies (LNT) Stanger</td>
<td>10</td>
</tr>
<tr>
<td>- Swaziland Operations: Enviro Applied Products</td>
<td>12</td>
</tr>
<tr>
<td>STRATEGIES</td>
<td>13</td>
</tr>
<tr>
<td>THE MARKET &amp; COMPETITORS</td>
<td>14</td>
</tr>
<tr>
<td>- Market Overview</td>
<td>14</td>
</tr>
<tr>
<td>- General trends</td>
<td>14</td>
</tr>
<tr>
<td>- Fertilizers</td>
<td>14</td>
</tr>
<tr>
<td>- Analysis</td>
<td>14</td>
</tr>
<tr>
<td>- Key Value Drivers</td>
<td>15</td>
</tr>
<tr>
<td>- Competitors</td>
<td>16</td>
</tr>
<tr>
<td>- Profert</td>
<td>16</td>
</tr>
<tr>
<td>- Sasol Agri</td>
<td>16</td>
</tr>
<tr>
<td>- Kynoch</td>
<td>16</td>
</tr>
<tr>
<td>- Kynoch Fertilizer</td>
<td>16</td>
</tr>
<tr>
<td>- Omnia</td>
<td>16</td>
</tr>
<tr>
<td>- Nutri-Flo’s Competitive Edge</td>
<td>17</td>
</tr>
<tr>
<td>SWOT ANALYSIS</td>
<td>18</td>
</tr>
<tr>
<td>THE DEALERSHIP AGREEMENT</td>
<td>20</td>
</tr>
<tr>
<td>- Identifying Dealers</td>
<td>20</td>
</tr>
<tr>
<td>- The agreement</td>
<td>21</td>
</tr>
<tr>
<td>FINANCIAL INFORMATION</td>
<td>22</td>
</tr>
<tr>
<td>- Brief history</td>
<td>22</td>
</tr>
<tr>
<td>- Assumptions</td>
<td>22</td>
</tr>
<tr>
<td>APPENDICES</td>
<td>23</td>
</tr>
<tr>
<td>- Shareholders and directors</td>
<td>23</td>
</tr>
<tr>
<td>- Dealership code of conduct</td>
<td>25</td>
</tr>
<tr>
<td>- Brief research conclusions</td>
<td>26</td>
</tr>
<tr>
<td>- New dealer viability filter</td>
<td>27</td>
</tr>
<tr>
<td>- Explanation of condensed molasses solids (CMS)</td>
<td>28</td>
</tr>
<tr>
<td>- Description and details of Nutri-Flo technology</td>
<td>28</td>
</tr>
<tr>
<td>- Fertilizer dealership expenses</td>
<td>29</td>
</tr>
<tr>
<td>- Location</td>
<td>31</td>
</tr>
</tbody>
</table>
BUSINESS OPPORTUNITY OVERVIEW

A detailed research document and business plan was prepared to support data expressed in this profile. Copies of these reports can be obtained on request.

Who are we?

- NUTRI-FLO is best described as a fertilizer producer that is establishing a fertilizer dealership operation throughout the sub-Saharan African region.
- The scope of the business is to expand beyond simply selling fertilizer to farmers.
- The aim is to undertake a training programme for dealers (on behalf of farmers) to test soil, buy raw materials and mix the fertilizer before laying out the correct fertilizer on the land for the farmer.

What do we do?

- NUTRI-FLO is a liquid and granular fertilizer producer with almost complete control of the KwaZulu-Natal sugar belt.
- The company is organized to exploit a major opportunity in the market for fertilizing land throughout the African continent; in liquid and granular fertilizers.

Why do we do it?

- Positive trends and market opportunities are outlined in the Research Document.
- According to the Food & Agricultural Organization there are 19 African countries facing starvation for a variety of reasons; from civil strife, drought, flooding to population displacement.
- These countries include Angola, Burundi, DRC, Eritrea, Ethiopia, Guinea, Kenya, Lesotho, Liberia, Malawi, Sierra Leone, Somalia, Sudan, Swaziland, Uganda, Tanzania, Zambia and Zimbabwe.
- NUTRI-FLO is already in discussions with Malawi and Tanzania to set up fertilizer dealerships in these regions.

How do we do it?

- NUTRI-FLO plans to empower dealers in Africa to promote its fertilizer products and services to farmers in an effective and cost efficient manner.
- NUTRI-FLO’S priority will be to continually communicate with dealers to inform them on international pricing, warning against natural disasters such as drought, floods, plagues and even man-made catastrophes such as wars and assist in finding permanent solutions to them.
- The Research document sets out detailed macro scenario planning and recommendations.

Become part of Nutri-Flo

- This fertilizer producer is successful, profitable and well run. This is highlighted by its high turnover growth since restructuring in 2001.
- Since then, the company’s turnover has risen from R41.1 million to R52.9 million last year.
- High quality, excellent service and significant market share of the KwaZulu-Natal sugar belt fertilizer market, emphasise this company’s philosophy of dominating market sectors.

Today, Nutri-Flo is looking for the right partners to take the company to the next level of growth.

This is the dealership concept outlined in this profile.
INVESTOR INFORMATION

General Information

Company Name: Nutri-Flo Holdings (Pty) Limited

Contact Details:

<table>
<thead>
<tr>
<th>Contact</th>
<th>Position</th>
<th>Telephone</th>
<th>Fax</th>
<th>E-mail</th>
</tr>
</thead>
<tbody>
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<td><a href="mailto:blyle@webmail.co.za">blyle@webmail.co.za</a></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Cell: 083 – 387 4508</td>
<td></td>
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</tr>
</tbody>
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General data

Postal Address: PO Box 242, Umhlali, KwaZulu- Natal, 4390

Registered Address: Opposite Compensation Station, Umhlali, KwaZulu-Natal

Registration No: 1988/015032/23

Company auditors: PricewaterhouseCoopers: Abdul Essak Tel: 031 – 250 3724

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Advocate: Vinay Gajoo SC Tel: 031 – 301 – 8648

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INTERNET SITE INFORMATION:

Web Address: www.nutri-flo.com

Available on the site:
- PROFILE
- SAMPLE GLOBAL RESEARCH
- FERTILIZER NEWSLETTER
- DEALERSHIP AGREEMENT

DATE OF PROFILE: February 7, 2003
OVERVIEW OF THE BUSINESS OF NUTRI-FLO

INTRODUCTION

In the context of the South African fertilizer market, Nutri-Flo is not easy to describe. In addition to being a direct manufacturer of fertilizer, it is also involved in research, analysis and testing of soil samples for farmers, who consider Nutri-Flo as one of the most professional and highly technical fertilizer operators in South Africa.

On a product basis, the company is both a liquid and granular fertilizer producer with almost complete control of the KwaZulu-Natal sugar belt. The dire need for fertilizer in other South African agricultural products has lead the company to re-assess their business strategy; outlined in its business plan – available on request.

In addition, the group’s objective is to rapidly expand its fertilization processes to include a dealership-type operation (set out in this report) in South Africa and to move this form of business to other African countries. The company will be providing much needed expertise to improve quality of produce being farmed in these regions. One such dealership has already been successfully set up in South Africa and five more are being planned for 2003.

The company has a 50% stake in a Swaziland company and is presently in discussions with organizations in Malawi and Tanzania.

Nutri-Flo can therefore be described as a “KwaZulu-Natal based fertilizer manufacturer” for a wide range of clients. As such, the company has three key elements, namely:

- An undisputed, high level of professionalism in dealing with farmers, dealers and corporations
- Its ability to detect specific requirements and deliver products quickly and efficiently
- Its ability to follow through with every order. This includes detailed analysis of clients’ products, groupings of products and trend analysis.

BCI conducted an independent research on the Ammonia and fertilizer industries, which is outlined in greater detail in a comprehensive research document entitled The Global and South African Fertilizer Industries, June 2002. A copy is available on request, but a brief overview is set out in the Appendices.

This KwaZulu-Natal based fertilizer producer aims to establish a mechanism to provide Africa’s farmers with a means to expedite massive fertilization of land throughout the region.

ORIGINS

Nutri-Flo started operations in 1988 on the KwaZulu-Natal north coast. The company’s primary objective was to provide sugar cane farmers with a comprehensive fertilizer application service. The business consisted of blending fertilizer in a liquid form to the farmer’s specific requirements. A cold fluid fertilizer process was used, which is commonly known as suspension fertilizer.

The company quickly discovered that the requirement for potassium on the KwaZulu-Natal north coast was high, making these fertilizers difficult to make and distribute. Consequently, Nutri-Flo perfected the
THE MARKET & COMPETITORS

NOTE: Full market and competitor analysis is available on request. The following is a summarise version of the full research.

MARKET OVERVIEW

General trends

The political and regulatory environment that created a philosophy of isolationism and protectionism during the apartheid years has shaped the chemical industry. This tended to foster an inward approach and a focus on import replacement in the local market. It also encouraged the building of small-scale plants with capacities geared to local demand, which tended to be uneconomic. Through isolation of the industry from international competition and high raw material prices as a result of import tariffs, locally processed goods have generally been less than competitive in export markets.

Now that South Africa is once more fully part of the global community, South African chemical companies are focusing on the need to be internationally competitive and the industry is reshaping itself accordingly. Local companies are also seeking strategic alliances and partnerships with international companies in order to improve their competitiveness and export potential. One of the largest chemical investments over the past two years has been the acquisition of local chemical producer Sentrachem, by US company Dow Chemicals.

There is evidence that there is currently a concerted effort to make the chemical industry more competitive. The South African Department of Trade and Industry has convened a number of Petrochemicals, Plastics and Synthetic Fibres workshops to analyze the problems and opportunities of a sector of the South African economy that is considered to have great potential for the future, and to develop a way forward.

Fertilizers

The nitrogenous components required for fertilizer production are derived from ammonia that is produced by Sasol and AECI. Phosphate rock is locally mined and used in the manufacture of phosphates by Foskor. AECI (Kynoch) Sasol and Omnia carry out fertilizer production (See competitor analysis).

South Africa is one of the larger fertilizer producing countries in Africa with a full range of fertilizer products being manufactured and marketed. These include dry, liquid and specialty fertilizers, and encompass nitrogenous, phosphatic, mixed and other forms. Nitrogenous fertilizers represent the largest demand sector, which account for nearly 40% of total production. Mixed (NPK) fertilizers account for a third of production and phosphoric fertilizers make up 17% of output.

Fertilizer anti-caking agents are used to facilitate the even distribution of fertilizer particles during application. Kenochem, located near Johannesburg manufactures both the amine-based active ingredients and specially formulated anti-caking agents.

Analysis

Full analysis of Africa’s need for fertilization is available on request.

Three fundamental questions were asked when the Global Report was conducted:
What fertilizer consumption trends are at the continental, regional and country level?

How do trends in sub-Sahara compare with those in other parts of the world?

What factors are associated with higher fertilizer use?

The objective of this section of the Corporate Profile is to apply the in-depth assessments to the determinants of fertilizer use by Nutri-Flo dealers.

Key Value Drivers

The correlation analysis conducted in writing this profile found that fertilizer use per hectare was positively correlated with the following:

- The amount of rainfall per year underscores the need to find fertilizer technologies that are more responsive in the type of low moisture situation that characterizes much of sub-Saharan Africa.

- The density of road infrastructure, which affects transport costs. However the size and significance of the road density co-efficient has been declining over time, especially since the early 1980s.

- The percentage of cultivated area devoted to cotton. Cotton production schemes have been used to introduce fertilizer to small farmers in a variety of Sub-Saharan African settings where the use has subsequently been expanded to other crops, particularly coarse grains. The lesson to be learned from this variable is not so much that cotton per se is the best way of getting fertilizer into the farming system, but that some type of cash crop scheme that provides farmers with reliable input, credit, extension, and output marketing services can play a significant role in promoting fertilizer adoption.

- Fertilizer markets are dominated by old technologies and cannot afford to reinvest. Globally, new capacity tends to come online close to raw material sources.

- Margins in the fertilizer industry are very small and sometimes even negative.

- A long-term opportunity for the fertilizer industry is growth in the small-scale farming sector.

- The fertilizer industry is affected by climatic conditions, by agricultural practices and food demand. It is inextricably linked to agriculture and cannot compete against subsidised producers elsewhere.

- Entrepreneurs could potentially find opportunities in the rest of Africa, but this depends on social and political stability and reasonable economic growth in the destination countries.

- Employment is declining in the fertilizer sector.

- There is general trend away from labour intensive forms of production in this sub-sector.

- Outsourcing of production facilities is increasing.

- The sub-sector needs a more multi-skilled workforce. There is no real incentive within the industries for employees in technical occupations to remain in their fields of expertise, as noted in the absence of a clearly defined technical skills career path in the industry.
The Dealership Concept is unique in Africa and is an opportunity at a time when fertilizer needs are reaching critical levels.

The company intends to exploit the fact that South Africa has a very poor service record. This is in view of several other downstream markets that would boost its revenue.

**THREATS IN THE MARKETPLACE**

- Increasing competition from global companies.
- Competition Board could limit future projects.
- The current fluctuations in the R/US$ exchange rates renders projects difficult to price accurately. However, should the company be able to keep sufficient stock on hand and then order in large quantities it will be able to negotiate a better rate with its suppliers and thus counteract exchange rate fluctuations.
- The normal risk factors inherent in any new business venture can be minimized by a capable management team. The management team assembled by Nutri-Flo has the experience necessary to compensate for these risks.
- As part of Nutri-Flo’s policy of being a market driven company, industry and market research will be conducted on a continuing basis. This will alert management to any changes needed in their strategy, and allow the necessary corrections to be implemented.
- Nutri-Flo will strive to maintain good relations with the government in each African country where the roll out programme of dealerships is carried out. To accomplish this, a senior employee will be assigned to each country as liaison. This is already the case with Nutri-Flo’s Swaziland company.
- Newer technologies rendering equipment and systems deficient or obsolete.

**CONCLUSIONS**

Considering the relative strengths and weaknesses, the opportunity for success is readily apparent, as the potential exists due to:

- The political and economic changes currently taking place in Africa (African Union, Nepad etc) provide a more stable environment for commercial activities such as Nutri-Flo’s dealership rollout.
- Technological advances in African broadcasting provides entrepreneurs with access to information to larger markets on a cost efficient basis.
- The directors’ believe that Africa is ready to embrace any new concept that will rapidly fertilize land, while empowering its own people.
- The need for organizations to be able to promote fertilization of land on a large scale and in ways that were previously not possible.
Nutri-Flo has undertaken this venture with the belief that it has the technical expertise and financial acumen to achieve an uninterrupted level of success for its investors, clients, dealers, farmers and related services for the people of Africa.

**Identifying Dealers**

**Note:**
- Agreement forms are available on the Group’s internet site.
- An abridged code of conduct is outlined in the Appendices.
- The Dealership viability filter is outlined in the Appendices.

The company developed a DEALERSHIP FILTER that is briefly outlined as follows:

1. **STEP 1: RESEARCH**
   - Market Analysis, trend identification, land assessment, supply and demand needs.

2. **STEP 2: ANALYSIS & FILTER**
   - LAND AREA IDENTIFIED

3. **STEP 3: TENDERS ANNOUNCED**

4. **STEP 4: DEALERSHIP CONTRACT & AGREEMENT SIGNED**

5. **STEP 5: ON-GOING SUPPORT**
   - TECHNICAL SUPPORT
   - SUPPLY OF RAW MATERIALS
   - FINANCIAL SUPPORT
   - CONTINUED ADVICE

**FOR FURTHER INFORMATION CONTACT BRUCE LYLE AT NUTRI-FLO**

**Primary, Fundamental & Operational Research**

Research is based on environmental factors of Economic, Business, Politics & Technology.

**Top down approach:**
- Global
- Regional
- Local

**APPLICANTS ASSESSED AND SHORT-LISTED.**

CHECKED RELATIVE TO:
1. Code Of Conduct
2. Viability Filter

**APPENDICES**
NEW DEALER VIABILITY FILTER

NEW ENTRANTS
Includes: Entry barriers, Economies of Scale, Proprietary product differences, Brand identity, Switching costs, Capital requirements, Access to distribution, Absolute cost advantages, Proprietary learning curve, Access to necessary inputs, Proprietary low-cost product design, Government policy and Expected retaliation

Threat of new entrants

INDUSTRY COMPETITORS
- Rivalry determinants
- Industry growth
- Fixed (or storage) costs/value added
- Intermittent overcapacity
- Product differences
- Brand identity
- Switching costs
- Concentration and balance
- Informational complexity
- Diversity of competitors
- Corporate stakes
- Exit barriers

Bargaining Power of Buyers

DETERMINANTS OF SUPPLIER POWER
- Differentiation of inputs, Supplier concentration, Importance of volume to supplier, Cost relative to total purchases in the industry, Impact of inputs on cost or differentiation, Threat of backward integration by suppliers, Threat of forward integration by firms in the industry

Bargaining Power of Buyers

DETERMINANTS OF SUBSTITUTION THREAT
- Relative price performance of substitutes, Switching costs and Buyer propensity to substitute

Threat of Substitutes

DETERMINANTS OF BUYER POWER
- Bargaining Leverage: Buyer concentration vs. firm concentration, Buyer volume, Buyer switching costs relative to firm switching costs, Buyer information, Ability to backward integration, Substitute products and Pull-through
- Price Sensitivity: Price/total purchases Product differences, Brand identity, Impact on quality/performance, Buyer profits and Decision makers' incentives

Bargaining Power of Buyers
**LOCATION**

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<tr>
<th>Postal Address:</th>
<th>PO Box 242, Umhlali, KwaZulu-Natal, 4390</th>
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<tr>
<td>Registered Address:</td>
<td>Opposite Compensation Station, Umhlali, KwaZulu-Natal</td>
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