



PRESS RELEASE

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Exciting opportunities in agriculture

There are currently exciting opportunities for the creation of joint ventures in the agricultural sector.

We need to cultivate sustainable agri-empowerment solutions based on sound commercial, legal and tax principles.

We need to turn the current uncertainty in the agricultural sector into a positive end result.

What types of solutions are available?

Equity participation schemes are a method of redistributing ownership of land whilst keeping the operational integrity of the related business. Such arrangements offer the opportunity to retain and increase productivity levels, because well managed schemes can lead to better job satisfaction and greater participation, especially where employees are co-owners.

Equity participation schemes also redistribute future wealth creation, in contrast to situations where land may be transferred but not kept productive. Importantly they do not require the current ownership to give away wealth and they have the added advantage of retaining or attracting good management needed to attract capital and to make best use of scarce resources (both physical and financial). The on-going managerial experience of the previous owner in this regard is of vital importance.

Equity participation schemes are suited to farming enterprises where it is better to change the ownership structure of the enterprise rather than dividing the land into smaller sub economic units; for example, where the enterprise is indivisible due to technical, managerial or natural resource constraints.

Equity participation schemes are privately owned farming operations that are generally restructured as companies with the original owner of the business, employees and perhaps other beneficiaries as shareholders.

A successful equity participation scheme operates as a company with voting and benefit rights proportional to the investment made by each member. In addition, company law entrenches transparent corporate governance and reporting processes.

At the same time the "shareholders" through the directors, empower management to continue to manage the agricultural enterprise soundly.

These arrangements encourage prudent investment of money and effort by the shareholders and help to align interests and minimise free riding (referred to where individuals benefit from a revenue stream but disproportionate to their contribution and investment) that can be a problem in co-operative and communal forms of businesses and therefore.

Equity participation schemes offer beneficiaries a potentially favourable return on their investment and, over time, to realise the value of that investment.

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Equity participation schemes also represent a viable mode of de-racialising commercial agriculture.

A successful equity participation scheme should:

- have a long term business plan (especially one accepted by a commercial financier)
- entrench financial transparency and accountability
- make directors accountable for their actions
- adhere to broadly accepted procedures for reporting, conducting meetings and holding elections.
- attract capital from the private sector to finance new investment, i.e. preserve or enhance creditworthiness
- appoint a reputable external auditor
- protect minority interests
- have incentive schemes for good performance
- redistribute wealth and future benefit streams
- empower workers through skills transfer and their formal inclusion in policy making
- retain or attract quality management
- improve worker productivity and labour relations
- have formal procedures for resolving labour disputes
- provide for the transfer of both ownership and control of commercial farms to previously disadvantaged workers in the long-term

To this end there are currently a number of attractive “restructuring” and “change of control” models available using accepted legal, commercial and tax principles for structuring sustainable agri-businesses.

These models can be applied whether they be for:

- an existing operation
- a new acquisition or
- a “greenfield” development

These models are coupled with advising agri-businesses on:

- equity transformation
- originating and structuring “change of ownership” transactions
- arranging debt for empowerment transactions
- introducing empowerment partners
- managing the entire process of change
- facilitating skills transfer to key employees
- creating empowerment solutions to suit particular needs
- creating family succession planning solutions

What happens locally if we do not take steps to unlock the potential and seeming “stalemate” situation that has developed in agriculture?



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The KZN economy depends broadly on two sectors namely tourism and agriculture. While the former is thriving with growing tourist numbers and investments the latter is stagnating due to huge uncertainty in the sector.

No new investment in the agricultural sector means fewer new jobs (if any) created, which has a huge knock on affect on our local economy. Consequently there will be less purchasing power and commerce, retail and services sectors are negatively impacted (including the tourism sector).

We need to “fly on two wings” and see that the agricultural sector becomes a thrive again.

The challenge to leadership in businesses and government is to create the right environment to encourage investment in improved productivity. Together with restructuring models available and numerous agri-businesses that have the will and expertise we can create successful joint ventures. This will go a long way to releasing the “hand brake” on the agricultural sector and allow it to really prosper again while contributing more to our local economy and the progress of our country.

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Phatisa Equity (Pty) Ltd is a private equity, empowerment and advisory company specialising in sustainable empowerment solutions for the agricultural and commercial sectors.

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