



MVELAPHANDA GROUP LIMITED

Mvela Group will continue with its unbundling strategy with a key focus on unlocking value and generating a satisfactory return on capital for shareholders over time.

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Executive directors

Mikki Xayiya

Chairman

BA (Unisa), Cert of Defence Management (Wits), Emerging Market Leadership Programme (University of Pennsylvania)

Mikki Xayiya has served in various capacities in the African National Congress since 1977. In 1995, he was appointed as a Policy Advisor – Office of the Premier, Gauteng Provincial Government. He left public office and joined Mawenzi Asset Managers as Managing Director. In 1998, he co-founded Mvelaphanda Holdings. Mikki is chairman of Mvelaphanda Holdings, Mvelaserve Limited and various other Group companies.

Ernst Röth

Chief financial officer

BCom (Stell), BCompt (Hons) (Unisa), CA(SA), Postgraduate Certificate Advance Tax (Unisa)

After qualifying as a chartered accountant, Ernst Röth spent most of his career in public practice and also worked in the office of the Auditor-General of South Africa for three years. Prior to joining Mvelaphanda Group, he served as a credit risk monitoring executive for a bank in South Africa, financial and chief executive officer of a biochemical company and worked as a financial consultant to Mvelaphanda Holdings. He joined Mvelaphanda Group in June 2007 as a Group finance executive prior to his appointment as chief financial officer.



Non-executive directors

Kuseni Dlamini

Independent non-executive director

MPhil (Oxford)

Kuseni is the CEO of Old Mutual SA and Emerging Markets. Prior to this he was the head of Anglo American's South African operations and a member of the Anglo American plc Executive Committee. He also held the position of Executive Chairman of Richards Bay Coal Terminal Company (RBCT), and a number of senior positions at Anglo Gold Ashanti and De Beers Consolidated in South Africa and the United Kingdom.

Kuseni graduated *cum laude* from the University of Natal with a Bachelor in Social Science Honours degree and was a Rhodes Scholar at Oxford University where he read for his MPhil. In 2008, he was selected as one of the 'Young Global Leaders' by the World Economic Forum and the *Mail & Guardian* named him as one of the top 200 young people worth taking to lunch.

Kuseni is active in professional bodies which include the South African Institute of International Affairs and the Advisory Board of Wits Business School.

Bryan Hopkins

Independent non-executive and lead independent director

BCom (Hons), CA(SA)

Bryan Hopkins is a non-executive director of Resilient Property Income Fund, Avusa Limited, Holdsport Limited and Makalani Holdings Limited. He is serving a three-year term on the Directorate of Market Abuse – a Financial Services Board committee. He previously held senior executive positions in the asset management industry at Old Mutual Asset Managers and Abvest. Prior to that, he was Professor of Accounting at the University of Cape Town.

Oyama Mabandla

Independent non-executive director

BA (University of California), Juris Doctor (Columbia University)

Oyama Mabandla is the immediate past Chairman of Vodacom and Executive Chairman of Langa Group, an investment holding company. Prior to joining South African Airways as deputy CEO, he held various positions within the legal and investment banking professions.

Mvela Group continues to explore avenues that will unlock value in the most efficient way for shareholders.



Mvelaphanda Group ("Mvela Group" or "Group") reported during its interim period the significant progress made on its value unlocking strategy with the unbundling of its investments in Life Healthcare Limited ("Life Healthcare") and Mvelaserve Limited ("Mvelaserve") to shareholders. Since then, Mvela Group continues to explore avenues that will unlock value in the most efficient way for shareholders.

Mvela Group continues to generate income from investments, which will in future be its only source of income. Consequently, Mvela Group's sector listing on the JSE was moved from the Business Support Services Sector to the Investment Instruments Sector.

ECONOMIC ENVIRONMENT

The South African economy grew by 2,8% for the calendar year ended 2010. The first quarter of 2011 reported a GDP growth of 4,8%. Despite the deterioration in the inflation outlook, the interest rates have been kept at their low levels which, together with the positive growth rate, are beneficial to the value of the Group's remaining investments.

FINANCIAL OVERVIEW

Financial performance

The results for the year ended 30 June 2011 include revenue of R1 886 million from Mvelaserve for five months prior

to its unbundling on 6 December 2010 compared to R4 199 million for the full twelve months the previous year. Operating profit for the year amounted to R115 million which excludes R85 million of exceptional items incurred for the listing and unbundling of Mvelaserve and the unbundling of Life Healthcare to shareholders.

Net interest expense for the year decreased to R45 million from R108 million the previous year mainly as a result of settling non-current liabilities during the year.

Mvela Group received dividend income of R72 million (2010: R170 million) during the year, of which R57 million was received from Life Healthcare.

Net fair value adjustments and profit and loss from investments amounted to a net loss of R230 million against a gain of R408 million the previous year which comprises a net gain from fair value adjustments on investments of R197 million (2010: R609 million), an unbundling fair value adjustment loss of R284 million, and R143 million (2010: R201 million) in net realised loss from disposal of investments. The net fair value adjustment of investments of R197 million includes R237 million fair value gain from the Group's indirect investment in Absa Group Limited ("Absa") offset by R72 million fair value loss from the Group's investment in Group Five Limited ("Group Five").

The net loss from associates amounted to R4 million against a loss of R23 million the previous year. The Group's interest in Avusa Limited ("Avusa") contributed R8 million of the aforementioned R4 million loss, being the Group's share of Avusa's comprehensive income for the year ended 31 March 2011 of R42 million (2010: R40 million) offset by an impairment on the Group's investment in Avusa of R50 million (2010: R69 million).

Costs relating to a portion of the 124 425 055 redeemable option-holding shares ("BEE shares") that are amortised to the statement of comprehensive income in accordance with AC503, *Accounting for Black Economic Empowerment (BEE) transactions* have vested in full with the final cost of R16 million amortised during the year.

Tax credit of R119 million (2010: R136 million) was charged to the statement of comprehensive income during the year of which R144 million relates to the over provision of deferred tax provided for in respect of the Group's indirect investment in Absa, R47 million capital gains tax ("CGT") incurred from the sale of Life Healthcare shares and secondary tax on companies ("STC") of R6 million.

Dividends paid to ordinary shareholders of R2 456 million results mainly from

Intrinsic net asset value

	30 June 2011				30 June 2010	
	Intrinsic gross asset value (after CGT) Rm	Debt Rm	Intrinsic net asset value Rm	Per share ^{1,3} R	Intrinsic net asset value Rm	Per share ^{2,3} R
Absa Group	1 053	—	1 053	1,99	913	1,96
Life Healthcare	270	—	270	0,51	2 542	5,46
Avusa	635	(333)	302	0,57	(345)	(0,74)
Group Five	82	—	82	0,15	174	0,37
Mvelaserve	99	—	99	0,18	1 723	3,70
Vox Telecom	48	—	48	0,09	(215)	(0,46)
Other investments	26	—	26	0,04	25	0,05
Net cash	64	—	64	0,12	476	1,02
Total	2 277	(333)	1 944	3,65	5 293	11,36

¹Based on the net number of ordinary shares in issue on 30 June 2011 of 529 million ordinary shares.

²Based on the fully diluted net number of 465 million ordinary shares, on the assumption that all the preference shares are converted into ordinary shares.

³BEE shares issued in June 2007 and December 2010 have not been taken into account in calculating the intrinsic net asset value per ordinary share as the minimum option strike price of R9,18 (2010: R17,50) is greater than the current Mvela Group ordinary share price. The intrinsic net asset value is unaudited and unreviewed.

the unbundling of Life Healthcare and Mvelaserve. As the unbundling transactions qualified for roll-over relief as set out in section 46 of the *Income tax Act 58 of 1962*, no STC was payable by the Company.

Financial position

The 2011 investment in associates comprises the Group's investment in Avusa amounting to R635 million (2010: R674 million) after equity accounting for the Group's share in Avusa's comprehensive income of R42 million (2010: R40 million) less an impairment in the amount of R50 million (2010: R69 million).

Investments decreased to R2 016 million at 30 June 2011 from R4 065 million the previous year, mainly attributable to the Life Healthcare unbundling of R1 892 million. As part of the unbundling of Life Healthcare and Mvelaserve, the Group received shares to the value of R270 million *in lieu* of its 35 765 285 Mvela Group treasury shares held. Investments with a carrying value of R631 million were disposed of during the year, which includes Health Strategic Investments Limited shares received on unbundling. The proceeds received from disposal of investments were mostly used to settle the Group's interest-bearing liabilities.

The Group's net cash position decreased to R64 million, including a R24 million overdraft at 30 June

2011, from R526 million at 30 June 2010 mainly from the unbundling of Mvelaserve and from the reduction of interest-bearing liabilities.

Total interest-bearing liabilities at 30 June 2011 decreased to R333 million from R1 358 million at 30 June 2010 mainly attributable to repayments of R609 million and R435 million debt being disposed of via the Mvelaserve unbundling.

Capital structure

The issued ordinary share capital of the Company increased by 121 999 596 shares to 565 473 650 ordinary shares following the conversion of 53 995 906 preference shares as mentioned below. The ordinary shares held as treasury shares remained unchanged at 35 765 285 shares.

The issued preference shares decreased to 265 362 convertible perpetual cumulative preference shares following the conversion of the 53 995 906 preference shares. The conversion price of the convertible perpetual cumulative preference shares was changed on 23 August 2010 to R4,50 from R9,30 following the distribution of Life Healthcare to ordinary shareholders. Preference shareholders had until 4 November 2010 to convert and the remaining 265 362 convertible perpetual cumulative preference shares have now become perpetual

preference shares at a dividend rate of 80% of the ruling prime overdraft rate, redeemable at the instance of the issuer. The preference shareholders earned dividends at a rate of 5,5% per annum up to 4 November 2010 and at 80% of the ruling prime overdraft rate from 5 November 2010 until 30 June 2011.

BEE shareholders were not able to participate in the unbundling of Life Healthcare or Mvelaserve. As compensation, and to enhance and secure Mvela Group's BEE shareholding credentials, additional BEE shares were created and allotted, increasing the issued number of BEE shares to 276 223 624 at 30 June 2011 from 124 425 056 at 30 June 2010. Similarly, the minimum strike price of R17,50 was adjusted to R9,18 per Mvela Group ordinary share.

INTRINSIC NET ASSET VALUE

The Group's intrinsic net asset value per share decreased to R3,65 from R11,36 at 30 June 2010 mainly due to the unbundling of Life Healthcare and Mvelaserve.

The intrinsic net asset value per ordinary share net of capital gains tax and debt is set out in the table above.

Based on Mvela Group's ordinary share price listed on the JSE of R3,28 on 30 June 2011, the ordinary shares were



trading at a discount of 11% to the Group's intrinsic net asset value per ordinary share of R3,65 at that date.

INVESTMENT OVERVIEW

Absa

The Absa intrinsic net asset value of R1,99 per Mvela Group share was based on the Absa share price of R134,81 per share at 30 June 2011 compared to R1,96 per Mvela Group share which was based on an Absa share price of R121,49 per share at 30 June 2010. The Group's investment in Absa comprises 54% of the Group's intrinsic net asset value at 30 June 2011.

Avusa

The Group's interest of 26 474 000 ordinary shares in Avusa was diluted to 22% at 30 June 2011 from 25,5% at 30 June 2010 following an issue of ordinary shares by Avusa as part settlement for an acquisition during the period under review. Based on a closing price at 30 June 2011 of R24 (2010: R19,10), the intrinsic net asset value amounted to R0,57 per Mvela Group share compared to a negative R0,74 per Mvela Group share at 30 June 2010. The aforementioned improvement was mainly as a result of a R518 million repayment of debt. Mvela Group's 22% investment in Avusa comprises 15% of Mvela

Group's intrinsic net asset value at 30 June 2011.

Avusa reported a 13% increase in revenue, 30% increase in operating profit and an 18% year-on-year increase in headline earnings for the period ended 31 March 2010. Avusa will continue to focus on its strategy to maximise value and extract cash from all contemporary physical businesses. Avusa expects, in the coming year, to see the benefits from annualised contribution from its retail solutions from the current positive indications of improving advertising support for its media business.

Group Five

Mvela Group's interest in Group Five is valued using an option-pricing model. Based on a share price of R29,90 at 30 June 2011 (2010: R34,50), the intrinsic net asset value amounted to R0,15 per Mvela Group share compared to an intrinsic net asset value of R0,37 per Mvela Group share at 30 June 2010. Mvela Group's 12,7% investment in Group Five comprises 4% of the Group's intrinsic net asset value at 30 June 2011.

Life Healthcare

Life Healthcare, which was listed in the previous financial year, was unbundled to shareholders on 20 August 2010 via shares in a newly listed subsidiary, Health Strategic Investments Limited

("Health"). Each Health share represented one Life Healthcare share and was unbundled to shareholders in a ratio of 33,455 Health shares for every 100 Mvela Group ordinary shares held, resulting in Mvela Group, through its 35 765 285 treasury shares held by a subsidiary, receiving 11 964 686 Health ordinary shares. Health unbundled its Life Healthcare shares to its shareholders on 17 December 2010 in a ratio of 1:1.

Apart from the above, Mvela Group owned a direct interest of 44 305 618 shares in Life Healthcare of which 9 920 338 were sold pursuant to the overallotment after the listing of Life Healthcare. A further 16 935 377 Life Healthcare shares were sold during the year bringing the Group's interest in Life Healthcare to 17 449 903 or 1,67%.

The Life Healthcare share price at 30 June 2011 amounted to R17,59 per share which translated to a net intrinsic value of R0,51 per Mvela Group share compared to R5,46 per Mvela Group share at 30 June 2010. The decrease was mainly due to the unbundling effect of R4,72 per Life Healthcare share, partially offset against the increase in the Life Healthcare share price from R13,50 to R17,59 per share. Life Healthcare comprises 14% of Mvela Group's intrinsic net asset value at 30 June 2011.

Financial returns

	2011	2010
Debt:equity ratio (%)	15,2	28,5
Return on average shareholders' funds (%)	(3,6)	20,9
Return on net investments (%)	8,5	25,9
Weighted average cost of capital (%)	10,5	11,6
Earnings yield (based on ordinary share price at 30 June (%))	(7,9)	27,4

Life Healthcare reported a 12,7% increase in revenue, a 20,1% increase in operating profit and a 30,2% increase in cash generated from operations for the six-month period to 31 March 2011. Life Healthcare reported that it will invest in future bed capacity across its acute hospitals, mental health and acute rehabilitation facilities to meet higher demand due to the increasing disease burden, ageing population, the increase in private insured lives and the preferred network arrangements negotiated with the funders. Life Healthcare will continue to focus on improving its occupancy and efficiency and cost savings programmes to ensure continued real growth in normalised earnings.

Mvelaserve

Mvelaserve was listed on the JSE on 29 November 2010 after which the Group unbundled its total interest to shareholders on 6 December 2010. As part of the unbundling, the Group received 8 953 481 Mvelaserve shares *in lieu* of its holding of 35 765 285 Mvela Group treasury shares.

The share price of Mvelaserve on the JSE at 30 June 2011 was R12,00 which translates to R0,18 per Mvela Group share at 30 June 2011 compared to R3,70 per Mvela Group share at 30 June 2010. Mvelaserve comprises 5% of the Group's intrinsic net asset value at 30 June 2011.

Vox Telecom Limited ("Vox Telecom")

The intrinsic net asset value of Mvela Group's 12% investment in Vox Telecom amounts to R0,09 per Mvela Group share based on the closing price of R0,35 per share at 30 June 2011 compared to a negative R0,46 per Mvela Group share at 30 June 2010. The aforementioned improvement was mainly as a result of a R256 million redemption in debt. Mvela Group's 12% interest in Vox Telecom comprises 2% of the Group's intrinsic net asset value at 30 June 2011.

Vox Telecom reported an 11% decline in revenue, a 2% increase in EBITDA and a 15% increase in cash balance for the six-month period ending 28 February 2011. Vox Telecom reported that, amongst other factors, a deflationary environment impacted its revenue growth.

FINANCIAL RETURNS

The financial returns for the year ended 30 June 2011 are set out in the table above.

CHANGES TO BOARD OF DIRECTORS

As at 30 June 2011, the board comprised five members of whom two are executive members and three are independent non-executive members. Ms Cuba resigned as chief

executive officer ("CEO") with effect from 31 December 2010. The board wishes to thank Ms Cuba for her invaluable contributions while she was at the Company. In view of the Group's unbundling strategy, the JSE approved that the position of CEO remains vacant for a period of 18 months from 30 March 2011.

BLACK ECONOMIC EMPOWERMENT ("BEE")

Mvela Group has an inclusive philosophy towards BEE and believes that broad-based community and employee participation in Mvela Group is critical to its future success. Subsequent to the issue of 124 425 055 BEE shares to strategic BEE groupings, women's groupings and charitable organisations and the employees and senior management of the Group ("BEE trusts") in June 2007, Mvela Group unbundled its investment in Health and at that time was in the process of obtaining approval for the proposed implementation of the listing and subsequent unbundling of Mvela Group's investment in Mvelaserve. The BEE trusts did not participate in the unbundling of Health and will not have been able to participate in the Mvelaserve unbundling either. Therefore, the Group with the intention of compensating the BEE trusts as well as to enhance and secure Mvela Group's BEE shareholding,



allotted and issued a further 151 798 568 BEE shares. The option strike price has been adjusted to R9,18 per Mvela Group share from R17,50 per Mvela Group share.

Our broad-based BEE status has been assessed during the year as a level two provider.

GOVERNANCE

Mvela Group is committed to sound corporate governance and the building of a sustainable business. Mvela Group strives to maintain the highest standards of corporate governance and recognises that corporate governance is a developing process. For this reason compliance with the applicable code is reviewed on an ongoing basis. During the year Mvela Group worked towards incorporating King III. A full report on corporate governance is set out on pages 9 to 16 of this report.

RESTRUCTURING

Mvela Group will continue to focus on its value unlocking strategy and remains committed to realising value for shareholders in the most efficient manner.

ACKNOWLEDGEMENTS

Sincere thanks and appreciation goes out to all the directors, executives and employees of the Group.

INTRODUCTION

Mvelaphanda Group Limited and its subsidiaries ("Mvela Group" or "Group") endorse the principles of the South African Code of Corporate Practices and Conduct as recommended in the King III Report ("King III") except where otherwise disclosed. The board of directors ("board") recognises that good corporate governance is essential in achieving high standards of business integrity and ethics across all of its activities. Sound governance remains a priority of the board and the board continues to review and benchmark the Group's governance structures and processes.

EXCEPTIONS TO KING III

Audit committee

Shareholders have not had the opportunity to appoint the members of the audit committee. The nomination committee presents suitable candidates to the board which elects the members. Shareholders will approve these appointments at the forthcoming annual general meeting.

The internal audit function does not go through an independent quality review as the board is of the opinion that the audit committee is the appropriate body to independently review this function.

Company secretary

The role and function of the Company secretary has not been formulated in writing since the function and responsibility belongs to Mvelaphanda Treasury and Financial Services (Proprietary) Limited.

Information technology ("IT")

Due to the diverse nature of the Group's IT requirements, the Group is not in need of a detailed IT governance framework, charter and policies. Each of the Group's investment companies are responsible for their own IT governance. The Company's IT function is outsourced to an independent service provider and through its service level agreement the Group ensures adequate system security, data integrity and business continuity controls and processes are in place.

Integrated reporting and disclosure

The sustainability report has not been externally assured. The board is satisfied with the review being made by the audit committee.

BOARD, DIRECTORS AND COMMITTEES

Board composition

As at 30 June 2011, the board of directors comprised two executive directors and three non-executive directors. All non-executive directors are independent in accordance with King III.

Ms Cuba resigned as executive director with effect from 31 December 2010. In view of the Group's unbundling strategy, the JSE approved that the position of CEO remains vacant for a period of 18 months from 30 March 2011. In this regard, the Group will provide a quarterly report to the JSE on its progress with the unbundling of its assets. Mr Hopkins, an independent non-executive director and chairman of the audit committee, is the lead independent director.

There is adequate division of responsibilities amongst board members to ensure a balance of power and authority. The independence of non-executive directors is assessed as part of the board's annual review.

Details of directors of the board are set out on pages 2 to 3 to this report.

Board appointment and re-election process

The appointment of new directors is considered by the board as and when the need arises, and from time to time recommendations for the appointment of new directors are made by the nomination committee of the board and approved by the full board of directors. If appropriate, external consultants are engaged to recommend candidates for appointment to the board. Executive directors are appointed to the board on the basis of functional expertise, experience and overall contribution to the Group. Non-executive directors are selected on the basis of industry knowledge, professional skills and experience.

In terms of the Company's articles of association, one-third of the directors shall retire from office at every annual general meeting of the Company. The directors who retire in terms thereof shall be those who have been longest in office since their last election. In addition to the aforementioned retiring directors, any director appointed as such after the conclusion of the Company's preceding annual general meeting shall retire from office at the conclusion of the annual general meeting held immediately after his appointment. Any retiring director shall be eligible for re-election, and, if re-elected, shall be deemed not to have vacated his office.

Role and function of the board

The board has adopted a board charter which covers, *inter alia*, the following:

- The role and function of the board.
- The board structure.

- Meeting procedures.
- Monitoring of investment and operational performance.
- Risk management and internal control.
- Code of ethics.

Each board committee has its own charter which defines its purpose, authority and responsibility.

All directors have access to the advice and services of the Company secretary, whose appointment is in accordance with the South African Companies Act No. 71 of 2008 ("Companies Act") and who is responsible to the board for ensuring the proper administration of board proceedings. The Company secretary also provides guidance to the directors on their responsibilities within the prevailing regulatory and statutory environment and the manner in which such responsibilities (including not dealing in the Company's shares during restricted periods) should be discharged. The directors are entitled to seek independent professional advice at the Group's expense concerning the Company's affairs and have access to any information they may require in discharging their duties as directors.

The board met eight times, the attendance by each director was as follows:

	1 July 2010*	5 July 2010*	23 August 2010 ¹	7 October 2010*	20 October 2010*	22 February 2011	14 March 2011	6 June 2011
Executive directors								
M Xayiya	✓	✓	✓	—	✓	✓	✓	✓
Y Cuba	✓	✓	✓	—	✓	#	#	#
E Röth	✓	✓	✓	✓	✓	✓	✓	✓
Non-executive directors								
K Dlamini	✓	✓	✓	✓	✓	—	—	✓
B Hopkins	✓	✓	✓	✓	✓	✓	✓	✓
O Mabandla	✓	✓	✓	✓	—	✓	✓	✓

*Special board meeting ¹ Mr Jorge Ferreira was invited ✓ indicates attendance — indicates absence with apology # indicates no longer a member of the board

The Group complies with the Listings Requirements of the JSE ("the JSE Listings Requirements") in relation to the restrictions applicable to trading in Mvela Group shares by directors and employees during closed periods. Closed periods endure from the end of a financial reporting period until the publication of financial results for that period. Additional closed periods, as defined in the JSE Listings Requirements, may be declared should such circumstances prevail.

Board committees

The board has three subcommittees to assist in carrying out its duties. The board has delegated to the subcommittees specific roles of responsibility and these are set out in the respective subcommittee charter. There is full disclosure and transparency from the subcommittees to the board. The board annually reviews the effective performance of each of its subcommittees.

Nomination committee

Members: O Mabandla (chairperson), B Hopkins and M Xayiya. All members, except Mr Xayiya, are non-executive and are independent. The nomination committee assists the board in the appointment of new directors.

Remuneration and transformation committee

Members: O Mabandla (chairperson), B Hopkins and M Xayiya. All members, except for Mr Xayiya, are non-executive directors and are independent.

The committee evaluates the annual performance of individual directors.

Details of directors' remuneration are disclosed in the directors' report set out on pages 21 to 23.

The committee met four times, the attendance by each member was as follows:

	23 August 2010	27 September 2010	26 October 2010	6 June 2011
O Mabandla	✓	✓	✓	✓
M Xayiya	✓	✓	✓	✓
B Hopkins	✓	✓	✓	✓
Y Cuba ¹	✓	—	—	#
E Röth ¹	✓	—	—	✓

¹Invitee ✓ indicates attendance — indicates absence with apology # indicates no longer a member of the board

Audit committee

The members of the committee are: B Hopkins (chairperson), K Dlamini and O Mabandla. All members are independent non-executive directors. All members are financially and commercially literate and are able to carry out their responsibilities. The chief executive officer, chief financial officer, Group internal audit manager and external audit engagement partner are invited to attend all meetings. The internal and external auditors have access to all audit committee members.

Report of the audit committee to the members of Mvelaphanda Group Limited

The audit committee assists the board in discharging its responsibility with regard to safeguarding the Group's assets and ensuring that proper accounting records are maintained.

The audit committee operates in accordance with a written charter authorised by the board, and provides assistance to the board with regard to:

- all matters to be dealt with by the audit committee in terms of the Companies Act No. 71 of 2008 ("Companies Act") and the JSE Listings Requirements (as amended);
- reviewing and recommending to the board for approval, the Group's annual report, interim report and provisional report;
- receiving the internal and external audit report;
- reviewing material litigation cases;
- evaluating the effectiveness of the internal audit function and approving the internal audit plan;
- reviewing alleged incidents reported through the whistle-blower facility;
- ensuring that non-audit services are not performed by the external auditor where the provision of such services could be seen to impair the auditor's independence;
- satisfying itself regarding the independence of the Group's external auditors and the respective audit partners;
- determining the terms of engagement and approving fees for external audit;
- ensuring the appointment of external auditors complies with the Companies Act;
- the audit committee nominates the external auditor and the designated audit partner for appointment by the shareholders;
- the audit committee ensures that the external auditor attends the annual general meeting of the Company to answer questions pertaining to the audit of the Group and Company's annual financial statements;
- reviewing and reporting on compliance with King III;
- overseeing operation of the risk management function; and
- reviewing and making recommendations to the board on the viability of the Company and the Group as a going concern.

The committee discharges its duties to the subsidiaries of the Company in the same meetings held for the Company, as permitted by section 94(2)(a) and (b) of the Companies Act.

The committee reports its findings to the board at the next board meeting. In addition, the committee chairperson maintains regular contact with key executives to keep abreast of emerging issues.

In terms of the JSE Listings Requirements, the committee must satisfy itself, on an annual basis, of the appropriateness of the expertise and experience of the chief financial officer ("CFO") and the committee must confirm this by reporting to the shareholders in its annual report that the audit committee has fulfilled this responsibility.

In respect of the above, we believe that Ernst Röth, the CFO, possessed the appropriate expertise and experience to meet the responsibilities of that person.

The audit committee has recommended the annual report for approval to the board.

External audit

The committee nominated PKF (Jhb) Inc. and Mr Paul Badrick as the external auditor and designated audit partner, respectively, for the 2011 audit. These appointments were confirmed by the board and the shareholders. The committee has satisfied itself that the external auditor is independent in terms of the Companies Act and in terms of the standards of the auditing profession.

Audit committee

11 August 2011

The committee met four times, the attendance by each member was as follows:

	16 August 2010*	22 November 2010*	8 March 2011	6 June 2011
B Hopkins	✓	✓	✓	✓
K Dlamini	—	—	—	✓
O Mabandla	✓	✓	✓	✓
Y Cuba ¹	✓	✓	#	#
E Röth ¹	✓	✓	✓	✓
K van der Westhuizen ¹	✓	✓	✓	—
A Hannington ¹	✓	✓	✓	✓
P Badrick ¹	✓	✓	✓	✓

¹Invitees ✓ indicates attendance — indicates absence with apology * Messrs J Ferreira and M Schermers attended by invitation # no longer a member of the board

RISK MANAGEMENT, ACCOUNTING AND INTERNAL CONTROL

Effective risk management is integral to the Group's objective of consistently adding value to its businesses. The board of directors is ultimately responsible for the management of risk. The audit committee is responsible for overseeing the risk management procedures within the Group.

Operating risk is the potential for loss to occur through a breakdown in control information, business processes, and compliance systems. Key policies and procedures are in place to manage operating risk and include segregation of duties, transaction authorisation, supervision, monitoring and financial and managerial reporting.

Financial risk management is disclosed on pages 62 to 69 of the financial statements. The Group meets its responsibility of providing reliable financial information by maintaining financial and operational systems of internal control.

A business continuity plan, which includes plans for disaster recovery and business rescue, exists and is continuously updated for the changing environment in which the Group operates.

The board places strong emphasis on achieving the highest level of financial management, accounting and reporting to shareholders. The board is committed to compliance with International Financial Reporting Standards ("IFRS"). The board is of the opinion that the external auditors observed the highest level of business and professional ethics and their independence has not been impaired in any way.

Since the unbundling of the Group's operating subsidiaries under Mvelaserve Limited on 6 December 2010, the board is of the opinion that based on the nature and size of the Group going forward, it is no longer feasible to maintain the function of internal audit.

Management is responsible for the development, implementation and monitoring of effective control systems, which in the opinion of the audit committee is reasonably effective.

For the financial year 2011 internal audit was present and reported functionally to the chairperson of the audit committee. The purpose, authority and responsibility of the internal audit function are formally defined in an internal audit charter, which has been approved by the audit committee. The charter conforms to the International Standards for the Professional Practice of Internal Auditing as defined by the Institute of Internal Auditors. The function is independent from all other organisational functions and reports directly to the audit committee and administratively to the chief executive officer up to 31 December 2010 and, thereafter to the chief financial officer. Internal audit has easy and regular access to the chief financial officer and the chairman of the audit committee and free and unrestricted access to all areas within the Group.

A risk-based audit approach has been adopted. Risk focused audit plans are developed with input from the audit committee as well as management requests. Material significant control weaknesses and planned management remedial actions are reported to the audit committee and management. These issues are tracked to ensure that agreed remedial actions have been implemented.

There is communication between the internal audit function and the external auditors, who have full access to the results of the internal audit reports. Initiatives are being developed to increase the external auditor's reliance on the work performed by internal audit. The internal audit processes for the year did not highlight any breakdowns in internal control that were known to have had a material impact on the reported financial information.

EXTERNAL AUDIT

The audit committee has appointed PKF (Jhb) Inc. to perform an independent and objective audit of the Group. The financial statements are prepared in terms of IFRS. The audit committee has satisfied itself that PKF (Jhb) Inc. is independent of the Group, as set out in section 94(8) of the Companies Act. The committee, in consultation with the CFO, agreed to the engagement letter, terms, audit plan and budgeted audit fees for the year ended 30 June 2011. The audit committee has satisfied itself that PKF (Jhb) Inc. is accredited on the JSE list of auditors and advisers. The external auditors complement the work of the internal audit department and review all internal audit reports.

INFORMATION TECHNOLOGY

Due to the diverse nature of the Group's IT requirements, Mvela Group does not have an elaborate IT governance framework, charter and policies. The Company's IT function is outsourced to an independent service provider and through its service level agreement, the Group ensures adequate system security, data integrity and business continuity controls and processes are in place. Key IT risks are assessed and reported annually to the audit committee. The board is of the opinion that the systems of internal control over IT are adequate and effective and is not aware of any material breakdown in the functioning of internal IT control systems during the year.

GOING CONCERN

The board is of the opinion that the Group has adequate resources to continue operations in the foreseeable future.

TAXATION

The board considers accountability an important characteristic of the Group and, as such, has placed significant emphasis on the importance of effective tax management. The board has a formalised approach to tax management and has control procedures in place that identify and limit its tax risks to an acceptable level.

STAKEHOLDER COMMUNICATION

The Group supports a policy of open communication with all stakeholders on matters of both a financial and non-financial nature. Regular communication sessions are held internally with management and senior executives, and externally with institutional shareholders and investment analysts.

CODE OF ETHICS AND CONDUCT

The board strives to ensure that the Group conducts its business with the utmost integrity towards all its stakeholders, including its shareholders, employees, customers, suppliers and society at large. The majority of Group companies have documented codes of conduct for staff designed to provide guidance as to the ethical conduct of staff in all areas, appropriate policies in respect of the safeguarding of assets and information, and the appropriate corrective measures to enforce these policies. The Group provides, monitors and audits a safe system for employees to report any unethical behaviour by fellow employees, directors or shareholders of the Group.

DEALINGS IN SECURITIES

The Group complies with the JSE Listings Requirements in relation to the restrictions applicable to trading in Mvela Group shares by directors and employees during closed periods. Closed periods endure from the end of a financial reporting period until the publication of financial results for that period. Additional closed periods, as defined in the JSE Listings Requirements, may be declared should such circumstances prevail. During non-closed periods directors and employees may only deal in Mvela Group shares with the approval of the Deal Approval Committee.

SUSTAINABILITY

Approach to sustainability

At Mvela Group, sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

Sustainability has three pillars – the needs of people, the ability to fulfil these needs in the future and that these are not in conflict with economic growth (profit). These three pillars are not of equal standing. The needs of people are clearly at the core of the definition, and in this respect economic growth can only be seen as a means to this end. Mvela Group therefore does not promote business practices which give preference to short-term gain at the expense of future generations' well-being.

The Group's sustainability reporting focuses on the activities of Mvela Group. Detailed sustainability information for the companies in which Mvela Group holds investments can be obtained from their own annual reports or that of the companies concerned.

The Group has identified the following major groups as stakeholders in the Group:

- Our shareholders.
- Our community.
- Our suppliers.

Value-added statement

The value-added statement measures performance in terms of value added by the Group through the collective efforts of management, employees and the providers of capital. The statement shows how added value has been distributed to those contributing to its creation.

at 30 June	2011 R'000	2010 R'000
Revenue	1 886 411	4 199 259
Cost of materials, services and other expenses	(486 895)	(1 124 553)
Value added	1 399 516	3 074 706
Investment income	(165 564)	552 393
BEE costs	(15 501)	(16 175)
Wealth created	1 218 451	3 610 924
Applied as follows:		
Employees (excluding employee taxes)	905 635	1 926 015
Providers of capital	85 802	173 301
Providers of debt	71 012	143 293
Providers of equity	14 790	30 008
Government:		
Taxation	266 213	541 371
Reinvested in the Group	241 016	633 968
Depreciation, amortisation and impairment	45 003	108 751
Minority interest	40 642	(4 297)
Net profit attributable to the owners of the parent before fair value adjustments and impairment losses	155 371	529 514
Fair value adjustments and impairment losses (net of tax and minority interest)	(280 215)	336 269
Wealth distribution	1 218 451	3 610 924
Money exchanges with the Government:		
Taxation on profit	77 502	88 459
PAYE	59 830	143 592
VAT	107 472	257 934
Rates and licenses	1 007	2 418
Skills and development levy	5 162	12 391
UIF and WCA	15 240	36 577
	266 213	541 371

Our shareholders

The major shareholders in Mvela Group comprise Mvelaphanda Holdings, the BEE trusts, large financial institutions, asset managers in South Africa and overseas, pension funds, public investment bodies and the general public. Details of the composition of these shareholders are set out on page 71.

Regular presentations are made to institutional shareholders and other members of the investment community, particularly following the publication of the Group's interim and year-end financial results, and as might otherwise be required in the context of corporate actions or other developments within the Group.

The profile of the beneficiaries of the BEE trusts demonstrates Mvela Group's commitment to ensuring that grassroots communities benefit from its assets and investments and reflects a broad base of historically disadvantaged South Africans, including women's groups and broad-based non-profit community-orientated and charitable organisations.

Mvela Group believes that these organisations can improve their income by participating directly in the investment and other opportunities obtained by Mvela Group. In this manner, these organisations and the communities they serve to benefit directly from the investment gains achieved by Mvela Group, rather than only from the charitable donations which may be made to them from time to time. This direct participation improves the sustainability of these organisations and should provide greater benefits than if they were solely dependent on donations.

Our community

As a diversified Group with interests in a range of investments, the corporate social investment ("CSI") initiatives of the Group extend countrywide and seek to improve the lives of numerous communities across South Africa. Most of the CSI activities of the Group are found in the projects undertaken by the Group's investment companies and may be viewed on their respective websites.

Our suppliers

The Group is committed to affording suppliers of goods, services and capital fair opportunity to compete for the Group's business on the grounds of capability, competitive pricing, quality and service and dealing with suppliers and potential suppliers in accordance with transparent sourcing policies and ethical procurement practices.

In complying with the above principles, appropriate consideration is given to the Group's policies on BEE and support of small-, medium- and micro-enterprises ("SMMEs") wherever possible. None of the Group's suppliers are individually material.

Black Economic Empowerment ("BEE")

The Group believes it has a leading role to play in the ongoing transformation of the South African economy through the participation of black people and black organisations in the Group, and that broad-based community and employee participation in the Group is critical to its future success.

Apart from the BEE codes set out by the South African Department of Trade and Industry, Mvela Group's underlying investments require that Mvela Group's BEE shareholding remains above 50%.

On 19 June 2007, Mvela Group implemented a broad-based BEE ownership initiative to secure Mvela Group's black shareholding in the medium term. In terms of the BEE transaction, 124 425 055 redeemable option-holding shares ("BEE shares") were issued, in equal proportions, to the BEE trusts. Details on the BEE shares are set out in the notes to the financial statements on page 46.

The BEE transaction has achieved the following objectives:

- Securing Mvela Group's BEE shareholding as a competitive advantage in attracting BEE deal flow, acting as a consolidator of BEE transactions and participating in the "secondary trade" in BEE transactions.
- Ensuring that the level of Mvela Group's BEE shareholding is maintained above 50% in the short to medium term, in line with the requirements of certain of Mvela Group's investment mandates.
- Minimising the impact of the dilution of Mvela Group's BEE credentials as a result of the conversion of the Mvela Group preference shares into Mvela Group ordinary shares.
- Maximising the BBBEE scorecard points achieved by Mvela Group for equity ownership in terms of the BEE codes.
- Facilitating further participation in Mvela Group's share capital by broad-based BEE participants.
- Allowing employees and management of the Group to become shareholders in Mvela Group and participate in the anticipated continued growth of Mvela Group.

Further to the issue on 19 June 2007, the Group allotted and issued, on 10 December 2010, 151 798 569 BEE shares in equal portions to BEE trusts. The rationale behind the issue was to compensate the shareholders of BEE shares for the effect of the Life Healthcare and Mvelaserve unbundling of which they did not participate in as well as to secure the Group's BEE shareholding credentials from the dilutive effect of the preference share conversion.

Employment equity

The Group remains committed to the principals and spirit of the Employment Equity Act and firmly endorses the four key areas of employment equity identified by the Employment Equity Act:

- Elimination of discrimination in decision-making;
- Promotion of employee diversity;
- Reduction of barriers to advancement of the disadvantaged; and
- Introduction of measures and procedures for transformation.

The companies in which the Group holds investments are encouraged to maintain up-to-date employment equity plans that include specific goals for training and staff development, with compliance being monitored and reported on regularly.

Particular emphasis is placed on the identification and accelerated development of previously disadvantaged individuals (“PDI”) with the potential to rise to management and executive levels. Mvela Group is proud of its track record in developing and promoting its own employees, including employees from previously disadvantaged backgrounds, to senior positions within the Group. The profile of the Group’s approximately nine employees (reduced from 30 173 as a direct result of the Mvelaserve unbundling) is represented in the table below:

	Black males		Black females		Non-black		Total
	Number	Percentage	Number	Percentage	Number	Percentage	
Board of directors	3	60	—	—	2	40	5
Skilled employees	—	—	—	—	1	100	1
Unskilled employees	1	34	2	66	—	—	3
	4	94	2	66	3	140	9

“Black” means “black” as defined in the BBBEE Act.

Skills development

Having the appropriately skilled people at all levels of our organisation is crucial to the Group’s long-term success, while comprehensive and effective training also supports the fast-tracking of PDI employees up the management ladder. The majority of the Group’s investment companies offer vocational and specific skills-based training to their staff.

The HIV/Aids challenge

The Group has adopted a life-threatening diseases policy aimed at preventing discrimination against HIV-positive employees in the workplace, who will be assisted to remain healthy and productive for as long as possible. This policy lays down universally accepted guidelines regarding HIV testing, confidentiality of medical information and disclosure of HIV status. All employees are briefed on the rights of those suffering from HIV/Aids or other life-threatening diseases, and sufferers of these illnesses are referred to independent medical and counselling service providers when needed.

Environment, health and safety

The nature of Mvela Group’s business means that it is unlikely to pose any material environmental risk. The Group’s investment companies operate in a variety of sectors, and as such the responsibility for compliance with general and industry-specific environment, health and safety legislation has been devolved to individual Group investment companies. The Group is committed to achieving high standards of environmental care and to providing a safe and healthy workplace for employees, contractors and other affected persons; to implement accepted safety, occupational health and environmental management systems and complying with all applicable environment, health and safety legislation as a minimum requirement and implementing programmes and processes to achieve greater protection, where appropriate.