

Chief Executive Officer's review



The year under review has been one of the toughest years that the Group has had to navigate in the recent past. Some of our investments felt the severe pinch of the downturn in the economy while others managed to navigate the storms without any major calamity.

Our biggest investments by value, Life Healthcare and Mvelaserve, continued to improve their operating numbers, while Absa was severely impacted by impairments in the last year.

Strategic investments

The improvement in the fair value adjustment was mainly as a result of positive sentiment in financial services and in the healthcare sector. The positive fair value swing was over R1 900 million for the year.

The highlight for the year was Batho Bonke successfully exercising its options in Absa by selling 49,9% of the options and financing 50,1% of the options by raising third-party financing worth R1,7 billion. This has resulted in Batho Bonke owning a 5,1% interest in the ordinary share capital of Absa. As a result of exercising the options, Batho Bonke is paying a dividend of R146 million of which R65 million will be distributed as a dividend to Mvelaphanda Group.

The key highlights of Mvelaphanda Group's investments at their last reporting period were:

- » Life Healthcare – EBITDA in continuing business increased by 14,4%.
- » Absa – Revenue for the six months ended 30 June 2009 increased by 3,6% to R2 981 million.
- » Group Five – For the year ended 30 June 2009, revenue increased by 36% to R12 090 million.
- » Avusa – Revenue from continuing operations was up by 8% to R4 875 million.

Mvelaserve

Mvelaphanda Group had undertaken to streamline Mvelaserve and operate it as an independent investment

of the Group in the last financial year. By the end of the current financial year Mvelaserve had its own CEO and management team. This has contributed significantly to the underlying improvement and focus in the results of Mvelaserve.

The business increased revenue by 6% over the year and operating profit by 11%. A pleasing aspect of these results is that the company continued to expand and capture market share without compromising margins even within the difficult economic climate. If Trollope Mining Services, whose results were included for the first three months, are excluded for the year, then revenue was up 15% while operating profit was up 28% on a comparable basis. The year-on-year improvement in operating margin was 0,7%, resulting in a substantial operating margin of 7,3%.

As a result of the increased focus in Mvelaserve, cash generated by operations also improved significantly to R363 million from R271 million. A detailed report on Mvelaserve is set out in pages 34 to 43.

We are particularly pleased with the results of Protea Coin, which improved operating profit by 165% in the year. This is a clear indication that the merger between Protea and Coin was the right strategy to follow.

Shareholders and dividend

The Group has bought back 35 765 285 ordinary shares up to the last financial year, resulting in 406 665 000 ordinary shares in issue. All ordinary shares bought back are currently held as treasury shares.

The board has recommended that there be no ordinary dividend declared in respect of the current financial year as a result of the restructuring proposed by the board of Mvelaphanda Group.

Strategy and prospects

In the last Annual Report the significance in the changes to the BEE landscape were highlighted, as well as the discount to intrinsic NAV. In this respect Mvelaphanda Group has been undertaking a number of strategic analyses in understanding the future of BEE in South Africa. The board has therefore concluded that

Chief Executive Officer's review continued



Mvelaphanda Group is not appropriately structured to take advantage of the changes in the BEE landscape. It is in this context that the board has recommended that the company be run as an Investment Trust and to unlock value for shareholders in the short to medium term.

Current challenges

Financing

Access to financing still remains one of the key challenges, in particular for BEE deals, which is premised on some form of ringfenced financing. While there has been appetite in the market for some ringfence financing, in the current period this has just about disappeared. None of the funding institutions are willing to take on the kind of risk-reward structures available before.

Of particular concern to Mvelaphanda Group in this current economic climate, is that the Group is limited in terms of its option to raise capital. Its BEE undertaking does not allow the Group to raise capital through a share issue as this may result in a breach of the underlying agreements in the investment companies which require a 51% BEE shareholding during the lock-in period.

Holding company structure

The structure that the company has built, while appropriate for aggressively "chasing" new BEE deals, is not appropriate for the long term. The discount at which the Mvelaphanda Group share price trades relative to its underlying asset value means that value for shareholders will always be trapped within the structure.

Mvelaphanda Group has created a significant amount of value over the last five years which, like any investment trust structure, needs to be released to shareholders at a point in time.

Restructuring

Over the past five years, significant value has been created for shareholders in the underlying investments of Mvelaphanda Group. However, this is not reflected in the Mvelaphanda share price which still trades

at a significant discount to its intrinsic NAV.

Considering this, together with the current corporate structure not being appropriate to take advantage of the changed BEE landscape, the board has resolved to undertake a realisation and unbundling strategy of the Group's assets and distribute the proceeds to shareholders in the most efficient and orderly manner.

The board is thus proposing to shareholders the following:

1. The Group management structure change in order to better align it to the changes in the BEE landscape.
2. The Group appoint a management company to manage the affairs of the Group.
3. Authority to buy back preference shares.

Capital and liquidity

The Group's debt for the year has been reduced by R355 million resulting in a debt-equity ratio of 44%. The Group's cash position at year-end was very strong in relation to our debt and we are comfortable that the company will meet its obligations as they fall due. At 30 June 2009 the Group was not in breach of any of its debt covenants. The Group will continue to reduce its debt obligations.

Prospects

Mvelaphanda Group continues to trade positively with a key focus on unlocking value for shareholders. It is the stated intention of the board to achieve, at a minimum, the intrinsic net asset value as reported for shareholders.

Appreciation

We extend our appreciation to all our employees and our investment companies for their efforts in achieving a pleasing set of results in a very difficult trading environment.

Yolanda Cuba

Chief Executive Officer