

NEWS

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PETER VUNDLA
Deputy Chairman

THIS IS AMB CAPITAL:

AN EMPOWERED, INDEPENDENT
FINANCIAL SERVICES GROUP
OFFERING A SUITE OF NICHE
SERVICES WITHIN THE SOUTH
AFRICAN INVESTMENT BANKING
ENVIRONMENT.

WE ARE A HIGHLY-ENERGISED TEAM
OF EXPERIENCED PROFESSIONALS,
PASSIONATE ABOUT WHAT WE DO
AND RECOGNISED FOR OUR ABILITY
TO DELIVER SOLUTIONS BEYOND THE
OBVIOUS.

AMB Capital's activities are conducted out of Johannesburg, South Africa, and Dublin, Ireland.

TEN YEARS UP LOOKING AHEAD TO MANY MORE

Andrew Sprague
CEO

We at AMB Capital go into 2006 with a full 10 years of experience behind us, with a clear new structure and focus, but with the same sense of passion about our business, our clients and our country we've always had. We are well-capitalised and empowered, ready to meet the challenges of this dynamic and exciting market and to continue to play a role in South African economic growth.

We move forward into our second decade positioned in a distinctive space: having secured control of our destiny, we look forward to building our company around our core areas of expertise in equities and fund management. These have been the foundation of AMB Capital since inception and, despite a brief foray into mainstream banking with mixed success, remain our proven areas of competence and expertise. 2005 was a landmark year for AMB Capital, not only because we celebrated our tenth anniversary, but also as it marked a new beginning for

the Group: we completed an internal and shareholder restructuring and launched our new corporate identity.

AMB Capital is now uniquely positioned as "a specialised empowerment financial services group looking to achieve long term capital appreciation through value-adding partnerships". The new corporate identity symbolises this mission statement with an emphasis on our partnership ethos. Since our delisting from the JSE in November 2003, we have restructured into a leaner, more focused and profitable business with an appropriate capital base. Importantly, we have also restructured our shareholding to facilitate our empowerment credentials and positioning and to make this a better rounded and more sustainable business. Consequently we are well-positioned to continue to live up to our values of innovation, integrity, excellence and transformation.



ANDREW SPRAGUE
CEO

Looking to the national economy for 2006, President Thabo Mbeki, in his February State of the Nation address, outlined some of the efforts that will boost government's growth and job creation strategy - the Accelerated and Shared Growth Initiative of South Africa. Among these programmes will be a R372bn allocation over the next three years for various infrastructure development projects, skills development and resources for small business, special boosts for particular industries and interventions in education, training and research.

At the same time, Government's long-term target growth rate is an ambitious 6%, a figure that will be reached only with the best efforts of all players, ourselves and our peers included.

From an operational perspective, AMB Capital now has five core areas of focus, each of which has exciting plans for the year ahead:

A d v i s o r y The corporate finance division will continue to focus on empowerment and private and public sector advisory mandates, in line with our history of providing advisory services to new and emerging business groups. We have been involved in a number of empowerment transactions involving South Africa's leading and emerging companies, including the introduction of empowerment partners Dimension Data, Imperial Holdings, Coca Cola and Alcatel South Africa. With the ongoing development of new relationships and appointments, the advisory division is well-positioned to capitalise on the successes of the past.

P r i v a t e E q u i t y AMB Capital has been involved in private equity fund management since 1996 and has enjoyed considerable success in this arena. Our reputation for sourcing high quality private equity investments and delivering above market returns has been well-established, with investments in Stuttafords, Servest and Waco being some of the more notable transactions. Leveraging off this solid track record, our established network and relationships and access to the full suite of financial instruments, we are in the process of raising capital for a third private equity fund which it is hoped will have an initial closing in the first half of 2006. 2005 was notable for the realisation of our investment in WACO (a syndicated leveraged buy-out) which yielded a very attractive return to investors in our private equity fund.

H e d g e F u n d s AMB Capital runs a suite of hedge funds under different risk profile mandates. The focus is to earn long term absolute returns for investors regardless of the direction of the equity markets. In July 2005 we opened our market neutral equity trading fund to third party investors. This fund currently has assets under management of R125 million with commitments to the first close level of R180 million. The newly launched long-short fund currently has R54 million under management with commitments up to R140 million. The soft close level for this fund is R200 million and it is expected that the remaining capacity will be taken up shortly. The future initiatives include an emerging market long-short fund focused on Eastern Europe, Middle East and Africa.

P r o p r i e t a r y T r a d i n g We trade in local and international financial instruments, based on relative arbitrage strategies to ensure we earn suitable risk adjusted returns. Although we currently use on-balance sheet capital to pursue these activities, it is our intention to source third party funds, during the course of the 2006 calendar year.

P r o p e r t y AMB Capital has identified a number of exciting opportunities within the property arena, and is focusing on the establishment of partnerships with empowerment groups and industry specialists to target strategic investments using our balance sheet combined with appropriate levels of leverage.

We at AMB Capital are proud to be South African. We relish the opportunities offered by this country and look forward to playing our part in driving it forward. We remain committed to supporting transformation and delivering levels of service excellence to all stakeholders through our advising, investing and operational activities.



DR AZAR JAMMINE
Director & Chief Economist
of ECONOMETRIX

SUMMARY OF 2006 NATIONAL BUDGET BUDGET 17 FEBRUARY 2006

Dr Azar Jammine – Director and Chief Economist

Econometrix (Pty) Ltd (Non-executive director AMB Capital)

ONLY CLEAR DIRECTION IN CAUTIOUS 2006 BUDGET - IS STRONG SWITCH TO ECONOMIC SERVICES AWAY FROM WELFARE

- It is difficult to become overly enthusiastic about what appears to be an overly cautious 2006/07 Budget which fails to deliver on some key expectations.

- The most positive aspect is that by budgeting for an even smaller budget deficit both for 2006/07 and subsequent years than it did in last year's budget and October's MTBPS, Treasury is creating the space to be able to embark upon a more expansionary fiscal policy to stabilise economic growth in the event that the economy begins losing its growth momentum.

- The one clear direction is that of an end to the rising proportionate share of welfare spending and a strong redirection of focus in expenditure towards economic services and housing and community development. Linked to this shift is the intention to increase infrastructural spending fairly dramatically in the coming year and subsequent years. In turn, government hopes that this will help to boost economic growth more generally. However, the proof of the pudding lies in whether or not government will be able to translate these ambitious infrastructural plans into reality within the timeframe envisaged given the human resource constraints which it faces.

- On the revenue side, however, one is somewhat baffled by the decision to grant real personal tax cuts of just over 1%, whilst at the same time refraining from offering significant further corporate tax cuts. At a time when consumer spending is very strong due to the firmness of the Rand and the associated low interest rates, but key corporate sectors such as manufacturing and mining are suffering, one would have thought it preferable to provide greater supply-side tax relief. Furthermore, it is not at all clear that the personal tax breaks are geared towards helping the poor as opposed to middle-income earners.

- One is also baffled by why the government has adopted half measures insofar as increasing the threshold of interest and capital gains exemption by such marginal amounts and refraining from abolishing taxation of income of retirement funds completely. More aggressive tax relief than these half measures would have enhanced savings whilst not overheating consumption. One could even add the tax breaks given to small business and the decision to move one small further step towards relaxation of exchange controls as being too little to have much impact.

- In summary, with the tremendous overruns in revenue and associated high economic growth, it was relatively easy to produce a Budget which might be seen as favourable. However, what was presented seemed to contain too many small adjustments without conviction, direction, and a spirit of adventure other than the drive for infrastructural development.

FAIRLY CAUTIOUS BUDGET EASY TO PLEASE

In the light of the huge overruns in government revenue over the past year and the associated upwards surprise of growth, it was not going to be too problematical for government to present a Budget which provided both fairly significant expenditure increases and tax relief which might have been seen to be pro-growth. In the event, government has revised its forecasts of economic growth to a level even higher than that which one might have anticipated. Despite this, or possibly because of this (given the expansion of the denominator), the budget deficit for 2006/07 has been revised downwards to just 1.4% of GDP, compared with the deficit budgeted for in the Medium-Term Budget Policy Statement (MTBPS) in October last year for 2006/07, of 2.1% of GDP and the forecast for the forthcoming

financial year of 2.8% of GDP contained in the 2005 Budget. Many would see this as being unduly cautious. It does nevertheless budget for significant real increases in non-interest expenditure of no less than 9.7% for 2006/07 and an average of 6.8% for the next three years. Moreover, such expenditure increases are facilitated by the fact that government is able to reduce its borrowing requirement further, thereby paving the way for savings on interest payments which can be redirected towards other forms of expenditure. The most positive spin which one can assign the Budget is that by enhancing fiscal consolidation further, the government is placing itself in a favourable situation to embark upon a more expansionary fiscal policy to counteract a loss of momentum in the domestic economy in the event that the global economic upswing and commodity price boom blow themselves out at some stage in the foreseeable future.

MARKED SWING TOWARDS ECONOMIC SERVICES AND INFRASTRUCTURE

The clearest direction provided by the Budget is in respect of the shift in the focus of expenditure away from a proportionate increase in the amount devoted to welfare rollouts, towards increased emphasis on economic services and the infrastructural development to support these. For the first time in several years, the welfare budget is set to increase by less than overall expenditure suggesting that the aggressive rollout of social grants in recent years aimed at providing a lifeline to the poor, have largely played themselves out. Instead, the savings on interest payments on debt, from 12.1% of total spending in 2005/06, to 10.7% in 2006/07, together with the proportionate decline in the defence budget, from 5.9% down to 5.3% of total spending, is being largely redirected towards an increased budget for economic services, up from 15.6% to 16.4% of the total budget. In addition, the housing budget rises from 1.7% to 1.8% of the total and more aggressively, expenditure on community development is budgeted to rise from 3.6%, to 4.9% of the total. Furthermore, these trends are projected to continue in the subsequent two years. Expenditure on infrastructure is earmarked to grow by 73.1% over the next three years.

All these aspects of the Budget must be seen as positive as it implies that the government is no longer allowing some of its expenditure to be consumed immediately and instead is ploughing funds back into developments which will hopefully provide goods and services over a longer period of time.

However, the proof of the pudding will lie in whether or not this ambitious infrastructural and economic development programme sees the light of day in the short period of time envisaged for it to do so. We retain some scepticism regarding the ability to translate such budgets into practical projects in the short time available in the presence of major constraints with regard to human resource capacity.

DISAPPOINTMENT LIES WITH LACK OF IMAGINATION OF TAX CUTS

Whilst the direction of government spending carries a definite message with it, the same cannot be said of the tax changes announced. Arguably the biggest disappointment of all is the lack of any material reduction in either the corporate tax rate or the rate on STC. At least some reduction in the corporate tax rate had been largely anticipated in the light of the competitive round of cuts in corporate tax rate around the emerging market universe. It was hoped that by reducing the corporate tax rate further, the authorities would encourage further investment in the economy, both from domestic and international sources. Instead, the principal focus of tax relief has been on personal tax. Even though the top marginal tax rate on individuals has not been reduced, the adjustments to the threshold at which different tax rates are payable, are substantial enough to constitute a significant tax break for individuals other than indirectly through the redistributive effect of new caps on tax deduction for contributions to medical aid schemes.

However, there is no clear bias towards providing bigger tax cuts to the lower income groups. Rather, the proportionately greater tax relief is devoted to those earning between about R100,000 and R300,000. The real effective reduction in average tax rates of such individuals amounts to between 1.0% and 1.5% (i.e. when the tax relief is adjusted for wage increases). Such individuals, who include many public servants, also benefit from the increase in the threshold at which capital gains tax is payable on one's first residential property, from R1.0m, to R1.5m. Nevertheless, there does not seem to be any clear plan regarding what tax breaks have been given and the magnitude thereof. One feels that the government could have been more adventurous in granting a significantly bigger increase in the threshold at which interest income is exempted, than that granted which rises from R15,000 to R16,500. In similar vein, one would have thought that the threshold income at which capital gains tax becomes payable,

Estimated Principal Areas of Government Expenditure (as % of total)

	Actual 1990/1991	Actual 1999/2000	Actual 2004/2005	2005 Budget 2005/2006	2006 Budget 2006/2007	2008/2009
Education	20.9	21.3	19.6	18.1	17.8	17.7
Welcome	6.9	11.9	16.2	15.9	15.5	15.6
Interest	14.8	19.9	12.7	12.1	10.7	9.6
Health	9.1	11.4	11.0	10.6	10.5	10.2
Police, Prison, Justice	5.6*	6.8*	10.8	10.2	10.1	10.0
Defence	13.7	5.4	5.9	5.9	5.3	4.7
Housing	1.5	1.7	1.7	1.7	1.8	2.0
Comm Dev	0.9	2.0	3.2	3.6	4.9	5.7
Economic Services**	na	na	12.6	15.6	16.4	16.6

* Police only

** Includes water schemes, fuel & energy, agriculture, mining, manufacturing, construction, transport, communication & other

Change (%) in Sources of Taxation

	2005/06	2006/07	% of Tax
Personal Tax	13.3 (5.3)	5.3	29.7
Company Tax	19.9 (-3.0)	12.1	21.3
STC	58.3 (16.0)	16.9	3.1
Retirement Funds	2.1 (1.3)	46.7	0.5
Skills Development Levy	12.5 (1.3)	12.0	1.3
Transfer Duty	22.3 (2.1)	28.6	1.4
VAT	17.2 (8.0)	14.1	29.4
Exercise Duties	11.7 (10.7)	13.8	3.7
Fuel Levy	7.9 (7.8)	5.3	4.9
International Trade	42.7 (-0.8)	24.5	5.3
TOTAL TAX REVENUE	17.5 5.3	9.5	100.6

() refers to growth budgeted in 2005 Budget

Effective Change in average Tax Rate 2006/07 vs 2005/06

Salary 2005/06	2005/06 (assuming 10% pay rise)	2006/07 (assuming 7% pay rise)
40000	-0.2	-2.3
50000	-0.2	-0.9
60000	-0.1	-0.7
80000	-0.2	-0.5
100000	-0.1	-1.4
120000	-0.1	-1.2
150000	-0.1	-1.3
200000	-0.5	-1.5
500000	-0.4	-1.3
10000000	-0.2	-0.7

which threshold has been held back at R10,000 ever since inception in 2001, could have been increased by more than the mere R2500 afforded (to R12500).

To be fair, it could be argued that the dismantling of RSC levies, which is said to cost municipalities R7bn in lost revenue, is equivalent to a 2% reduction in company tax. However, if this is so, then it represents an inefficient way of signalling a tax break for the corporate sector, especially since no clue was provided regarding whether such RSC levies will be substituted by a different kind of levy.

MORE COULD HAVE BEEN DONE TO HELP THE SUPPLY-SIDE AND THE ENCOURAGEMENT OF SAVINGS

Similar arguments can be put forward for the additional tax relief granted to small businesses. More generally, the tax concessions appear to have been fairly haphazard.

This is disappointing at a time when consumer spending is already quite buoyant on the back of a strong Rand and the associated low level of interest rates.

Personal tax relief under such circumstances was not really urgent. In contrast, the productive side of the economy is taking strain in the face of currency strength. For this reason one would have preferred to have seen significant tax breaks from a supply-side perspective which would have encouraged production and investment rather than consumption.

A similar element of half-hearted action can be discerned in the decision to increase the foreign exchange allowance for individuals from R750,000 previously, to R2m now. This is hardly likely to encourage persons to expatriate funds and diversify their investment portfolios. In any case, the bureaucracy involved in accessing such diversification is likely to continue inhibiting such actions on the parts of individuals.

Finally, what can also be seen as a half-measure is the decision to reduce by half, from 18% to 9%, the tax rate payable on the interest and rental earned by retirement funds. Whilst one welcomes the decision to enhance the retirement benefits of individuals as a result of this measure, one has to question why, in the context of massive revenue overruns, this entire tax could not have been scrapped? After all, unlike personal tax breaks, a tax break on retirement funding would not lead to overheating of consumer spending, and on the contrary could enhance savings which are in short supply in the economy. To some extent, the same argument applies in respect of the enhancement of savings which could have been effected by more ambitious increases in the threshold for exemption from tax on interest and CGT.

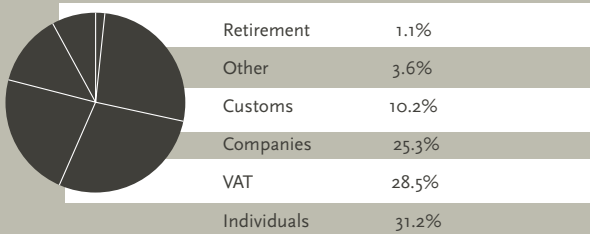
In sum, the 2006 Budget seems to have lacked imagination. It was easy to present a reasonably favourable outcome in the context of an economy which is growing rapidly on the back of booming conditions in the global economy and rising commodity prices.

Indeed, Finance Minister Trevor Manuel was spot on in emphasising that much of the success of the South African economy of late has had to do with the external environment's relative prosperity. Under such circumstances, one feels that the government could have been significantly more adventurous without allowing the economy to overheat and without jeopardising fiscal discipline. The 2006 Budget is not by any means a tragedy, but probably more a lost opportunity to generate still more confidence in the outlook for the South African economy on the part of both local and foreign businessmen. Unfortunately, one detects an element of political interference directed at preventing conditions for the accumulation of capital becoming more favourable.

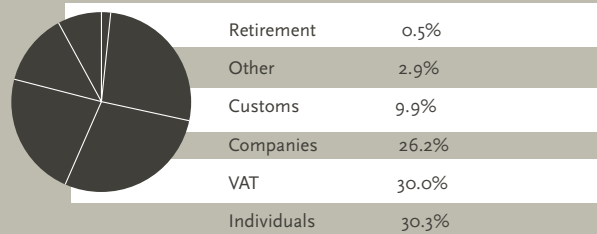
2005 & 2006 Budget Frameworks (R'bn)

	2005/06			2006/07			% change
	2005	2005	2006	2005	2005	2006	2006
	Budget	MTBPS	Budget	Budget	MTBPS	Budget	Budget
Revenue	369.9	400.1	411.1	405.4	437.0	446.4	8.6
Expenditure	417.8	415.8	418.9	456.4	474.0	472.7	12.8
Deficit	47.9	13.7	7.9	51.0	37.0	26.4	
As % of GDP	3.1	1.0	0.5	3.0	2.2	1.5	
MTBPS- Medium Term Budget Policy statements (Oct '05)							
Nominal GDP	8.7	9.5	9.6	9.3	9.6	9.7	9.7

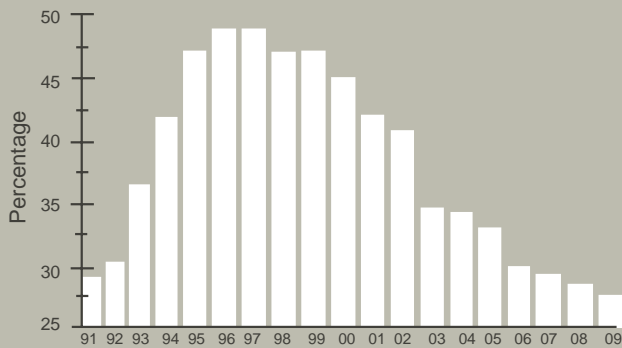
Sources of Government revenue 2005/2006



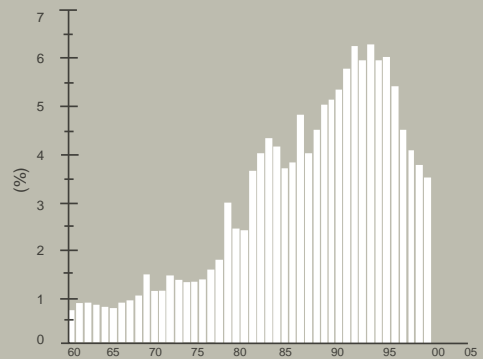
2006/2007



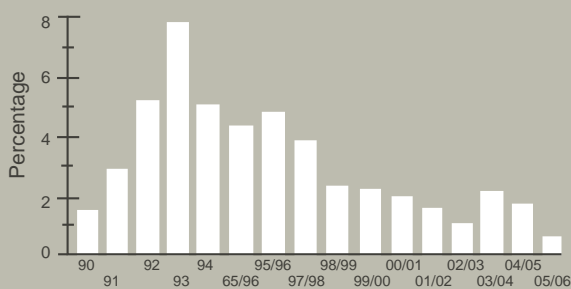
Public Debt as % of GDP



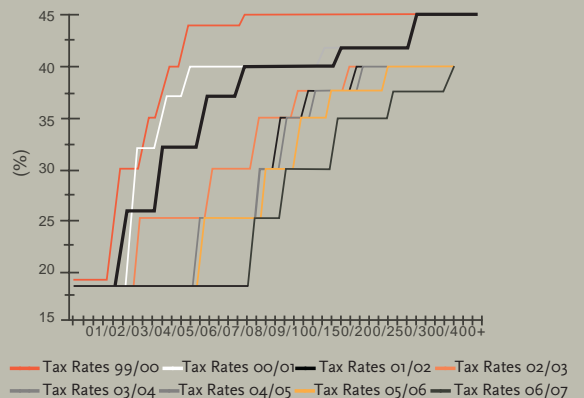
Interest on Public Debt as % of



Deficit as % GDP



Marginal Tax Rates (%)





ZENZO LUSENGO
Executive Director

MICHELANGELO TOWERS
Sandton



R5.4bn

WACO SALE DEMONSTRATES THE POWER OF PRIVATE EQUITY

Zenzo Lusengo

Executive Director

The sale of Waco International for R5.4bn to CCMP Capital Asia and senior management is the largest private equity deal in both South Africa and Australia to date – and an outstanding example of the power of private equity, says AMB Capital director Zenzo Lusengo. CCMP Capital Asia (CCMPA, formerly known as JP Morgan Partners Asia) will be investing through its Asia Fund. JP Morgan Partners Global Fund, managed by JP Morgan Partners, (JPMP) is also investing in the deal.

AMB Southern Africa Investors Fund II invested in Waco in 2000 in a syndicated transaction with other local and international private equity investors. It was the largest syndicated leveraged buyout in South Africa, with an enterprise value of R2.4bn, and incorporated a complex domestic and international consortium debt package.

Lusengo says both the original buyout and the recent exit of Waco demonstrate what private equity is capable of achieving in the dealmaking environment, in terms of transaction size, strategic and operational input and importantly returns. Waco, a sizeable investment for AMB Capital, generated three times money back and an IRR of about 21%.

He acknowledges, however, that the Waco business was not without problems. “We backed the original management team, but due to operational and strategic issues the consortium decided to seek a new CEO. Royden Vice worked for BOC when we approached him, he was formerly the chairman and CEO of Afrox and Afrox Healthcare, and if one looks at Waco’s performance since then, it’s clear he was the right person for the job.” Turnaround came through a carefully planned growth strategy, select acquisitions around the world, the continued disposal of non-cores and the early repayment of debt, bringing the group to the point where, in 2005, it was ready for exit by its private equity owners.

“Waco is a classic case study for the hands-on private equity model. We don’t meddle in the day-to-day running of a business, but we are certainly involved in an ongoing and extensive manner at a management and strategic level, when required, in order to ensure that the agreed strategies are being implemented.”

Lusengo says Waco also highlights the role of syndicated deals in private equity: “As private equity funds increasingly target larger transactions, syndications will become a more prominent feature of the South African private equity landscape. One sees this internationally already and it is inevitable here.” Waco is a truly international business, which made it unusual, if not unique, for a private equity buyout in South Africa. The group operates in three key geographies: Australasia (Australia and New Zealand), southern Africa and the United Kingdom. Australasia accounted for 55% of revenue in the 2005 financial year, southern Africa 22% and the United Kingdom 23%.

The sale into private equity hands will ensure Waco’s market leading position in its two chosen lines of business of forming, shoring and scaffolding and relocatable modular buildings. Importantly, the structure of Waco, its subsidiaries, management and staff will remain intact with management keeping a stake in the business. No redundancies are expected as a result of the sale and there are no expected changes in the executive team led by Vice. The company’s headquarters will remain in Johannesburg.

Finally, the substantial investment by CCMP Capital reflects confidence in the South African investment climate.



CRAIG FORBES
Corporate Finance

THE IMPORTANCE OF INCLUDING WOMEN IN BLACK ECONOMIC EMPOWERMENT (“BEE”) TRANSACTIONS

Craig Forbes

Corporate Finance

One of the key objectives supported by Government and directly from our President is the importance and fundamental role women have to play in the South African economy. The emancipation and empowerment of women is central to Government's objective of realising this country's full economic potential and growing the South African economy.

In support of this theme, the Department of Trade and Industry released the Codes of good practice on broad-based BEE (“the Codes”). The Codes provide a model for transformation for corporate South Africa with black women taking a very prominent and meaningful role. The Codes provide a generic scorecard for measuring the BEE status levels of corporate South Africa. The objectives of the Codes are to provide guidelines and targets to bring about black participation across all aspects of companies, from ownership to management control through to procurement.

Although the main focus of the Codes is on broad-based black participation, the Codes do place significant emphasis on the inclusion of black women in the management and ownership of companies. Approximately 21% of the generic scorecard's ownership and management control points are specifically allocated to the inclusion and participation of black women.

Corporate South Africa has responded strongly to this call as evidenced by the number of recently concluded empowerment deals that include black women and broad-based women's groupings.

An emerging trend can be seen in the number of prominent black women who have joined forces to form their own empowerment groups in order to target and participate in BEE ownership opportunities. The likes of Wiphold and WDB Investment Holdings and Nozala Investments have been very successful in competing and acquiring meaningful equity interests in some of South Africa's largest blue chip corporations. These corporates have recognised the need and collective value-add

that these prominent black women can bring to their organisations. This can be seen by the number of board appointments coming from representatives of the black women empowerment groups. More recently we have seen the emergence of other prominent women's groups including African Olive and Ayavuna.

As evidenced in the empowerment transactions of FirstRand, Old Mutual, Imperial, Discovery and Nampak, broad-based black women's groupings have formed part of larger BEE consortiums in acquiring a direct and meaningful equity interest. This trend is in line with the Codes which allows companies to claim additional ownership points where black women are entitled to vote and participate in the economic benefits of the company.

Although these empowerment deals focus mainly on the transfer of equity ownership, there is also a concerted effort being made to increase the number of women in key leadership and management roles in corporate South Africa. The Codes address this aspect of women empowerment by providing specific targets for companies in obtaining black women representation at both the board and executive management level.

Last year, the Businesswomen's Association in association with a USA research institute, Catalyst, produced a report that indicates that women constitute 14,7% of all executive managers and 7,1% of all directors in the private sector. This compares with 27% of women in the senior management level in the public service. While these figures represent significant progress from what was the case in 1994, a lot more work is required to bring about a more representative gender profile in the economy.

The Code's generic scorecard highlights the importance of black women in the ownership and management control of South Africa's corporates:

Categorisation and criteria	Points	Compliance Target
Ownership		
Voting rights: Exercisable voting rights in the hands of:		
Black people	3	25% + 1 vote
Black women	2	10%
Economic interest: Entitlement to economic interest by:		
Black people	4	25%
Black women	2	10%
Black designated groups	1	2,5%
Realisation points:		
Net equity value	7	25%
Ownership fulfillment	1	Yes
Bonus points – Ownership by new black entrants	3	
Total ownership points	23	

Management Control		
Board participation:		
Percentage of black people on the Board (voting)	3	50%
Executive Members of the Board who are black people	1	50%
Executive Members of the Board who are black women	1	25%
Executive management participation:		
Percentage black Senior Executive Management	2	40%
Percentage Senior Executive Management - black women	1	20%
Percentage that Non-Executive Management - black people constitute of the total number of Non-Executive Management	1	40%
Percentage that Non-Executive Management - black women constitute of the total number of Non-Executive Management	1	20%
Bonus points		
Percentage of black people who are Independent Non-Executive Board Members	1	40%
Total management control points	11	

Source: DTI Codes November 2005