

Uri Dahan & Co.

Economic and Business Consulting, Investment & Capital Raising



XXX Ltd.

**Development, manufacturing and marketing of food
supplements, vitamins and natural herbs-based remedies**

Business Plan

July, 2006

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Professional Background of the Managerial Forum

A. Executive Summary

1. The Company, Products and Entrepreneurs

The company XXX is an Israeli based company founded in 1995 and located in industrial zone of moshav XXX. The company employs between 15 and 20 employees.

XXX is engaged in the development, manufacturing and marketing of food supplements, vitamins and natural herbs-based remedies. Among its products are a wide number of different formulas for general health boosting and also for specific health problems.

The company operates four different production lines:

- Proprietary company's brand under the name "XXX".
- Production of private labels of other companies.
- Manufacturing as subcontractor for other companies.
- Manufacturing and marketing of raw materials for the purposes of the costumers.

XXX is now planning to enter new areas of the market, such as production of probiotical microbes, production of Omega acids and more. It is also considering exporting its products to Europe and USA, and focusing on the Orthodox Jewish community.

All products are manufactured according to the demands of strict Israeli and international health standards. The company operates under the supervision and inspection of the Israeli Ministry of Health and possesses all required licenses. It is also currently undergoing a process of registration of its products as Trade Marks in Israel and abroad. XXX also possesses a Kashrut LeMahadrin certificate.

The entrepreneur, Mr. xxx, is an experienced businessman, who has been involved in the natural health market for more that 15 years and possesses a wide knowledge on the topic of natural health products, including some professional courses he took on the subject.

2. Current Financial Status

The financial data summary of the company for the period of 1/2005 - 5/2006 is presented bellow (see Table 1).

The data for the months January - May is based on the Revenues – Expenses reports for the relevant periods of time. For the remaining months of 2006, a forecast is presented. The forecast was based on the information for expected deals in the short-term future (this issue is detailed in Chapter G.1).

The company's revenues for 2005 totaled about 2.3 million. The revenues for the year 2006 are expected to total about 3.4 million. The growth rate is 44%. The high growth rate is expected in 2006, since until now the company was busy in the factory and the location development. The company developed production capacities and marketing capacities that allow it to significantly increase its sales, and is in the process of signing deals with a number of companies for manufacturing of its products (see [Chapter G.1](#)), beginning from the next months. For this reason, an increase in activity is expected in the next months.

The costs for 2006 are comprised from gross costs and operating costs. Gross costs include purchasing of raw materials and other variable costs, while operating costs include such costs as rent and maintenance of facilities, labor costs, etc. In 2005 the gross costs reached about 700 thousand and are expected to amount to about 1.1 million in 2006. The gross costs totaled in 2005 about 1.2 million and are expected to amount to about 1 million in 2006.

XXX Ltd.					
Table 1: Financial Data Summary for the Period 1/2005 - 5/2006					
(Thousands NIS, Before VAT)					
	2005	1-5/2006 (Actual)	6-12/2006 (Forecast)	2006 (Expected)	Growth 06/05
Revenues	2,332	1,089	2,266	3,355	44%
Gross Costs	668	367	763	1,130	69%
Gross Profit	1,664	722	1,502	2,225	34%
Operating Costs	1,177	490	510	1,000	-15%
Profit Before Taxes	487	232	993	1,225	152%
Percent of the Sales	21%			37%	

Profit before taxes reached about 490 thousand in 2005, or 21% percent of 2005 sales, and it is expected to total about 1.2 million in 2006, which is 37% of the sales that year. This is an increase of 150% from the profit before taxes of 2005.

3. The Natural Health Products Market

Health food supplements (dietary supplements), vitamins, minerals, etc. are intended to supply nutrients that are missing or not consumed in sufficient quantity in a person's diet. This includes also herbal supplements that have a history of claims that they cure or prevent certain diseases.

Food supplements are considered as foods, and not as drugs. They are available in grocery stores, health food stores, drug stores, pharmacies, supermarkets, department stores, online stores, etc.

The popular products are plant extracts, vitamins, herbal teas, dietetic meal substitutes, fat blockers, laxative food supplements and many innovative products offering high quality and attractive packaging.

Retail sales of food supplements and vitamins in Israel grew by 15% in 2003, reaching \$130 million. Industry experts project a rapid growth in this market.

The U.S. imported products market share is 50% of the Israeli market. Europe imported products account for 25% of the market, based mainly on homeopathic drugs and medicinal plants. Local production accounts for 25% of the market.

Among the recently acknowledged food supplements is the probiotics. Probiotics is the name now mostly used to refer to concentrated supplements. Today there are no probiotics manufacturers in Israel. The demand for this product is large, specifically for non-milk kosher probiotics. It is estimated that this market in Israel totals about \$7-\$10 M per year.

4. Business Strategy

The company possesses many advantages in the natural health products market, both in relation to the business and the business concept and also in terms of the market. Among its main advantages are the following:

- The managing team possesses a wide knowledge in the field of natural health products. During the 10 years since the company's establishment, the managers have accumulated rich experience in the field of natural health products development, production and marketing.
- The company is spread over four manufacturing lines (as explained in Chapter 2) which reduces the risk factor of each manufacture line.
- The natural health products market is expanding quickly both in Israel and abroad (as mentioned previously, about 25% growth in Israel each year).
- The company's products are of high quality and of reasonable prices and are competitive with other products in the market.
- The company possesses a Kashrut certificate, which allows it to market its products to the religious segment of the market in Israel and abroad.
- All products are manufactured under the strict supervision and inspection of the Israeli Ministry of Health and according to the demands of ISO 2000, HACCP, an European quality standard BVQI and an international quality standard GMP.

Among the main weaknesses of the company are the following:

- The company is limited in terms of financial resources and it lacks resources mainly for purchasing of new equipment that is needed for its further development of new products lines for export.

- The natural health products market is considered competitive, both in terms of prices and in terms of quality, therefore companies active in this market have to invest in development of marketing abilities.

The company's business strategy will be derived from its advantages and disadvantages. The company will take advantage of its relative strengths and use them as a "lever" for its business and marketing development.

As a rule, the demand in the market grows in parallel to the decrease in pricing levels. This situation is an advantage to the company because of its competitive price levels. This fact is expected to improve the company's position in the market.

The company will continue to combine its proprietary innovative products with products of known companies and established brands. This will help in the branding process and in further penetration to the natural health market.

XXX is now working towards mobilization of investors that will invest the resources needed for further development of new product lines of products for export. Contacts are conducted also in order to raise money through governmental channels of aid.

The company is also planning to establish a managerial forum that will supervise, contribute and inspect the activity of the company. Its participants will be xxx, Dr. xxx, Prof. xxx and Mr. Uri Dahan. xxx, the general manager of the company, will contribute in his managerial and marketing skills and skills in development of new products. Dr. xxx will contribute her capacities to develop contacts with large international organizations and companies, her knowledge and skills in the development of new products. Prof. xxx will assist in general management and development and Mr. Uri Dahan will contribute on such issues as business strategy and business development, general management and financial management. For professional background of the member of the managerial forum, see Appendix.

5. Investment Plan

The investment the company is in need of is divided into three main groups, according to the company's needs, which are: purchasing of equipment for the development of new products and increase of the manufacture lines, including addition of a suitable labor force. This is expected to total about \$300 thousand, establishment of an R&D department for the development of new products that is expected to total about \$300 thousand and the establishment of marketing and sales department that is expected to total about \$400 thousand.

The addition of the labor force will be recruited from among Jewish Orthodox religious women. These women would undergo a unique training for execution of different tasks within the work frame, while taking advantage of their natural skills and their accumulative life knowledge. Other skilled technical laboratory workers will also be employed.

The total investment needs of the company amount to about \$1 million (for detail, see Chapter F).

6. Financial Forecast

Table 2 represents the annual sales, profits and cash flow forecast for the next five years of the company's expected activity. All data is in thousand NIS and before VAT.

It was assumed that the expected annual average sales growth rate is 23%. The total sales amount to about 27.4 million in the five years of the forecast or about 5.5 million for an average year.

XXX Ltd.										
Table 2: Profit & Loss and Cash Flow Forecast for the Five Years Period (Thousand NIS, before VAT)										
Year	Parameters	0	1	2	3	4	5	Total	Annual Average	Percent of Total
Expected Growth Rate				30%	30%	15%	15%		23%	
Sales		3,355	4,361	5,670	6,520	7,498		27,404	5,481	100%
Gross Costs	34%	1,130	1,469	1,910	2,197	2,526		9,233	1,847	34%
Gross Profit		2,225	2,892	3,759	4,323	4,972		18,171	3,634	66%
Operating Costs	30%	1,000	1,100	1,210	1,330	1,464		6,103	1,221	22%
Annual Depreciation		450	450	450	450	450		2,250	450	8%
Operating Costs		1,450	1,550	1,660	1,780	1,914		8,353	1,671	30%
Profit		775	1,342	2,100	2,543	3,058		9,818	1,964	36%
Cash Flow										
Profit			775	1,342	2,100	2,543	3,058	9,818	1,964	36%
Depreciation			450	450	450	450	450	2,250	450	8%
Investment		-4,500						-4,500	-900	-16%
Cash Flow		-4,500	1,225	1,792	2,550	2,993	3,508	7,568	1,514	28%
Cumulative Cash Flow		-4,500	-3,275	-1,483	1,067	4,060	7,568			
Cash Flow for Feasibility Analysis	10%	-4,500	1,114	1,481	1,916	2,044	2,178	4,233		

* Dollar Exchange Rate

4.5

It was assumed that the gross costs will amount to about 34% of the sales and are expected to total about 1.8 million per year in average. The gross profit is expected to rise from the level of about 2.2 million in the first year of the forecast to about 5 million in the last year, or about 3.6 million for an average year.

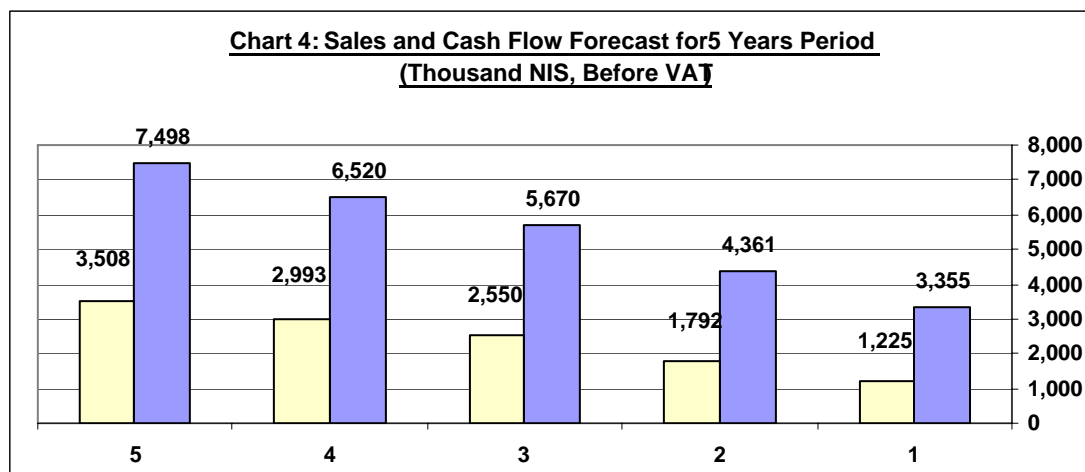
The operating costs are assumed to amount to about 30% of the sales and are expected to total about 1.2 million per year in average. The annual depreciation is expected to total 450 thousand per year. Total operating costs are expected to reach about 1.7 million for an average year.

Thus, the profit is expected to rise from the level of about 780 thousand in the first year of the forecast to about 3 million in the last year. It is expected to total about 2 million per an average year.

The cash flow is expected to total about 7.7 million in the five years of the forecast, after investment return, or about 1.5 million for an average year. The cash flow in the first year amounts to about 1.2 million and in the fifth year reaches about 3.5 million.

Feasibility tests were conducted (by implementation of the DCfs rules) and the development program was found to be feasible.

Chart 1 is the graphic depiction of the sales and cash flow forecast for the five years period.



7. General Remarks

All figures in this business plan are given in NIS, before VAT and in fixed prices, unless stated differently. In case of discrepancies between the information in tables and charts and the information in the text, information in tables and charts should be taken as the correct one.

This business plan includes certain estimates and other forward-looking statements, such as statements about anticipated operating and financial performance, etc. These statements are subject to uncertainties that could cause actual future performance to differ materially. The company disclaims any obligation to update or revise any forward-looking statement based on the occurrence of future events, receipt of new information or otherwise.