



AECI Limited
 (Incorporated in the Republic of South Africa)
 (Registration number 1924/002590/06)
 Share code: AFE ISIN: ZAE00000220
 ("AECI" or "the Group")



African Explosives Limited
 (Incorporated in the Republic of South Africa)
 (Registration number 1973/008610/06)
 ("AEL")



Tiso Group Limited
 (Incorporated in the Republic of South Africa)
 (Registration number 1999/010875/07)
 ("Tiso")

ACQUISITION BY AN EMPOWERMENT CONSORTIUM OF A 25.1% INTEREST IN AECI'S EXPLOSIVES BUSINESS

1. INTRODUCTION

AECI, its wholly-owned subsidiaries AEL and AEL Holdings Limited ("AELH"), and an empowerment consortium ("the Consortium") led by Tiso have reached agreement in terms of which the Consortium will, via a new company introduced for this purpose ("EmpCo"), acquire a 25.1% interest in AECI's South African and African explosives operations ("the Business"), for approximately R401 million payable in cash ("the transaction"). As part of the transaction, AEL will become a wholly-owned subsidiary of AELH and will conduct the Business as agent for AELH. The transaction excludes AECI's electronic detonator business ("DetNet") which is being merged into a global 50:50 joint venture with Dyno Nobel ASA of Norway, the international leader in explosives initiation systems.

2. THE CONSORTIUM

The Consortium is comprised of Tiso, which will own 75% of EmpCo, and the AEL Community Development Trust ("CDT"), which will own the remaining 25%.

2.1 Tiso

Tiso is a majority black-owned and managed investment company with interests in natural resources, mining and industrial services, and financial services. Tiso was established in 2001 by Fani Titi, Nkululeko Sowazi and David Adomakoh. Staff and management currently hold 56% of the issued share capital in Tiso with Investec Limited and the Tiso Foundation holding 24% and 20% respectively. The Tiso Foundation is a registered public benefit organisation chaired by Bishop Mvume Dandala, the former head of the Methodist Church of South Africa and currently the General Secretary of the All Africa Conference of Churches. Tiso established the Tiso Foundation in 2002 with the purpose of ensuring broad-based equity participation in Tiso beyond its management and employees.

2.2 AEL Community Development Trust ("CDT")

The parties are committed to ensuring that the economic benefits of equity participation in AEL accrue to a broad base of beneficiaries and have accordingly agreed to include the CDT as a significant shareholder in the transaction. The CDT, which will own 25% of EmpCo, will be governed by an independent Board of Trustees and will focus on deploying income from the AEL investment in support of the communities where the majority of AEL's employees live, principally Tembisa and Alexandra.

3. RATIONALE FOR THE TRANSACTION

AECI is committed to the implementation of broad-based empowerment within the Group in a comprehensive and sustainable manner. It recognises that empowerment is a social and commercial imperative to achieving economic transformation in South Africa. AECI already has a number of initiatives in place relating to employment equity, skills development, preferred procurement and enterprise development. It is envisaged that, with the participation of Tiso, these initiatives will be enhanced.

AEL's customer base is primarily the mining industry in South Africa and Africa. The South African mining industry has recently adopted the Mining Charter and AEL, as a major supplier to the mining industry, wishes to strengthen its relationship with its customers by ensuring compliance with their preferred procurement requirements. The transaction, therefore will enable AEL's customers to operate within the procurement parameters of the Mining Charter.

AEL is a mining solutions company and sought an empowerment partner with knowledge of and relationships in the mining industry. In addition, such a partner should understand the dynamics of the mining services industry. Tiso has a stated objective of focusing on the mining industry and the associated service industries. The transaction will satisfy the strategic objectives of both AEL and Tiso, thereby ensuring a stable platform for a long-term partnership. It is expected that this partnership will add considerable value to the Business, and hence to AECI shareholders, over time.

4. SALIENT TERMS OF THE TRANSACTION

4.1 Structure

The Business, currently owned and operated as a division of AECI through the agency of AEL, has been valued at R1 605 million for the purposes of the transaction. As an initial step in the transaction, the Business will be sold by AECI to AELH, with the purchase consideration funded by way of R100 million in share capital and R1 505 million in shareholder loans.

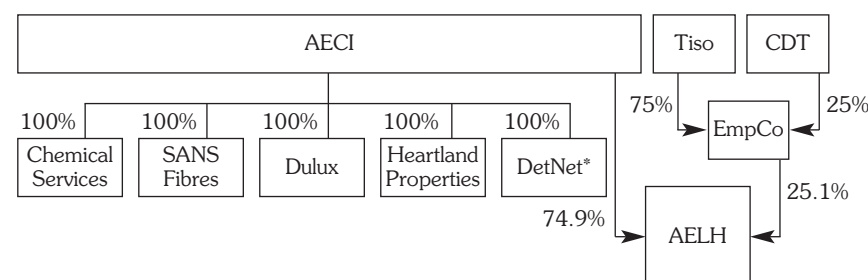
The Consortium will, through EmpCo, then acquire a 25.1% economic and voting interest in AELH for R401 million comprised of R25.1 million in share capital and R376 million in shareholder loans. EmpCo will be funded by means of R25.1 million of equity, being R18.825 million from Tiso and R6.275 million from the CDT, and a R376 million bank term loan. The shareholder loans and the bank term loan will bear interest at the same rate, with this rate being similar to that at which AECI could raise funding in the market.

The CDT's equity investment of R6.275 million will be funded by AECI by way of an interest-free loan. Tiso will fund its equity investment from its own resources.

The R376 million in shareholder loans to AELH acquired by the Consortium is being funded by a bank term loan. A portion of this loan, namely R201 million, will be underwritten by AECI as surety and repayments of the AELH shareholder loan due to AECI will rank behind repayments of the AELH shareholder loan due to EmpCo. AECI's surety obligation will diminish over time and will terminate when AELH refinances the remaining shareholder loans by way of external funding upon commercial terms, which is envisaged to be within six to seven years.

The transaction is structured such that EmpCo will have a direct 25.1% economic interest and full voting rights in respect of the Business from inception of the transaction. The participation of the CDT and the Tiso Foundation in the transaction will result in an effective 40% interest in EmpCo being held by broad-based shareholders.

The AECI Group structure and shareholding of AELH post the transaction are depicted in the diagram below:



*Before the merger of DetNet into a joint venture with Dyno Nobel ASA

4.2 Use of proceeds

The net cash proceeds of R395 million emanating from the transaction will be applied by AECI to reduce its existing borrowings.

4.3 Professional services

AECI and the Consortium have committed themselves to ensuring that the Business continues to deliver sustained profitable growth. In this regard AECI will continue to provide the services it has historically provided to the Business and EmpCo will provide the Business with services, which *inter alia*, will include on-going strategic commercial input to the management of the Business; assistance in maintaining and developing relationships with customers; and facilitation of policies and programmes relating to employment equity, social responsibility, skills development and affirmative procurement within the Business. AECI and EmpCo will receive a professional services fee for the provision of the above services.

4.4 Exclusivity

Tiso has undertaken that it will not take part in any investment or business activity which directly competes with the operations of the Business or, for a period of five years, with the operations of the broader AECI Group. AECI has undertaken that it will not, for as long as Tiso remains a shareholder in AELH, without prior consent of Tiso, initiate discussions with any other potential investor with the view of increasing the empowerment shareholding in AELH and that Tiso will be afforded a first option to take up future empowerment participation opportunities in the greater AECI Group.

4.5 Long-term commitment

Tiso regards its investment in AELH as a long-term strategic holding and has not sought an exit mechanism for its investment.

4.6 AELH Board representation

EmpCo will be entitled to nominate two of the six non-executive directors to the Board of AELH and will be represented in various sub-committees of this Board.

4.7 Effective date

The effective date of the transaction will be 1 July 2004.

5. FINANCIAL EFFECTS OF THE TRANSACTION

The *pro forma* financial information has been prepared for illustrative purposes only and, due to its nature, may not accurately reflect the financial position of AECI subsequent to the implementation of the transaction. In particular, the *pro forma* information does not recognise any of the benefits which may be expected to result from the Consortium's participation in the Business. The *pro forma* financial effects of the transaction set out below are based on AECI's audited results for the year ended 31 December 2003.

	Audited Before the transaction (cents)	Pro forma After the transaction (cents)	% change
Headline earnings per share	356	336	(5.6)
Earnings per share	252	233	(7.5)
Net asset value per share	2 305	2 305	-
Tangible net asset value per share	1 458	1 458	-

Notes:

- The headline earnings and earnings per share are calculated using historically published information for AECI for the year ended 31 December 2003 as if the transaction had taken place with effect from 1 January 2003.
- The headline earnings and earnings per share for the year ended 31 December 2003, as set out in the "After" column of the table, are based on the assumptions that:
 - the net cash proceeds of R395 million received by AECI were used to repay long-term debt at an effective pre tax rate of 11.0%;
 - a professional services fee of 0.125% of the Business' turnover was paid to EmpCo, which fee would have amounted to R2.5 million before tax; and
 - the weighted average number of AECI shares in issue for the 12-month period was 94.7 million.
- The net asset and tangible net asset value per share in the "After" column are calculated as if the transaction had occurred on 31 December 2003 based on 108.2 million shares in issue on that date, and on the assumption that the profit realised on the transaction - due to the sale of the 25.1% minority interest in AELH - is set off against the same amount of goodwill recognised in AELH consequent to the transfer of the Business from AECI to AELH.

6. CONDITIONS PRECEDENT

A shareholders' agreement has been concluded but the transaction is subject to the finalisation of various ancillary agreements, including the bank term loan agreement.

Woodmead
21 April 2004

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