

GALILEO CAPITAL NEWSLETTER

After an eventful 2006, this year promises to be even more interesting. The Presidential succession race will be decided at the ANC's national congress, we have Jacob Zuma's corruption trial and the country is steadily gearing up for 2010. In addition, there are questions about the next move on the stock market after three fantastic years. For Galileo Capital, 2007 promises to be a watershed year as we conclude our first acquisition, launch two large projects in the Agricultural sector and launch our wholly owned Wealth Management service.

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OUTLOOK FOR 2007

Economy: Long-term implications of the poor Matric results.

According to research by our Economic researchers, Econometrix, the Matric exam results highlight a worrying trend that may inhibit our economic growth potential. It was widely publicized that the Matric pass results declined for the third year in a row in 2006. However these figures are slightly misleading as it is widely recognized that the Education Department has steadily increased the difficulty of Matric results since 2004. What is concerning is the number of Matrics with endorsement to study further (Matric Exemptions) declined from 2005 to 2006. Only 16.2% of all Matrics qualified to study further. Disturbingly, the maths and science endorsements also declined to 4.8% and 5.6% respectively.

These results must be of concern for Government as it is in the areas of maths and science that we have the greatest demand for skilled workers. If the pass rates are declining despite increased emphasis from Government on these subjects, there is a real possibility of a sustained skills shortage that will inhibit our economic growth in the longer term. What is worrying is that this generation of Matrics are the first to start schooling in the post-apartheid era and therefore have not been as affected by the debilitating effects of the apartheid education system.

A further cause for concern is the number of new teachers entering the job market in the fields of maths and science. In 2005, the University of Witwatersrand is said to have produced one new maths graduate to enter the teaching profession.

Stock Market: How much longer can it continue?

After three years of returns in excess of 40% per annum it is highly unlikely that the stock market will continue to grow at these rates. We anticipate that the market will only generate returns of 15% for the calendar year. Whilst most of the listed companies performed strongly in 2006 with solid earnings growth, we are concerned that the earnings growth did not match the share price appreciation. Over the medium term this is an unsustainable trend. The strength of the rand over the last four years has helped to dampen inflation which has resulted in lower interest rates. This has improved the financial wellbeing of individuals and has inspired the biggest consumer boom in three decades. We have already seen a slow down in the consumer boom and expect this to continue in 2007. We anticipate that the rand will depreciate this year which will result in increased inflationary pressures. We expect interest rates to rise by 0.50% in February with the potential for further increases if inflation continues to rise.

We further anticipate that the residential building market will slow down dramatically in 2007 with higher interest rates and the slower growth of housing prices. These factors will further contribute to the end of the consumer boom. Crime is another factor that worried investors in 2006. Without proper data it is difficult to make informed comment but anecdotal evidence indicates that crime levels increased dramatically in 2006. If this trend continues then it is likely to have a negative impact on tourism and on foreign investment in the country. On a positive note, we anticipate that fixed investment in the country's infrastructure will accelerate in the lead-up to 2010. We expect the economy to grow by 4.5% to 5% in 2007.

Investment recommendation for year ahead

Itrix Euro & Itrix FTSE (we also like the US Itrix, which should be launched in the first quarter of this year)

Politics: Will the Presidential succession race impact our markets?

If the succession race continues in the highly disruptive and antagonistic tone that we saw in 2006 then there is a chance that foreign investors may reduce their capital flows into the country. These capital inflows are needed to accommodate the current account deficit associated with large-scale imports of capital equipment. Over the longer-term a populist candidate may be perceived as a negative factor that local and international investors need to consider. There is however a strong possibility that the new president will be a compromise candidate, as it is unlikely that a populist candidate would be endorsed by the senior leadership of the ANC. As such, a compromise candidate may be a good solution as it is likely that our economic policies will remain unchanged whilst there will be more emphasis on social issues including AIDS.

Note: Economic research supplied by Econometrix.

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ACQUISITION OF A SHORT-TERM INSURANCE BROKERAGE

We have finalized the acquisition of a 50% share in a short-term insurance brokerage that will be branded Galileo Capital Insurance. This business has been running for six years and provides full short-term domestic and commercial solutions as well as specialized commercial risks. This means that we will be able to provide insurance for companies and private individuals and cover for buildings, vehicles, business risks etc. The business will be managed by Hayden Simpson who has been in the industry for 13 years. He has built up a significant business of his own over the last 6 years and decided to join us as a co-shareholder and Managing Director of Galileo Capital Insurance. As a company, we decided to enter the short-term insurance market because we believe it compliments our existing services in the stock broking and wealth management arena. After concluding our research into the insurance market in South Africa we found that insurance provided by brokers was often cheaper than direct insurers and clients enjoyed better service levels from brokers than from the direct insurers.

We decided to partner with Hayden because of his experience, knowledge and passion for the industry. It is our view that our clients should expect exceptional service and Hayden certainly has the right track record in this regard.

To find out more about this service please feel free to contact your relationship manager or Hayden on 083 775 4195 or via email: hayden@galileocapital.co.za

LAUNCH OF AGRI XCHANGE

We have recently launched a new company that provides bridging finance to wine farmers who deliver their harvest to co-operative cellars. Although the concept is not new, the structure of the product is unique and we believe will have significant benefits for wine farmers who have struggled with their cash flow in the past. The roll out of our bridging finance will start in the first quarter of 2007.

To find out more about this service please contact Robert Aspeling on 083 453 2879 or via email: robert@galileocapital.co.za.

LAUNCH OF AGRI CREDIT CARDS

We are in the process of rolling out branded credit cards for the agricultural sector. This is a significant project for Galileo Capital - our first roll out will take place over the next 12 months. We will look at additional clients for these cards in the first quarter of 2008 as we believe there will be significant demand for these cards from the Agricultural sector.

GALILEO CAPITAL WEALTH MANAGEMENT

At the end of 2006 we decided to consolidate our wealth management business within Galileo Capital. We will continue to use the same advanced planning methodology and investment services that we used with our original joint venture partners, The Wealth Corporation. We are excited about this development as we will be able to offer our clients some additional services that we feel would enhance our Wealth Management offering.

As an example, we have been appointed to the panel of client advisors for Satrix in South Africa. They concluded a due diligence on Galileo Capital and found that they were satisfied with our knowledge and expertise. As a panel member, we will be asked to advise clients who want to invest in Satrix and require financial advice. In addition we will be doing some joint road shows with Satrix around the country where we will be educating the public on investing in the JSE via Satrix.

STAFF NEWS

Appointment of a new Director

Robert Aspeling was appointed as an Executive Director of our company in December 2006. We look forward to Robert's input and congratulate him on his appointment.

Robert is married to Corneli and they have three children Denys, Jeanne and Leoné. Robert lives in Cape Town and is responsible for the Western Cape region.

Hayden Simpson

As mentioned above, Hayden will be Managing Director of Galileo Capital Insurance. Hayden is married to Juanita and they have one daughter Xinay. Although they live in Parkmore, Johannesburg, Hayden is still an avid Stormers supporter.

Jan Botha

Jan recently joined our stock broking division as a trader. He is in the process of completing his B.Comm Honours in Investment Management at the University of Johannesburg (RAU) Jan is an avid sports fan and particularly enjoys cycling.

Elsabé Wentzel

Elsabé has been appointed to take responsibility for our operational and administrative functions. Elsabé has been married to Johan for almost 20 years; they have two children, De Wet (16) and Marisa (10). They live in Centurion and enjoy gardening although Elsabé insists Johan is the one with the green fingers.