

Condensed Consolidated Unaudited Results

for the six months ended 28 February 2011 and cautionary announcement

CONDUIT CAPITAL



Condensed consolidated statements of comprehensive income

	Unaudited six months ended 28 Feb 2011 R'000	Unaudited six months ended 28 Feb 2010 R'000	Audited year ended 31 Aug 2010 R'000
Gross revenue	510 925	410 355	771 207
Net insurance revenue	129 357	161 207	296 457
Other operating revenue	50 038	42 707	87 573
Net revenue	179 395	203 914	384 030
Operating expenses	(166 724)	(197 220)	(374 304)
– Direct expenses: Insurance and risk services	(105 310)	(135 319)	(246 314)
– Administration and other expenses	(27 034)	(27 872)	(54 963)
– Depreciation and amortisation	(1 513)	(1 418)	(3 152)
– Employee costs	(32 867)	(32 611)	(69 875)
Operating profit	12 671	6 694	9 726
Income from associates	187	121	57
Investment income	12 589	9 648	18 119
Other income	28	25	3 790
Finance charges	(814)	(1 156)	(2 097)
Profit before taxation	24 661	15 332	29 595
Taxation	(7 575)	(4 164)	(6 006)
Profit for the period	17 086	11 168	23 589
Other comprehensive income	–	–	–
Total comprehensive income	17 086	11 168	23 589
Attributable to:			
Ordinary shareholders	10 063	6 946	11 389
Non-controlling interest	7 023	4 222	12 200
Total comprehensive income	17 086	11 168	23 589
Earnings per share (cents)			
– Basic	4.02	2.78	4.55
– Diluted	3.92	2.76	4.48
– Headline	4.02	2.36	4.55
– Diluted headline	3.92	2.35	4.48

Condensed consolidated statements of financial position

	Unaudited as at 28 Feb 2011 R'000	Unaudited as at 28 Feb 2010 R'000	Audited as at 31 Aug 2010 R'000
ASSETS			
Non-current assets	148 107	105 842	107 229
– Property, plant and equipment	14 825	16 082	14 998
– Intangible assets	46 114	46 274	46 277
– Loans receivable	7 322	4 761	6 884
– Deferred taxation	11 145	6 915	7 976
– Investment properties	3 408	3 320	3 403
– Investment in associates	911	2 245	756
– Investment in joint ventures	2 557	–	–
– Investments held at fair value	61 825	26 245	26 935
Current assets	682 529	599 207	595 334
– Insurance assets	331 740	255 143	228 542
– Investments held at fair value	4 090	3 536	3 858
– Trade and other receivables	91 002	95 898	91 519
– Taxation	981	1 331	1 160
– Cash and cash equivalents	254 716	243 299	270 255
Non-current assets held for sale	10 800	20 125	15 050
Total assets	841 436	725 174	717 613
EQUITY AND LIABILITIES			
Capital and reserves	270 261	249 356	259 563
– Ordinary share capital and share premium	199 155	199 155	199 155
– Retained earnings	53 798	38 675	43 626
– Share-based payment reserve	621	81	363
Equity attributable to equity holders of the parent	253 574	237 911	243 144
Non-controlling interest	16 687	11 445	16 419
Non-current liabilities	38 568	47 610	40 054
– Policyholder liabilities under insurance contracts	21 837	24 548	21 837
– Interest-bearing borrowings	8 339	16 183	12 661
– Deferred taxation	8 392	6 879	5 556
Current liabilities	532 607	428 208	417 996
– Insurance liabilities	411 252	345 680	307 848
– Vendors for cash	90	90	90
– Trade and other payables	112 076	73 690	102 178
– Current portion of interest-bearing borrowings	6 870	5 566	6 235
– Taxation	2 319	3 182	1 636
– Bank overdraft	–	–	9
Total equity and liabilities	841 436	725 174	717 613
Net asset value per share (cents)	101.32	95.06	97.15
Tangible net asset value per share (cents)	82.89	76.57	78.66

Notes to the consolidated financial statements

- Basis of preparation**
The accounting policies applied in the preparation of these condensed consolidated unaudited financial statements for the six months ended 28 February 2011 ("interim results") are based on reasonable judgements and estimates and are in accordance with International Financial Reporting Standards ("IFRS"). These accounting policies are consistent with those applied in the annual financial statements for the year ended 31 August 2010. These interim results have been prepared in terms of IAS 34 – *Interim Financial Reporting*, the Companies Act, 1973 (Act 61 of 1973), as amended, and the Listings Requirements of the JSE Limited.
The interim results have not been audited or reviewed by the group's auditors.
- Changes in share capital**
Details of the shares in issue as at the reporting dates are as follows:

	28 Feb 2011 '000	28 Feb 2010 '000	31 Aug 2010 '000
Number of shares in issue	250 277	250 277	250 277
– Shares in issue	256 380	256 380	256 380
– Shares held as treasury shares	(6 103)	(6 103)	(6 103)
Weighted average number of shares	250 277	250 277	250 277
– Shares in issue	256 380	256 380	256 380
– Shares held as treasury shares	(6 103)	(6 103)	(6 103)
Diluted weighted average number of shares	256 593	251 482	254 258
– Shares in issue	262 696	257 585	260 361
– Shares held as treasury shares	(6 103)	(6 103)	(6 103)
- Reconciliation of headline earnings**

	Unaudited six months ended 28 Feb 2011 R'000	Unaudited six months ended 28 Feb 2010 R'000	Audited year ended 31 Aug 2010 R'000
Profit attributable to ordinary shareholders of Conduit	10 063	6 946	11 389
Net profit on disposal/revaluation of subsidiaries and associates	–	–	(1 231)
After tax loss on revaluation of investment properties	–	–	1 245
Net profit on disposal of property, plant and equipment (net of tax)	(11)	(25)	(11)
Reversal of equity options	–	(1 004)	–
Headline earnings	10 052	5 917	11 392
- Contingent liabilities**
 - Contingent rent is payable in connection with parking for which no rental agreement exists.
 - The group's bankers have issued the following guarantees on behalf of the group:
 - CBS Property Portfolio Limited for office rent R383 318
 - South African Post Office Limited for postage R100 000
These guarantees are secured by corresponding cash deposits held at the banks that have issued the guarantees.
 - As set out in the August 2010 annual financial statements, "the group is in the ordinary course and scope of its insurance activities engaged in various legal disputes. Of particular relevance are certain disputes that arose out of inward reinsurance arrangements concluded through one of the group's external underwriting management and administration agencies. The matters are by nature complex and group exposure (if any) beyond legal costs is presently unknown and will only be determined at the outcome of the relevant legal processes.
A further matter arises against the background of a client mandate contended to have been put in place between a subsidiary of the insurance and risk services division and Sanlam Private Investments (Proprietary) Limited ("SPI"). This mandate was purportedly procured by SPI during 2003, prior to the acquisition by the group of the shareholding previously held in that entity by Hannover Re. SPI and Hannover Re have been subjected to extensive fraud, perpetrated by a rogue investment manager previously in the employ of Hannover Re. Whilst the group is of the opinion that it has solid prospects of defending the action, it has nonetheless initiated third party proceedings against Hannover Re for purposes of procuring an indemnity in regard to any possible award against the subsidiary.
Save as disclosed above, the group is not aware of any other current or pending legal cases that would have a material adverse effect on the group's results.

Condensed segmental analysis of earnings

	Conduit Head office and treasury R'000	Conduit Insurance and risk services R'000	Conduit Direct R'000	Conduit Financial services R'000	Conduit Private equity R'000	Consolidation R'000	Total R'000
Unaudited – six months ended 28 February 2011							
Gross revenue	4 148	462 632	47 572	286	721	(4 434)	510 925
Net revenue	4 148	131 102	47 572	286	721	(4 434)	179 395
Investment income	3 359	7 060	266	26	4 262	(2 384)	15 889
Profit (Loss) before taxation	(149)	7 538	17 085	185	2 800	(2 798)	24 661
Attributable earnings	656	4 863	4 639	136	2 567	(2 798)	10 063
Non-controlling interest	–	37	6 958	–	28	–	7 023
Total assets	192 933	759 031	49 465	1 243	34 080	(195 316)	841 436
Total liabilities	(17 888)	(689 282)	(23 372)	(1 712)	(31 875)	192 954	(571 175)
Capital expenditure	50	277	852	–	–	–	1 179
Unaudited – six months ended 28 February 2010							
Gross revenue	9 405	375 234	34 210	205	911	(9 610)	410 355
Net revenue	9 405	168 793	34 210	205	911	(9 610)	203 914
Investment income	6 726	6 875	320	37	20	(4 330)	9 648
Profit before taxation	5 730	3 299	10 400	54	247	(4 398)	15 332
Attributable earnings	5 867	2 739	2 554	49	135	(4 398)	6 946
Non-controlling interest	–	351	3 833	–	38	–	4 222
Total assets	178 036	655 355	33 059	5 162	1 618	(148 056)	725 174
Total liabilities	(2 346)	(590 656)	(20 649)	(5 868)	(1 996)	145 697	(475 818)
Capital expenditure	196	309	1 175	4	2	–	1 686
Audited – year ended 31 August 2010							
Gross revenue	12 709	696 611	72 931	458	1 655	(13 157)	771 207
Net revenue	12 709	309 434	72 931	458	1 655	(13 157)	384 030
Investment income	9 094	12 608	688	80	51	(4 402)	18 119
Profit before taxation	1 649	8 971	22 903	202	270	(4 400)	29 595
Attributable earnings	3 022	6 307	6 187	149	124	(4 400)	11 389
Non-controlling interest	–	2 878	9 283	–	39	–	12 200
Total assets	176 919	642 754	42 546	5 177	1 417	(151 200)	717 613
Total liabilities	(2 785)	(575 460)	(21 052)	(5 783)	(1 804)	148 834	(458 050)
Capital expenditure	307	796	2 031	6	8	(38)	3 110

Condensed consolidated statements of changes in equity

	Share capital and share premium R'000	Retained earnings R'000	Other reserves R'000	Non- controlling interest R'000	Total R'000
Balance at 1 September 2009	199 155	31 729	1 004	14 623	246 511
Total comprehensive income for the period	–	6 946	–	4 222	11 168
Equity options issued to executives	–	–	81	–	81
Reversal of equity options	–	–	(1 004)	–	(1 004)
Dividends paid	–	–	–	(7 400)	(7 400)
Balance at 28 February 2010	199 155	38 675	81	11 445	249 356
Transaction with owners	–	(496)	–	(4)	(500)
Total comprehensive income for the period	–	5 447	–	7 978	13 425
Equity options issued to executives	–	–	282	–	282
Dividends paid	–	–	–	(3 000)	(3 000)
Balance at 31 August 2010	199 155	43 626	363	16 419	259 563
Transaction with owners	–	109	–	(2 555)	(2 446)
Total comprehensive income for the period	–	10 063	–	7 023	17 086
Equity options issued to executives	–	–	258	–	258
Dividends paid	–	–	–	(4 200)	(4 200)
Balance at 28 February 2011	199 155	53 798	621	16 687	270 261

Condensed consolidated statements of cash flows

	Unaudited six months ended 28 Feb 2011 R'000	Unaudited six months ended 28 Feb 2010 R'000	Audited year ended 31 Aug 2010 R'000
Net cash flows from operating activities	19 617	(7 474)	17 339
Net cash flows from investing activities	(31 022)	(22 529)	(14 116)
Net cash flows from financing activities	(4 125)	(1 534)	(7 811)
Total cash movement for the period	(15 530)	(31 537)	(4 588)
Cash at the beginning of the period	270 246	274 836	274 836
Cash disposed of	–	–	(2)
Total cash at the end of the period	254 716	243 299	270 246

Commentary

GROUP OPERATIONAL REVIEW

1. GENERAL

During the six months to 28 February 2011, the group delivered 4.02 cents in headline earnings per share, representing a 70.3% improvement over the comparative six-month period to 28 February 2010. Tangible net asset value per share increased to 82.9 cents while the net asset value per share breached the 100-cent mark to close at 101.3 cents.

The group's robust cash position (R254.7 million as at 28 February 2011) is reassuring and serves as a comfortable "sleep easy" buffer that allows us to maintain high solvency margins in the insurance operations (International Solvency: 49.5% as at 28 February 2011) and provides us with the ability to write additional insurance premium for net account.

2. CONDUIT INSURANCE AND RISK SERVICES

Underwriting

The 2011 reinsurance programme greatly benefited from in-depth technical analysis of the 2010 programme and underwriting experience. These refinements combined with disciplined cost management and solid performances in all insurance classes, resulted in a considerable improvement in underwriting profitability during the six months to 28 February 2011.

Investments

The group's rich cash holdings are a mixed blessing. With interest rates at a 37-year low, the ability to deliver improved investment returns while satisfying credit rating criteria – which places strong emphasis on cash coverage and solvency margins – remains a constant challenge. The return on the group's cash holdings mirrors interest rates and for each 50 basis point drop (as has happened twice in this reporting period) our annual profits reduce by approximately R1.25 million.

Our attitude to the protection of shareholder wealth remains at the forefront of our investment philosophy and while local and international markets remain volatile, we intend to protect our insurance float (which as at 28 February 2011 exceeded R101 million) and shareholders' funds by maintaining an appropriate investment strategy.

Statutory funding ratios

Constantia Insurance Company Limited's international solvency ratio as at 28 February 2011 improved to 49.5% (August 2010: 48%), significantly above Management and Global Credit Rating's target of 35% to 45%. Similarly, the statutory solvency ratio of 41% (August 2010: 37%) is well above the statutory minimum of 15%.

3. CONDUIT DIRECT

Anthony Richards & Associates (Proprietary) Limited ("ARA") turned in a typically strong performance. Staff numbers continue to grow and collection statistics reveal ARA to have maintained its competitive position in the top ranks of the industry.

CONCLUSION AND CAUTIONARY

Having stuck to our guns and focused on fastening and improving our underlying operations, we have emerged from a number of difficult trading years and produced a gratifying result for the six months to February 2011. The numbers evidence a return to more stable and diversified profitability and although we do have a few legacy issues to contend with, they are narrow in their scope and wholly distinct from our ongoing operations. In the short term the emphasis at group level will be on considering appropriate means of returning capital to Conduit's shareholders. Although a delicate task, initiatives are underway to achieve this by year-end. Shareholders are accordingly advised to exercise caution when dealing in Conduit shares until a further announcement is made.

For and on behalf of the board

Jason D Druian
Chief Executive Officer

Lourens E Louw
Financial Director

Johannesburg
20 April 2011

Conduit Capital Limited
(Incorporated in the Republic of South Africa)
Registration number 1998/017351/06
Share code: CND ISIN: ZAE000073128
("Conduit" or "Conduit Capital" or "the group")

Directors
Executive directors
Jason D Druian (*Chief Executive Officer*),
Lourens E Louw