conexus

CONEXUS INVESTMENT FUND LTD ("CIF") and CONEXUS CAPITAL TRUST ("CCT")

ANNUAL REPORT 2008

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Client: Conexus AR 2008

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CONTENTS

1. INVESTMENTS

1.1 SUMMARY OF CURRENT CIF INVESTMENT PORTFOLIO

Name	Industry	% of Portfolio	Shares	Cost Rand	Market value* Rand
Listed equity long positions:					
Vox Telecom	Telecomm	16,39	6 500 000	4 102 645	13 130 000
York Timbers	Forest products	8,82	300 000	5 768 471	7 065 000
Sasol	Oil and gas	7,54	15 000	3 779 409	6 037 500
BHP Billiton	Mining	6,36	20 000	2 508 203	5 096 000
Standard Bank	Financial services	4,92	40 001	4 282 776	3 940 099
Datatec	Technology	3,99	100 000	3 148 059	3 200 000
MTN	Telecomm	3,87	25 000	2 005 122	3 100 000
PPC	Construction	2,30	43 000	1 944 847	1 840 400
Grindrod	Shipping	2,26	75 000	1 393 525	1 807 500
Simmer & Jack	Mining	1,40	200 000	1 077 464	1 120 000
Metmar	Mining	1,15	209 153	973 157	920 273
Listed equity short positions:					
SATRIX INDI	Industrial ETF	(3,41)	(141 000)	(2 612 471)	(2 735 400)
Listed preference shares:					
Grindrod	Shipping	1,64	13 120	1 419 949	1 313 443
Nedbank	Financial services	1,32	100 000	1 107 181	1 055 000
Imperial	Transport and logistics	1,24	11 000	1 100 000	990 000
First National Bank	Financial services	0,55	5 000	500 761	437 000
Unlisted hedge funds:					
Peregrine – Oakmont	Long/Short Equity	4,47	30 000	3 000 000	3 577 500
Peregrine – Tranquility	Long/Short Equity	2,79	20 000	2 000 000	2 236 060
Peregrine – Big Rock	Market Neutral	2,71	20 000	2 000 000	2 172 600
Unlisted other:					
Bridging loan – South Point	–	15,63	–	11 880 000	12 520 337
Cash and equivalents	–	14,09		11 289 455	11 289 455
Total portfolio value		100,00		62 668 553	80 112 767
Less accrued liabilities					(3 061 584)
Net portfolio value					77 051 183

** Market value represents the following:*
– Listed instruments are valued using the closing prices as reported by the JSE on 29 February 2008.
– Unlisted hedge funds are valued by an independent administrator.
– Unlisted Other are valued at the underlying cost of the asset plus accrued interest.

1. INVESTMENTS (continued)

1.2 MOVEMENT/PERFORMANCE ANALYSIS OF CIF FOR THE YEAR ENDED 29 FEBRUARY 2008

	Rand	Rand	Performance
Opening net asset value		74 839 147	
Capital movements		(6 681 731)	
New subscriptions	38 629 715		
Redemptions	–		
Buy backs – private equity			
– Return of original capital	(39 118 565)		
– Dividend declared and paid	(6 192 881)		
Capital invested for the year		68 157 416	
Weighted capital invested for the year*			78 998 637
Add income		4 483 964	5,68%
Dividends	927 550		
Interest	3 437 614		
Other	118 800		
Investment gains		11 239 490	14,23%
Realised gains	853 406		
Unrealised gains	10 386 084		
Gross return for the year			19,91%
Less expenses		(3 258 710)	
Management fees – Basic fees	(1 063 439)		
Management fees – Performance fees	(1 763 825)		
Administration fees	(242 464)		
General	(188 982)		
Less taxation (Normal , STC, VAT)		(3 570 977)	
Closing net asset value/net return		77 051 183	11,26%

* *Weighted capital invested has been based on the average cost of invested capital with the assumption that capital flows occurred on the 1st day of the month.*

1. INVESTMENTS (continued)

1.3 SUMMARY OF CURRENT CCT PRIVATE EQUITY PORTFOLIO

Name	Industry	% of Portfolio	Equity Holding %	Cost Rand	Fair value* Rand	x Cash
Unlisted equity:						
South Point	Accommodation	31,48	10,46	12 341 490	18 600 000	1,51 x
Hillson Drilling	Prospect drilling	3,41	80,00	2 013 962	2 013 962	1,00 x
Magix Integration	Technology	18,78	20,00	11 096 015	11 096 015	1,00 x
Lereko Metier Capital Growth Fund	Private equity	13,85	0,89	7 635 959	8 182 957	1,07 x
LMCGF committed funds	Investment portfolio	23,08	100,00	13 489 045	13 638 464	1,01 x
Rowbow	Debt recovery services	7,65	30,00	4 517 978	4 517 978	1,00 x
Unlisted other:						
Cash and equivalents				1 043 391	1 043 391	
Total portfolio value				52 137 840	59 092 767	
Less accrued liabilities				(141 154)	(141 154)	
Net portfolio value				51 996 686	58 951 613	

* *Fair value represents the Trustee's valuation of the underlying assets. Generally investments held for less than 12 months are valued at cost unless there is evidence of a different third party valuation. Valuation bases used are explained in the individual company reports in section 3.*

1. INVESTMENTS (continued)

1.4 REPORT OF THE MANAGER

Conexus Investment Fund Limited

Equity investments

We added to the positions in the following holdings of listed equities given their good fundamentals, attractive valuations and growth prospects:

- Datatec
- Grindrod
- MTN
- York

We introduced the following listed equities to the portfolio:

- Metmar Limited

  Metmar is a commodity trading company listed on the JSE with a market cap of approx R850 million. The Company acts as the marketing agent (exclusively) on behalf of numerous customers (i.e. mines) to sell the commodities into the open market and deliver them to the end customer. The Company earns a margin on the value of the commodities sold. The key drivers of commodity revenue are the price of the commodity (US$ based price), the exchange rate at time of sale and the volume sold. The outlook for all three key drivers looks favourable over the medium to longer term.

  Metmar has also made strategic investments in mining companies with a view to securing long-term supply contracts for the commodities. These strategic investments have shown significant appreciation in value which provides an underpin to the net asset value.

- Standard Bank

  Standard Bank was added to the portfolio following the announcement of the purchase of 20% of the equity by the Industrial and Commercial Bank of China ("ICBC"). We believe this will provide Standard Bank with the future growth it requires to maintain its historical compound growth of 20% plus per annum. The ICBC purchase also injected US$5,5 billion into Standard Bank which capitalised it appropriately under the new Basel II requirements.

- PPC

  PPC was added to the portfolio to benefit directly from the infrastructure roll out programme of the Government leading up to 2010 and beyond.

We sold the following listed equities in the portfolio:

- Vox

  A portion of the holding held at 28 February 2007 was sold in part in July as the weighting in the portfolio was approaching the single stock limit of 20%. The shares were sold at an average price of R2,64 resulting in a realised gain of R984 811.

- Reunert

  The entire shareholding was sold in July 2007 as the outlook for the business was deteriorating. The shares were sold at an average price of R68,73 resulting in a realised loss of (R97 842).

- Shoprite Holdings

  The entire shareholding was sold in September 2007 when the Brait private equity deal was called off. The shares were sold at an average price of R36,55 resulting in a realised gain of R572 101.

1. INVESTMENTS (continued)

- Mvelaphanda Group

  The entire shareholding was sold in December 2007 following the unbundling of Johnnic Communications. The shares were sold resulting in a realised gain of R979.

- Wesco

  The entire shareholding was sold in June 2007 following deterioration in the earnings outlook of the Company. New car sales were starting to drop which would have a big impact on Wesco's ability to maintain its growth momentum. The shares were sold at an average price of R312,99 resulting in a realised loss of (R558 463).

- RMB Holdings

  The Company was purchased and sold within the year resulting in a realised loss of (R247 104). At the time of purchase, RMBH looked attractive given their management track record, attractive relative valuation, and lower exposure to retail banking as well as their ability to generate proprietary profits from trading off their own balance sheet. A decision was taken to consolidate the banking exposure in Standard Bank.

- Hudaco

  The entire shareholding was sold in December 2007 as the full extent of the power crisis emerged. Hudaco is a direct beneficiary of the strength of industrial companies which are dependent on a regular power supply. With the outlook for power becoming uncertain it was decided to sell the holding.

Cash and near cash investments

The Manager was mindful of the risk of listed equity de-rating in 2007 and retained a high level of low-risk liquid capital, and wanted to improve its after tax return. The Manager embarked on a process of engaging with various hedge fund managers and decided on Peregrine as the hedge fund manager of choice. A due diligence review was completed and the following three hedge fund products managed by Peregrine were added to the portfolio:

- Peregrine – Oakmont (managed by David Fraser and Clive Nates): A long short equity biased strategy for investors with a medium- to long-term investment horizon.
- Peregrine – Tranquility (managed by Andrew Kaplan): A long/short equity biased strategy for investors with a medium- to long-term investment horizon
- Peregrine – Big Rock (managed by Lars Piepke): A market neutral strategy with very little directional market exposure for investors with a medium- to long-term investment horizon.

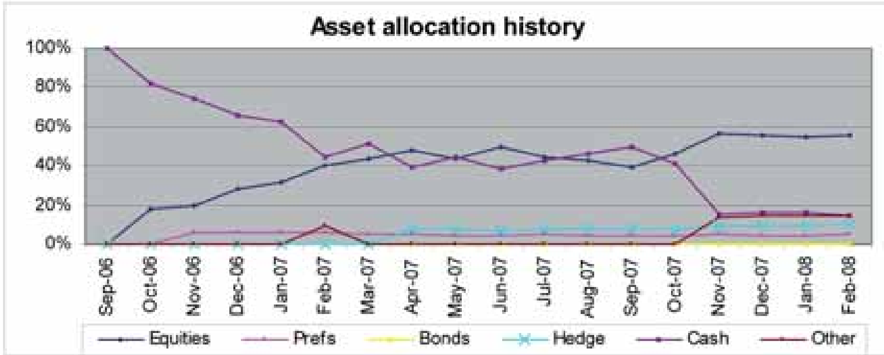
The portfolio of hedge funds has delivered an absolute return to 29 February 2008 of 14% with an annualised return of 15,27%. The annualised return favourably compares to a gross cash return of approximately 10,2% (being the simple average three month JIBAR rate for the year under review).

CIF also provided bridging finance to South Point, a private equity investment owned by Conexus Capital Trust. The bridging loan was for a period of three months and attracted a favourable raising fee of 1% as well as an interest rate of prime plus 2%. The bridging loan will be repaid during April 2008.

The performance of the perpetual preference shares has been disappointing. Whilst the after tax yield remains attractive from an income perspective, the capital value of the preference shares has lost value. Perpetual preference shares trade on a similar basis to conventional bonds when assessing the capital value. The rising interest rate cycle has resulted in the capital losing value but preference shares have the advantage of the dividend yield being linked to the prime rate of interest. The consequence is in a rising interest rate environment the yield improves at a percentage of prime (usually 70% to 80% depending on the terms of the preference share). Therefore there is some "protection" while interest rates rise and when the cycle turns to declining rates the capital should be recouped. The dividend yield has also provided STC credits which are used to set off any STC payable on share buy backs.

1. INVESTMENTS (continued)

Positioning of the portfolio during the year



The following graph depicts the asset allocation implemented from inception to 29 February 2008.

The equity weighting of the CIF portfolio has remained between the 40% and 60% band throughout the whole year. Cash and Other (being the bridging loan to South Point) provide a reasonable underpin to the overall risk of the portfolio. We continue to maintain a fairly conservative view on the weighting of equities given the current risk versus reward for this asset class. It is also important to hold cash available for the CCT private equity investments.

The Peregrine hedge funds were introduced in April to improve the risk adjusted return of the portfolio.

Net asset value and performance

The following table illustrates the reported net asset value per share of CIF as well as the quarterly performance and annual performance (compounded quarterly) for the year under review.

	Qtr1	Qtr2	Qtr3	Qtr4	YTD
CIF - NAV	1,182	1,194	1,197	1,190	
CIF (%)	10,36	1,02	0,25	-0,58	11,11

The performance of CIF is after provision for all costs (i.e. management fees, brokerage fees, administration fees, etc.) and taxes (i.e. income tax, capital gains tax, STC, etc.) payable.

CIF increased by 11,11% for the year under review which is a credible net return after all taxes and expenses. The gross return is 19,91% (see movement analysis) and compares favourably when viewed against the following notional indexed returns which are also gross particularly given that the CIF portfolio was significantly weighted away from resources:

- ALSI = 18,91%
- RESI = 47,65%
- FINDI = 0,74%
- ALBI = 0,66%

Subscriptions, redemptions and buy backs

New subscriptions of R38,6 million were accepted during the year. New subscriptions were made up of a combination of new clients as well as existing clients topping up and/or maintaining their proportionate holding in the overall fund.

There were no redemptions during the year.

1. INVESTMENTS (continued)

The Manager bought back R45,3 million (R50,43 million since inception) worth of CIF shares during the year as a result of the private equity investments made by CCT:

- South Point
- Hillson Drilling
- Magix
- Lereko Metier Capital Growth Fund
- Rowbow

The following analysis illustrates the major movement in the net asset value of CIF since inception to 29 February 2008.

	Rand m
Total subscriptions received since inception	111,95
Less redemptions to date	–
Less buy backs to date	(50,43)
Net capital available for investment purposes	61,52
Market growth since inception	15,53
Net asset value at 29 February 2008	77,05

Derivatives, gearing and risk

Limited use of derivatives and short positions were made during the year under review. These investments were isolated in a separate opportunities portfolio to avoid any confusion between the tax treatments of investments held for trading and/or long-term capital growth.

Single Stock Futures ("SSF")

SSF were used during the year to take positions in individual stocks that could benefit from short-term price appreciation (long positions) as well as short-term price depreciation (short positions). SSF were also used to "buy insurance" (i.e. short positions) against certain core long holdings when dramatic price appreciation had occurred as a result of market volatility.

Short position in SATRIX INDI

A short position in the SATRIX INDI was taken out during the year and added to in the last two months of the year. It was felt that the industrial companies (as opposed to resources) would be the hardest hit with regard to a slowing economy, higher inflation and power interruptions so it made sense to short the "index". At 29 February 2008, the short had an unrealised loss of (R122 930).

Gearing

Virtually no gearing was used during the year other than the short positions taken out on the SSF (no exposure at 29 February 2008) as well as a short position in the SATRIX INDI which was held at 29 February 2008. The total short position amounted to 2% of the gross assets of the portfolio; well within the limit of 100% of gross assets.

Risk

The investment mandate provides for a single stock limit of 20% of the portfolio as well as a prudential limit of 70% of total assets invested (i.e. CIF plus CCT) into private equity. The following is a summary of the actual maximum % during the year versus the mandated maximum:

	Actual	Mandate
Single stock limit (%)	16,39	20,00
Private equity limit (%)	40,25	70,00

1. INVESTMENTS (continued)

Conexus Capital Trust

Acquisitions during the year

South Point Property Investments (Pty) Limited ("South Point")

Conexus acquired an effective 10,46% in South Point in two separate tranches in February 2007 and June 2007 respectively.

South Point acquires underutilised and distressed commercial properties in the inner city and redevelops these buildings into accommodation for university students as well as into residential apartments targeted at young urban graduates. South Point manages a 16 building portfolio in Braamfontein, Port Elizabeth and Pretoria offering its tenants convenient, safe and affordable living. South Point's student portfolio of nine buildings is currently home to approximately 2 000 students, while its related portfolio of five commercial buildings are held as future conversion stock. Two buildings are currently under residential and student re-development.

Hillson Drilling (Pty) Limited ("Hillson")

Conexus subscribed for 80% of the equity capital of Hillson in July 2007.

The investment in Hillson was made to provide start up capital for the business to enter the prospect drilling industry. The opportunity centres on service support to new owners of mineral rights flowing from the major changes that were effected by the Mining Charter and the Department of Minerals and Energy. Fundamentally the recipient of these New Order Mineral Rights has to prove the usage of these rights on a "use it or lose it" basis.

This has created a shortage of skilled exploration drilling capacity. The lack of availability of drill rigs, compressors and ancillary equipment combined with a skills shortage is causing delays in the process.

Dave Hill (a 25 year veteran in the industry) and his partner Richard Duckworth, an equally experienced drilling manager, approached Conexus. Conexus has committed a maximum of R12 million in capital and has arranged asset backed financing on a Rig by Rig basis with a third party vendor. Conexus made an initial investment of R2 million during the year for an 80% stake in the business, leaving Hill and Duckworth with 20%. The balance of the commitment and financing will be invested in tranches on the business achieving certain milestones. Hill and Duckworth have the ability to earn additional equity through a formula linked to the overall performance of the business. Conexus will dilute to a minimum of 51% thereby maintaining shareholder control.

Magix Integration (Pty) Limited ("Magix")

Conexus subscribed for a 20% equity stake in Wavelengths 202 (Pty) Limited, the holding company of Magix, for a capital injection of R11 million in September 2007.

Magix provides a range of technology and consulting services, backed up by the world's leading applications. Magix provides integration and enterprise risk management ("ERM") services. Integration provides very good annuity based revenue at reasonable margins whereas ERM is the growth part of the business at high margins. Much of the ERM technology emanates from Israel where it has been commercialised and Magix has the advantage of being first to market in South Africa often with exclusive distribution rights. The ERM products provide client management with an automated and complete view of their business operations on a real time basis in a non-invasive manner. It is important to understand that the ERM technology is far beyond the commoditised security products such as "fire walls" and the like.

The integration and ERM solutions are client specific and attract annuity revenues as the contracts are for several years including a service component.

1. INVESTMENTS (continued)

Lereko Metier Capital Growth Fund ("LMCGF")

Conexus made a capital commitment and investment of R20,9 milllion during the year under review representing less than 1% of the total capital commitment raised.

LMCGF is the largest black owned private equity fund in South Africa, has secured committed capital totalling R3,5 billion and is the country's largest general private equity fund in terms of domestic commitments. The fund is mandated to make investments up to R750 million in mid-cap buyouts and growth capital opportunities in Southern Africa.

LMCGF has varying types of shareholders ranging from institutional investors (pension funds, provident funds, investment banks), international investors (non profit organisations, family offices, etc), specialist fund of funds and its principals and their affiliates. Metier manages Lereko Metier Capital Growth Fund Managers (Pty) Limited with Lereko, and also owns 40% of Clive Douglas Investments (Pty) Limited, the manager of Conexus. Conexus has been able to secure a co-investment opportunity in LMCGF by virtue of its relationship as Metier's affiliate.

LMCGF has made investments to date in telecommunications, food manufacture and distribution, student accommodation, construction and security automation, and timber plantation industries. LMCGF targets control and significant minority equity investment positions aiming to return above-average investment outcomes where its investment hypothesis builds on the network, experience and the constituency of its Principals. The Principals are Valli Moosa (Chairman), Thierry Dalais (CEO), Paul Botha, Lulu Gwagwa, Anthony Hewat and Popo Molefe.

Rowbow Investments No 80 (Pty) Limited ("Rowbow")

Conexus subscribed for 30% of the equity in Rowbow, the holding company of Daly Credit Corporation ("Daly"), in February 2008.

Daly, with its association with R L Daly Inc. attorneys, offers debt recovery services using its contact centre facilities in Umhlanga, Durban.

Prior to January 2008, Daly was owned 50% by Blakes, another debt recovery company, and 50% by Rowbow. The shareholders of Rowbow decided to acquire the Blakes shareholding at the beginning of February and required an additional capital partner in the form of Conexus to fund the purchase price.

The significantly higher levels of debt issued by banks and retailers over the last three to five years coupled with a cash strapped consumer (as a result of higher interest rates, inflation and indebtedness) has resulted in significant opportunities for Daly in the medium to long-term.

TEAM UPDATE

Richard Willis joined in October 2007 to bolster the investment team. Richard has been in the investment management industry for over 10 years and has been appointed a director of Douglas Investments (the manager of Conexus) to work alongside Clive Douglas.

Hilda Unsworth continued her role of financial controller which she has held since the inception of Conexus. Hilda has worked with Clive Douglas for over 20 years and is well aware of the importance of a tight administration and how this benefits management, investors and investments (particularly the targeted private equity investments).

Cara Finlayson joined in November 2007 to bolster the client service and administration team. Cara will work with Hilda Unsworth and the rest of the team to maintain and improve the service to you.

Tim Judge decided to leave at the end of October 2007 to pursue new and exciting business opportunities. We thank Tim for his valuable efforts to date and wish him well in his endeavours.

1. INVESTMENTS (continued)

CONCLUSION

Conexus had a rewarding period since inception to date. We have managed to raise R112 million in capital, generate R15,5 million in returns and make five private equity deals totalling R50 million (at cost) which will over time augment the returns from the quoted investments in an asset class that individuals otherwise have difficulty accessing.

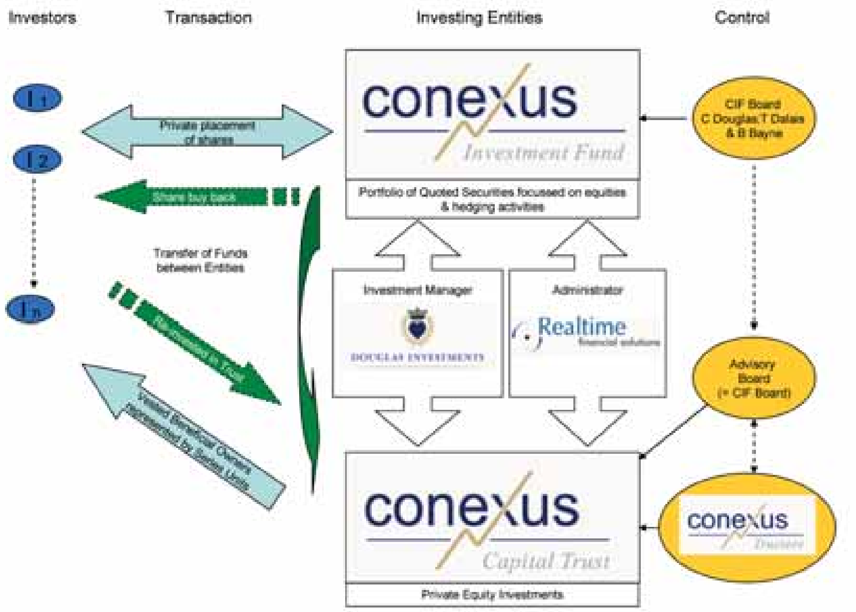
We had our first investor meeting at Summer Place in November, which was well attended by investors, private equity principals, prospective clients and interested parties.

The private equity investments made to date have started to show very good value prospects across all investments. The individual reports detailed in section 3 of this report will give you a sense of comfort that your money is working for you in the way we intended.

We continue to see attractive deal flow and hope to direct more of the CIF capital into CCT's private equity investments during the course of 2008/9. This will also necessitate us raising further capital for CIF which will be appropriately and actively invested in quoted investments until the right private equity opportunities arise.

2. MANAGEMENT AND ADMINISTRATION

Conexus is managed by Clive Douglas Investments (Proprietary) Limited ("Douglas Investments") and administered by Realtime Financial Solutions (Proprietary) Limited. The diagram below shows the structure.



The structure of Conexus is made up of two entities: Conexus Investment Fund Limited ("CIF"), which holds a portfolio of cash, near cash, hedge funds and quoted (relatively liquid investments) and Conexus Capital Trust ("CCT"), which holds the private equity investments. As an investor commits funds these are reflected as a shareholding in CIF at the net asset value of the underlying portfolio. This shareholding also establishes a right for the investor, at the discretion of Douglas Investments, to participate in all future private equity investments which are then held in CCT. The private equity investment is reflected as a series (per private equity investment) of units held by the investor. The investor's funds are moved from CIF to the CCT by effecting a share buy back and investing the proceeds into the Trust which is vested against the issue of a series of units.

The executive directors responsible for Douglas Investments are Clive Douglas and Richard Willis. They are supported by Hilda Unsworth (Financial Controller) and Cara Finlayson (Client Services).

The non-executive directors of Conexus are Brian Bayne and Thierry Dalais, who also sit on the advisory board.

3. INDIVIDUAL COMPANY REPORTS

3.1 SOUTH POINT PROPERTY INVESTMENTS (PTY) LIMITED ("SOUTH POINT")

Industry

Accommodation services

Company description

South Point acquires underutilised and distressed commercial properties in the inner city and redevelops these buildings into dormitory style accommodation for university students as well as into residential apartments targeted at young urban graduates. South Point manages a 16 building portfolio in Braamfontein, Port Elizabeth and Pretoria offering its tenants convenient, safe and affordable living. South Point's student portfolio of nine buildings is currently home to approximately 2 000 students, while its related portfolio of five commercial buildings are held as future conversion stock. Two buildings are currently under residential and student re-development.

Ownership structure

Shareholder	%
Conexus Capital Trust	10,46
LMCGF	60,10
Management	29,44
	100,00

Recent financial performance

Income statement:

(R'000)	Actual 12 months Feb 08	Budget 12 months Feb 08	Audited 12 months Feb 07	Audited 12 months Feb 06
Revenue	37 334	32 666	28 868	
EBIT	17 306	16 466	11 329	4 474
PBT	16 882	10 680	4 609	(1 687)

Actual top- and bottom-line performance has exceeded budget, resulting in pleasing results for the twelve months to February 2008. EBIT margins of 46% have been achieved for the year and compare favourably to last year's 39%. Improvements in operational efficiencies as well as the commissioning of conversion stock into revenue generating assets are the main drivers of the improved ratio.

Balance sheet:

(R'000)	Actual 12 months Feb 08	Audited 12 months Feb 07	Audited 12 months Feb 06
Shareholders' funds	198 059	125 186	65 880
Net debt	154 596	49 890	43 696
Properties*, plant and equipment	358 379	191 119	119 600

** An independent valuation of the investment properties was performed by Quadrant Properties (Pty) Limited.*

Shareholders' funds have increased substantially as a result of new capital injected to grow the property portfolio. Consequently net debt has also increased as the business takes advantage of additional gearing to fund the property acquisitions. The net debt to equity ratio has increased to 78% compared to 40% in 2007 and 66% in 2006. The asset base and operational cash flows of the property portfolio can sustain a high debt equity ratio, as evidenced by the EBIT ratio of 51%. The properties continue to grow on the back of new acquisitions at attractive prices and evidenced by subsequent revaluation by an independent appraiser using market related valuation measurements.

Valuation indicators

In January 2008, LMCGF made a conditional offer to the Topaz Discretionary Trust to acquire its 8,41% effective holding of South Point for a consideration of R15 million. South Point's equity value implied by this purchase consideration is R178 million.

Based on the recent sale, the Trustees of Conexus Capital Trust have provided a fair value assessment of South Point at R18,6 million (R178 million * 10,46%).

The additional value placed on the investment does not constitute a realisation in any form but rather an indication to investors of the underlying equity value should the Trustees decide to sell their investment.

Conclusion

South Point continues to benefit from the following:

- Shortage of supply of student accommodation (this is expected to continue at least in the medium term;
- Favourable tax incentives in the form of "Urban Development Zone" write offs. The Finance Minister recently extended these incentives for a further five years to 2013;
- Favourable funding arrangements; and
- Lack of well organised or funded competition.

We have faith in the motivated and passionate management team delivering above average returns operationally and for all shareholders.

3.2 HILLSON DRILLING (PTY) LIMITED ("HILLSON")

Industry

Prospect drilling and exploration

Company description

Hillson owns and operates a Prakla RB 25 drill rig which has the capacity to perform all the disciplines of exploration drilling. A second and third rig will be ordered and delivered in the short to medium term to meet new business demand. Hillson has a highly experienced drilling team which consists of three full time qualified drillers, four rod handlers, a mechanic and a fully qualified borehole technician. Richard Duckworth is the drilling manager who oversees the day to day drilling operations and Dave Hill is the CEO who handles logistics, marketing, contracting and business expansion.

Ownership structure

Shareholder	%
Conexus Capital Trust	80
Management	20
	100

Management has the ability to increase their equity weighting up to a maximum of 49% based on a pre-determined formula. The formula is based on the overall performance of the business which is in direct control of management, thereby aligning the objectives of shareholders and management.

3. INDIVIDUAL COMPANY REPORTS (continued)

Recent financial performance

Income statement:

(R'000)	Actual 8 months Feb 08	Budget 8 months Feb 06
Revenue	1 881	2 814
EBIT	(431)	(376)
NPAT	(306)	(267)

Hillson got off to a slow start in that there were delays in delivering the rig. Subsequent to delivery there were a number of issues encountered to get the rig registered and ready for use. All these delays resulted in drilling only commencing in October, two months later than budgeted. Whilst revenue is below budget, overall EBIT is marginally worse than budget due to cost savings. Hillson has recently acquired a new pipeline of business and has increased its monthly metres drilled and the outlook is now much more promising.

Balance sheet:

(R'000)	Actual 8 months Feb 06
Shareholders' funds	(106)
Shareholder loans	1 953
Third party debt	3 968
Total assets	6 055

Shareholders' funds are negative as a result of the losses incurred to date. The balance sheet is highly geared in the form of shareholder loans and third party financing but the business model has the ability to generate returns in excess of its cost of funding as long as it obtains drilling contracts. Management is building the pipeline of new business so that additional rigs can be purchased and the business taken to the next level.

Valuation indicators

Hillson has only been operational for eight months so it is too early to determine whether there is any increase in the underlying equity value.

Recent performance confirms that there is no permanent diminution in the value of the original investment so the Trustees have maintained the value of the equity and loans at R2 million.

Conclusion

Hillson has the ability to grow rapidly and generate above average returns but is dependent on the acquisition of new business. Management is focusing on driving new business in certain segments of the mining industry which should translate into revenue and in turn satisfactory returns for shareholders.

3.3 MAGIX INTEGRATION (PTY) LIMITED ("MAGIX")

Industry

Information technology

Company description

Magix provides a range of technology and consulting services, backed up by leading global applications. Magix provides two key services, namely integration and enterprise risk management ("ERM"). Integration provides annuity based revenue at reasonable margins whereas ERM is the growth part of the business at higher margins. The ERM products deployed into a client's business provide management with an automated and complete view of their business operations on a real time basis in a non-invasive manner.

Ownership structure

Shareholder	%
Conexus Capital Trust	80
Management	20
	100

Recent financial performance

Income statement:

(R'000)	Actual 8 months Feb 08	Budget 8 months Feb 06
Revenue	32 583	30 174
Gross profit	10 913	10 086
NPBT	5 502	3 933

Top- and bottom-line numbers are better than budget as sales and gross margins for ERM are better than originally anticipated and savings have been made on staff costs.

Balance sheet:

(R'000)	Actual 8 months Feb 06
Shareholders' funds	4 868
Shareholder loans – interest free	10 593
Fixed assets	754
Net current assets	14 707

The balance sheet is healthy with a large cash pile to be used for growing the business organically and by acquisition should opportunities present themselves.

3. INDIVIDUAL COMPANY REPORTS (continued)

Valuation indicators

Magix is making significant strides in getting their ERM products recognised by major industry players; the future for these products and services looks favourable. The Integration business has secured some big contracts with a government department and other key industry players, so the outlook for this business looks good.

The investment in Magix was made on a projected NPAT of R4 – R5 million valuing Magix at R44 million. This equated to a NPAT multiple of 9 – 11x. The projected NPAT to 30 June 2008 is forecasted to exceed budget significantly. Whilst it is too early to increase the Trustee's valuation in the books of CCT, the implied value of Magix using the original multiples would be R63 – R66 million. The Trustees are confident of an increase in the value of the underlying investment but have decided to leave the valuation at historical cost on the basis that the investment has only been held for eight months and there is no evidence of a third party transaction at a higher valuation.

Conclusion

Magix is powering ahead and making strides in all its business units. The team is motivated and incentivised to drive the business on a day by day basis thereby generating equity value for all parties concerned.

3.4 OTHER

3.4.1 Lereko Metier Capital Growth Fund ("LMCGF")

LMCGF is a private equity fund in which Conexus has invested. The manager of LMCGF provides quarterly and annual reporting as well as regular informal feedback to Douglas Investments. A copy of all reports is held at the offices of Douglas Investments who can discuss these with investors.

3.4.2 Rowbow Investments No 80 (Pty) Limited ("Rowbow")

The investment in Rowbow was made during February 2008. Details of the performance of Rowbow will be provided in the annual report for 2009.

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