

**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")

**CONDENSED CONSOLIDATED UNAUDITED RESULTS FOR THE SIX MONTHS ENDED 28 FEBRUARY 2013****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	Unaudited six months ended 28 Feb 2013 R'000	Unaudited six months ended 29 Feb 2012 R'000	Variance %	Audited year ended 31 Aug 2012 R'000
<b>Gross revenue</b>	648 529	519 289	24.9	1 071 936
Net insurance revenue	142 778	152 310	(6.3)	290 784
Other operating revenue	67 906	65 263	4.0	143 817
<b>Net revenue</b>	210 684	217 573	(3.2)	434 601
<b>Operating expenses</b>	(183 663)	(195 847)	6.2	(369 870)
- Direct expenses: Insurance and risk services	(112 832)	(127 241)		(215 333)
- Administration and other expenses	(28 851)	(30 104)		(67 116)
- Depreciation and amortisation	(1 605)	(2 010)		(3 514)
- Employee costs	(40 375)	(36 492)		(83 907)
<b>Operating profit</b>	27 021	21 726	24.4	64 731
Equity accounted income	184	318		723
Investment income	15 452	16 495		14 116
Other (expenses) income	(45)	-		528
Finance charges	(198)	(281)		(427)
<b>Profit before taxation</b>	42 414	38 258	10.9	79 671
Taxation	(7 140)	(9 807)		(30 418)
<b>Profit for the period</b>	35 274	28 451	24.0	49 253
Other comprehensive income	-	-		-
<b>Total comprehensive income</b>	35 274	28 451	24.0	49 253
<b>Attributable to:</b>				
Equity holders of the parent	24 951	19 888	25.5	32 156
Non-controlling interest	10 323	8 563	20.6	17 097
<b>Total comprehensive income</b>	35 274	28 451	24.0	49 253
<b>Headline earnings</b>	24 991	20 438	22.3	32 163
<b>Earnings per share (cents)</b>				
- Basic	9.7	7.8	24.4	12.7
- Diluted	9.7	7.7	26.0	12.6
- Headline	9.8	8.0	22.5	12.7
- Diluted headline	9.8	8.0	22.5	12.6

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME PER SEGMENT

	CORPORATE AND INVESTMENT SERVICES			
	Unaudited six months ended 28 Feb 2013 R'000	Unaudited six months ended 29 Feb 2012 R'000	Variance %	Audited year ended 31 Aug 2012 R'000
<b>Gross revenue</b>	5 258	3 143	67.3	6 184
Net insurance revenue	-	-	0.0	-
Other operating revenue	5 258	3 143	67.3	6 184
<b>Net revenue</b>	5 258	3 143	67.3	6 184
<b>Operating expenses</b>	(7 561)	(5 614)	(34.7)	(19 090)
- Direct expenses: Insurance and risk services	-	-		-
- Administration and other expenses	(1 860)	(1 690)		(5 294)
- Depreciation and amortisation	(65)	(84)		(131)
- Employee costs	(5 636)	(3 840)		(13 665)
<b>Operating loss</b>	(2 303)	(2 471)	6.8	(12 906)
Equity accounted income	-	-		-
Investment income	7 038	15 151		17 831
Other (expenses) income	(26)	-		(34)
Finance charges	(2)	(3)		(11)
<b>Profit before taxation</b>	4 707	12 677	(62.9)	4 880
Taxation	158	(581)		35
<b>Profit for the period</b>	4 865	12 096	(59.8)	4 915
Other comprehensive income	-	-		-
<b>Total comprehensive income</b>	4 865	12 096	(59.8)	4 915
<b>Attributable to:</b>				
Equity holders of the parent	4 856	12 064	(59.7)	4 904
Non-controlling interest	9	32	(71.9)	11
<b>Total comprehensive income</b>	4 865	12 096	(59.8)	4 915
<b>Headline earnings</b>	4 883	12 064	(59.5)	4 928
<b>Earnings per share (cents)</b>				
- Basic	1.9	4.7	(59.6)	1.9
- Diluted	1.9	4.7	(59.6)	1.9
- Headline	1.9	4.7	(59.6)	1.9
- Diluted headline	1.9	4.7	(59.6)	1.9

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME PER SEGMENT  
(continued)**

	<b>INSURANCE AND RISK SERVICES</b>			
	Unaudited six months ended 28 Feb 2013 R'000	Unaudited six months ended 29 Feb 2012 R'000	Variance %	Audited year ended 31 Aug 2012 R'000
<b>Gross revenue</b>	583 656	456 117	28.0	938 062
Net insurance revenue	142 778	152 310	(6.3)	290 784
Other operating revenue	3 033	2 091	45.1	9 943
<b>Net revenue</b>	145 811	154 401	(5.6)	300 727
<b>Operating expenses</b>	(140 079)	(149 738)	6.5	(266 905)
- Direct expenses: Insurance and risk services	(112 832)	(127 941)		(215 333)
- Administration and other expenses	(15 992)	(11 268)		(29 548)
- Depreciation and amortisation	(647)	(610)		(1 204)
- Employee costs	(10 608)	(9 919)		(20 820)
<b>Operating profit</b>	5 732	4 663	22.9	33 822
Equity accounted income	184	318		723
Investment income	8 140	6 470		12 569
Other (expenses) income	(20)	-		312
Finance charges	(196)	(278)		(416)
<b>Profit before taxation</b>	13 842	11 173	23.9	47 010
Taxation	(598)	(2 152)		(14 066)
<b>Profit for the period</b>	13 244	9 021	46.8	32 944
Other comprehensive income	-	-		-
<b>Total comprehensive income</b>	13 244	9 021	46.8	32 944
<b>Attributable to:</b>				
Equity holders of the parent	13 230	8 971	47.5	32 774
Non-controlling interest	14	50	(68.0)	170
<b>Total comprehensive income</b>	13 244	9 021	46.8	32 944
<b>Headline earnings</b>	13 243	9 521	39.1	32 741
<b>Earnings per share (cents)</b>				
- Basic	5.2	3.5	48.6	12.9
- Diluted	5.2	3.5	48.6	12.8
- Headline	5.2	3.7	40.5	12.9
- Diluted headline	5.2	3.7	40.5	12.8

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME PER SEGMENT  
(continued)**

	<b>DIRECT</b>			Audited year ended 31 Aug 2012 R'000
	Unaudited six months ended 28 Feb 2013 R'000	Unaudited six months ended 29 Feb 2012 R'000	Variance %	
<b>Gross revenue</b>	64 759	62 467	3.7	132 838
Net insurance revenue	-	-	0.0	-
Other operating revenue	64 759	62 467	3.7	132 838
<b>Net revenue</b>	64 759	62 467	3.7	132 838
<b>Operating expenses</b>	(41 168)	(41 481)	0.8	(89 023)
- Direct expenses: Insurance and risk services	-	-		-
- Administration and other expenses	(16 144)	(17 433)		(37 422)
- Depreciation and amortisation	(893)	(1 316)		(2 179)
- Employee costs	(24 131)	(22 732)		(49 422)
<b>Operating profit</b>	23 591	20 986	12.4	43 815
Equity accounted income	-	-		-
Investment income	274	314		516
Other (expenses) income	-	-		250
Finance charges	-	-		-
<b>Profit before taxation</b>	23 865	21 300	12.0	44 581
Taxation	(6 700)	(7 164)		(16 387)
<b>Profit for the period</b>	17 165	14 136	21.4	28 194
Other comprehensive income	-	-		-
<b>Total comprehensive income</b>	17 165	14 136	21.4	28 194
<b>Attributable to:</b>				
Equity holders of the parent	6 865	5 655	21.4	11 278
Non-controlling interest	10 300	8 481	21.4	16 916
<b>Total comprehensive income</b>	17 165	14 136	21.4	28 194
<b>Headline earnings</b>	6 865	5 655	21.4	11 294
<b>Earnings per share (cents)</b>				
- Basic	2.7	2.2	22.7	4.4
- Diluted	2.7	2.2	22.7	4.4
- Headline	2.7	2.2	22.7	4.4
- Diluted headline	2.7	2.2	22.7	4.4

## CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Unaudited 28 Feb 2013 R'000	Unaudited 29 Feb 2012 R'000	Variance %	Audited 31 Aug 2012 R'000
<b>ASSETS</b>				
<b>Non-current assets</b>	160 964	157 935		149 345
- Property, plant and equipment	14 452	14 680		14 601
- Intangible assets	47 058	46 459		46 457
- Loans receivable	3 789	5 379		4 073
- Deferred taxation	13 701	9 264		9 965
- Investment properties	3 850	3 444		3 851
- Investment in associates	395	327		311
- Investment in jointly controlled entities	3 665	2 765		3 756
- Investments held at fair value	74 054	75 617	(2.1)	66 331
<b>Current assets</b>	866 406	724 921		752 472
- Insurance assets	435 877	349 890		357 402
- Investments held at fair value	-	4 800	(100.0)	-
- Loans receivable	10 158	-		11 172
- Trade and other receivables	157 613	116 012		113 513
- Taxation	2 527	2 118		413
- Cash and cash equivalents	260 231	252 101	3.2	269 972
<b>Non-current assets held for sale</b>	-	4 110		-
<b>Total assets</b>	<u>1 027 370</u>	<u>886 966</u>		<u>901 817</u>
<b>EQUITY AND LIABILITIES</b>				
<b>Capital and reserves</b>	319 096	280 362	13.8	288 297
- Ordinary share capital and share premium	176 703	175 917		175 917
- Inter-group funding	-	-		-
- Contingency reserve	-	157		-
- Retained earnings	122 681	85 236		97 694
- Share-based payment reserve	-	183		182
Equity attributable to equity holders of the parent	299 384	261 493	14.5	273 793
Non-controlling interest	19 712	18 869	4.5	14 504
<b>Non-current liabilities</b>	31 158	30 086		30 840
- Policyholder liabilities under insurance contracts	19 051	18 776		19 052
- Interest-bearing borrowings	2 675	4 125		3 753
- Deferred taxation	9 432	7 185		8 035
<b>Current liabilities</b>	677 116	576 518		582 680
- Insurance liabilities	505 136	428 012		422 561
- Trade and other payables	168 776	144 260		152 626
- Taxation	3 204	4 246		7 493
<b>Total equity and liabilities</b>	<u>1 027 370</u>	<u>886 966</u>		<u>901 817</u>
<b>Capital expenditure</b>	<u>2 056</u>	<u>2 606</u>		<u>4 128</u>

Net asset value per share (cents)	116.8	102.6	13.8	107.5
Tangible net asset value per share (cents)	98.4	84.4	16.6	89.2

## CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION PER SEGMENT

	CORPORATE AND INVESTMENT SERVICES			
	Unaudited 28 Feb 2013 R'000	Unaudited 29 Feb 2012 R'000	Variance %	Audited 31 Aug 2012 R'000
<b>ASSETS</b>				
<b>Non-current assets</b>	39 782	52 830		33 538
- Property, plant and equipment	156	292		256
- Intangible assets	29	58		29
- Loans receivable	-	-		-
- Deferred taxation	5 115	4 882		5 193
- Investment properties	-	-		-
- Investment in associates	-	-		-
- Investment in jointly controlled entities	597	973		787
- Investments held at fair value	33 885	46 625	(27.3)	27 273
<b>Current assets</b>	5 719	7 620		5 794
- Insurance assets	-	-		-
- Investments held at fair value	-	4 800	(100.0)	-
- Loans receivable	-	-		-
- Trade and other receivables	1 551	456		471
- Taxation	97	63		104
- Cash and cash equivalents	4 071	2 301	76.9	5 219
<b>Non-current assets held for sale</b>	-	-		-
<b>Total assets</b>	45 501	60 450		39 332
<b>EQUITY AND LIABILITIES</b>				
<b>Capital and reserves</b>	42 466	56 749	(25.2)	32 071
- Ordinary share capital and share premium	176 703	175 917		175 917
- Inter-group funding	(122 394)	(108 489)		(127 302)
- Contingency reserve	-	-		-
- Retained earnings (Accumulated loss)	(12 014)	(11 062)		(16 906)
- Share-based payment reserve	-	183		182
Equity attributable to equity holders of the parent	42 295	56 549	(25.2)	31 891
Non-controlling interest	171	200	(14.5)	180
<b>Non-current liabilities</b>	-	487		322
- Policyholder liabilities under insurance contracts	-	-		-
- Interest-bearing borrowings	-	353		42
- Deferred taxation	-	134		280
<b>Current liabilities</b>	3 035	3 214		6 939
- Insurance liabilities	-	-		-

- Trade and other payables	2 955	3 159		6 884
- Taxation	80	55		55
<b>Total equity and liabilities</b>	<b>45 501</b>	<b>60 450</b>		<b>39 332</b>
<b>Capital expenditure</b>	<b>-</b>	<b>21</b>		<b>37</b>
Net asset value per share (cents)	16.5	22.2	(25.7)	12.5
Tangible net asset value per share (cents)	16.5	22.2	(25.7)	12.5

## CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION PER SEGMENT (continued)

	INSURANCE AND RISK SERVICES			
	Unaudited 28 Feb 2013 R'000	Unaudited 29 Feb 2012 R'000	Variance %	Audited 31 Aug 2012 R'000
<b>ASSETS</b>				
<b>Non-current assets</b>	107 609	92 303		112 970
- Property, plant and equipment	10 308	9 394		10 013
- Intangible assets	37 665	37 619		37 458
- Loans receivable	3 789	5 379		15 245
- Deferred taxation	8 365	4 382		4 065
- Investment properties	3 850	3 444		3 850
- Investment in associates	395	327		311
- Investment in jointly controlled entities	3 068	2 765		2 969
- Investments held at fair value	40 169	28 993	38.5	39 059
<b>Current assets</b>	822 521	676 717		704 338
- Insurance assets	435 877	349 890		357 402
- Investments held at fair value	-	-	0.0	-
- Loans receivable	10 158	-		-
- Trade and other receivables	140 283	99 253		94 786
- Taxation	2 430	2 055		310
- Cash and cash equivalents	233 773	225 519	3.7	251 840
<b>Non-current assets held for sale</b>	-	4 750		-
<b>Total assets</b>	<b>930 130</b>	<b>773 770</b>		<b>817 308</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Capital and reserves</b>	236 685	186 889	26.6	224 949
- Ordinary share capital and share premium	-	-		-
- Inter-group funding	110 826	96 920		112 334
- Contingency reserve	-	157		-
- Retained earnings (Accumulated loss)	125 432	89 521		112 202
- Share-based payment reserve	-	-		-
Equity attributable to equity holders of the parent	236 258	186 598	26.6	224 536
Non-controlling interest	427	291	46.7	413
<b>Non-current liabilities</b>	<b>31 158</b>	<b>29 676</b>		<b>30 030</b>

- Policyholder liabilities under insurance contracts	19 051	18 776		19 051
- Interest-bearing borrowings	2 675	3 771		3 711
- Deferred taxation	9 432	7 129		7 268
<b>Current liabilities</b>	<b>662 287</b>	<b>557 205</b>		<b>562 329</b>
- Insurance liabilities	505 136	428 012		422 561
- Trade and other payables	154 423	127 233		132 987
- Taxation	2 728	1 960		6 781
<b>Total equity and liabilities</b>	<b>930 130</b>	<b>773 770</b>		<b>817 308</b>
<b>Capital expenditure</b>	<b>1 111</b>	<b>396</b>		<b>1 459</b>
Net asset value per share (cents)	92.2	73.2	26.0	88.1
Tangible net asset value per share (cents)	77.5	58.5	32.5	73.4

## CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION PER SEGMENT (continued)

	DIRECT			Audited 31 Aug 2012 R'000
	Unaudited 28 Feb 2013 R'000	Unaudited 29 Feb 2012 R'000	Variance %	
<b>ASSETS</b>				
<b>Non-current assets</b>	15 937	16 139		15 885
- Property, plant and equipment	3 989	4 994		4 332
- Intangible assets	11 727	11 145		11 332
- Loans receivable	-	-		-
- Deferred taxation	221	-		221
- Investment properties	-	-		-
- Investment in associates	-	-		-
- Investment in jointly controlled entities	-	-		-
- Investments held at fair value	-	-	0.0	-
<b>Current assets</b>	38 639	39 613		31 660
- Insurance assets	-	-		-
- Investments held at fair value	-	-	0.0	-
- Loans receivable	-	-		-
- Trade and other receivables	16 251	15 332		18 748
- Taxation	-	-		-
- Cash and cash equivalents	22 388	24 281	(7.8)	12 912
<b>Non-current assets held for sale</b>	-	-		-
<b>Total assets</b>	<b>54 576</b>	<b>55 752</b>		<b>47 545</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Capital and reserves</b>	42 308	41 088	3.0	33 643
- Ordinary share capital and share premium	-	-		-
- Inter-group funding	11 568	11 568		14 968



- Contingency reserve	-	-		-
- Retained earnings	11 626	11 141		4 761
- Share-based payment reserve	-	-		-
Equity attributable to equity holders of the parent	23 194	22 709	2.1	19 729
Non-controlling interest	19 114	18 379	4.0	13 914
<b>Non-current liabilities</b>	-	13		-
- Policyholder liabilities under insurance contracts	-	-		-
- Interest-bearing borrowings	-	-		-
- Deferred taxation	-	13		-
<b>Current liabilities</b>	12 268	14 651		13 902
- Insurance liabilities	-	-		-
- Trade and other payables	11 872	12 420		13 245
- Taxation	396	2 231		657
<b>Total equity and liabilities</b>	54 576	55 752		47 545
<b>Capital expenditure</b>	945	2 189		2 632
Net asset value per share (cents)	9.0	8.9	1.1	7.7
Tangible net asset value per share (cents)	4.5	4.5	0.0	3.3

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	<b>Unaudited six months ended 28 Feb 2013 R'000</b>	<b>Unaudited six months ended 29 Feb 2012 R'000</b>	<b>Audited year ended 31 Aug 2012 R'000</b>
Net cash flows from operating activities	(6 207)	12 787	30 629
Net cash flows from investing activities	706	(3 996)	2 372
Net cash flows from financing activities	(4 240)	(26 552)	(32 891)
<b>Total cash movement for the period</b>	<b>(9 741)</b>	<b>(17 761)</b>	<b>110</b>
Cash at the beginning of the period	269 972	269 862	269 862
<b>Total cash at the end of the period</b>	<b>260 231</b>	<b>252 101</b>	<b>269 972</b>

## **CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

	<b>Share capital and share premium R'000</b>	<b>Retained earnings R'000</b>	<b>Other reserves R'000</b>	<b>Non- controlling interest R'000</b>	<b>Total R'000</b>
<b>Balance at 1 September 2011</b>	199 155	65 538	600	17 565	282 858
Total comprehensive income for the period	-	19 888	-	8 563	28 451
Equity options issued to executives	-	-	23	-	23
Equity options exercised	2 240	-	(440)	-	1 800
Transaction with owners	-	(33)	-	-	(33)
Contingency reserve transfer	-	(157)	157	-	-
Capital distribution	(25 478)	-	-	-	(25 478)
Dividends paid	-	-	-	(7 259)	(7 259)
<b>Balance at 29 February 2012</b>	175 917	85 236	340	18 869	280 362
Total comprehensive income for the period	-	12 268	-	8 534	20 802
Equity options issued to executives	-	-	(1)	-	(1)
Transaction with owners	-	33	-	-	33
Loans advanced by non-controlling shareholders	-	-	-	5 101	5 101
Contingency reserve transfer	-	157	(157)	-	-
Dividends paid	-	-	-	(18 000)	(18 000)
<b>Balance at 31 August 2012</b>	175 917	97 694	182	14 504	288 297
Total comprehensive income for the period	-	24 951	-	10 323	35 274
Reversal of equity options	-	36	(36)	-	-
Equity options exercised	786	-	(146)	-	640
Loans repaid to non-controlling shareholders	-	-	-	(5 100)	(5 100)
Dividends paid	-	-	-	(15)	(15)
<b>Balance at 28 February 2013</b>	176 703	122 681	-	19 712	319 096

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **1. Basis of preparation**

The accounting policies applied in the preparation of these condensed consolidated unaudited financial statements for the six months ended 28 February 2013 ("interim results") are based on reasonable judgements and estimates and are in accordance with International Financial Reporting Standards ("IFRS") and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council. These accounting policies are consistent with those applied in the annual financial statements for the year ended 31 August 2012. The interim results have been prepared in terms of IAS 34 – Interim Financial Reporting, the Companies Act, 71 of 2008 as amended, and the Listings Requirements of JSE Limited ("the JSE") under the supervision of Mr Lourens Louw, the Financial Director and have not been audited or reviewed by the Group's auditors.

## 2. Changes in share capital

Details of the shares in issue as at the reporting dates are as follows:

	28 Feb 2013 '000	29 Feb 2012 '000	31 Aug 2012 '000
Number of shares	256 377	254 777	254 777
- Shares in issue	256 380	256 380	256 380
- Shares held as treasury shares	(3)	(1 603)	(1 603)
Weighted average number of shares	255 982	254 777	254 181
- Shares in issue	256 380	256 380	256 380
- Shares held as treasury shares	(398)	(1 603)	(2 199)
Diluted weighted average number of shares	255 982	256 777	256 181
- Shares in issue	256 380	258 380	258 380
- Shares held as treasury shares	(398)	(1 603)	(2 199)

## 3. Reconciliation of headline earnings

	Unaudited six months ended 28 Feb 2013 R'000	Unaudited six months ended 29 Feb 2012 R'000	Audited year ended 31 Aug 2012 R'000
Profit attributable to ordinary equity holders of Conduit	24 951	19 888	32 156
Net loss on revaluation of non-current assets held for sale	-	640	-
Net profit on revaluation of investment properties	-	-	(41)
Net loss on disposal of property, plant and equipment	45	-	89
Tax on the items above	(5)	(90)	(17)
Non-controlling interest on the items above (after taxation)	-	-	(24)
Headline earnings	24 991	20 438	32 163

## 4. Contingent liabilities

4.1. The Group's bankers have issued the following guarantees on behalf of the Group:

4.1.1.	Government Employees Pension Fund for office rent	R540 724
4.1.2.	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.

4.2. The outcome of the arbitration relating to inward re-insurance arrangements concluded in 2006 and 2007 has been determined and accounted for in the results.

The Group is not aware of any current or pending legal cases that would have a material adverse effect on the Group's results.

## **5. Directors**

Mr Richard Bruyns was appointed as an independent non-executive director on 4 October 2012.

## **6. Dividends and other distributions**

Only once the compulsory Quantitative Impact Study III ("QIS III") has been completed by insurers in 2014 will the Financial Services Board finally determine the capital requirements for insurers under the new Solvency Assessment and Management ("SAM") regulatory framework. Accordingly, we expect to maintain a margin of safety and utilise our capital effectively. The growth prospects in the Insurance and Risk Services division support this strategy. The board of directors of Conduit Capital has therefore not recommended any dividend payment to ordinary shareholders for the six months ended 28 February 2013 (2012: Nil).

## **7. Post balance sheet events**

There were no material post-balance sheet events.

## **COMMENTARY**

### **REVIEW OF OPERATIONS**

#### **Corporate and Investment Services (Head Office and ancillary investments)**

In the first half of the 2012 financial year we accounted for R8.8 million (3.5 cents per share) in mark-to-market "profits" relating to our 26% interest in Amalgamated Electronics Corporation Limited ("Amecor"). Unfortunately, by year-end this had reversed itself (and more), only to be partially revived by the reliable annual dividend. This year a more modest 40 cents increase in the Amecor share price translated into R7.6 million (3 cents per share). Whilst Amecor continues to produce solid earnings and a dependable dividend, prevailing accounting rules do require that we take our six monthly dose of volatility with a smile. The decline in profit in the Corporate and Investment Services segment is therefore not particularly meaningful.

#### **Conduit Insurance and Risk Services (Risk and non-risk bearing businesses)**

In the wake of one corporate financial crisis after another (albeit largely abroad), it is not surprising that regulators have sharpened their gaze on the financial sector, and more particularly the banking and insurance industries. Severe as the new and impending regulations may seem, their objective is hard to fault and effectively calls for improved risk management, discerning capital allocation and disciplined underwriting. It may please investors to know that at present Constantia Insurance Company Limited's ("Constantia") Capital Adequacy Ratio ("CAR") - the Financial Services Board's primary measure of balance sheet strength - improved to 1.49 from 1.43 at the last reporting date, which is well above the current statutory requirement of 1. Constantia's international solvency margin also advanced to 52.5%, the highest level seen since August 2011 (pre-capital distribution).

Apart from the comfort of a more robust balance sheet, during the natural perils weather losses experienced at the end of last year, our reinsurance program stood up well in ensuring that we were not exposed to more than 1% of our capital base (any single event). Though not entirely unscathed, we did manage to quite literally weather the storm without sustaining too much damage. Overall the division produced R13.2 million in headline earnings, a considerable advancement on the comparative period (February 2012: R9.5 million).

### **Conduit Direct (Credit recovery and debt management)**

There is little doubt that credit granters have tightened lending criteria, with the result that inflows and quality of outstanding debt have deteriorated. The small amount of disposable income that consumers have at hand is widely spread and their ability to repay debt is hampered by the need to service multiple accounts.

Against this backdrop, the business fared well and the year is off to a steady start with our 40% share in Anthony Richards and Associates Proprietary Limited contributing R6.9 million to headline earnings. The apparent mismatch between the 12% pre and 21.4% post-tax profit increase over the corresponding period arises purely out of a lower tax rate, precipitated by the recent change in the dividend tax structure.

### **Embedded value update (our conservative valuation of the Group)**

Investors will recall a shift in the tenor of commentary contained in the 2012 Integrated Annual Report. In that review we set about dismantling the parts, only to piece them back together for the purposes of establishing a realistic and what we considered then to be a "conservative total embedded value of R372.8 million". For ease of reference we have utilised the same part-by-part analysis as then, only this time we have refined our approach (which we will continue to do) and supplemented the valuation with a table that delves deeper into the embedded value calculation. It is important to note that where we have used discounted cash flow models the risk free rate does adjust with market movements and will impact valuations from time to time.

#### Insurance and Risk activities

The RISK portion of our Insurance and Risk segment includes the short and long-term insurance licences and accounts for 3 of the 4 components of our Insurance and Risk Services valuation.

Part 1 - **Cash and investments** is comprised of assets invested in equities, bonds and investment funds taken at market value and added to the face value of cash in excess of our insurance float and working capital requirements. At 28 February 2013 this totalled R149.9 million (August 2012: R117.8 million).

Part 2 - A basic calculation of the net present value of R88.3 million in technical reserves or **Insurance float** invested to deliver an after-tax return of 6.1% strongly supports the revised valuation of R53.2 million (August 2012: R28.2 million).

Part 3 - Here we combine 30 months (at year-end we'll use 36) of stable underwriting performance data with modest growth assumptions in order to arrive at the value of our **Insurance book**. Though it is a particularly subjective area of our valuation, we consider it to be fair and reasonable. We place a balanced R112.7 million in value on the underwriting portfolio (August 2012: R90.6 million).

Part 4 - In the August 2012 review our valuation of NON-RISK activities was somewhat over-simplistic, in that we based our value solely on our share of the cash surplus to working capital in these entities. This time around we do the same, but also recognise some worth in the equity, bringing the realistic value up to R22.9 million (August 2012: R18.8 million).

#### Direct activities

Part 5 - Re-applying the discounted cash flow model utilised in August 2012, we attribute a present value of R108.8 million to our 40% interest in the underlying business (August 2012: R99.3 million).

## Other

Part 6 - We know investors are not particularly fond of categorising items under **Other** without some genuine insight into the underlying assets. Our version of *Other* is rather easy to explain and simply comprises investments in fixed property residing in the Insurance and Risk segment, together with 16.53 million Amecor shares held in the Corporate and Investment Services segment. As the valuation methodology has its positives, so it has its downside. Unallocated Group operating costs of R3.1 million negatively impact the value by a whopping R20.9 million. Though these costs cannot be reasonably attributed to a particular segment, they equally have no place in a "break-up" (no we are not) calculation and perhaps unfairly suppress the ultimate value of R25.9 million (August 2012: R18.1 million) for this segment.

Table 1

Part		February 2013			August 2012	
		Corporate & Investment Services R'000	Insurance & Risk services R'000	Direct R'000	Total R'000	
1	RISK: Cash and investments	-	149 870	-	149 870	117 790
	- Surplus cash	-	109 701	-	109 701	78 731
	- Investments held at fair value	-	40 169	-	40 169	39 059
2	RISK: Insurance float	-	53 226	-	53 226	28 211
3	RISK: Insurance operations	-	112 709	-	112 709	90 553
4	NON-RISK	-	22 898	-	22 898	18 843
	- Investment in associates	-	1 160	-	1 160	-
	- Investment in joint ventures	-	2 579	-	2 579	-
	- Operations	-	(284)	-	(284)	-
	- Surplus cash	-	19 443	-	19 443	18 843
5	DIRECT	-	-	108 820	108 820	99 278
6	OTHER	12 986	12 908	-	25 894	18 128
	- Investments held at fair value	33 885	-	-	33 885	27 273
	- Operations	(20 899)	-	-	(20 899)	(22 054)
	- Properties	-	12 908	-	12 908	12 908
	TOTAL	12 986	351 611	108 820	473 416	372 802
	Number of shares in issue, net of treasury shares ('000)	256 377	256 377	256 377	256 377	254 777
	Embedded value per share (cents)	5.1	137.1	42.4	184.7	146.3

## Conclusion

Of course we realise that any embedded valuation calculation is subjective. In as much as we strip away the unintelligible lingo and replace it with plain, comprehensible language, we leave it to you to use the tools and information provided in determining an investment course suited to your risk profile and personal perception of true embedded value. Our own conservative answer is R473.4 million or 184.7 cents per share.

Over and above the marked improvement in performance, perhaps the 27% increase in the number of Conduit shareholders over the last year also suggests a better overall understanding and appreciation of our business and its prospects. This report further entrenches our renovated approach and indeed our absolute commitment to delivering the Group's financial news without puffery and obfuscation<sup>1</sup>.

1. *ob-fus-ca-tion (noun) 1. make something obscure 2. the hiding of intended meaning in communication, making communication confusing, willfully ambiguous, and harder to interpret (Wikipedia) – we hope the tongue in cheek definition attests to our point.*

For and on behalf of the Board

**Jason D Druian**

*Chief Executive Officer*

Johannesburg

22 April 2013

**Lourens E Louw**

*Financial Director*

**Directors:**

Executive directors: Jason D Druian (Chief Executive Officer), Lourens E Louw (Financial Director), Robert L Shaw, Gavin Toet

Non-executive directors: Reginald S Berkowitz (Chairman)\*, Richard Bruyns\*, Scott M Campbell\*, Günter Z Steffens OBE\*

\* Independent

**Company secretary:**

Probity Business Services (Proprietary) Limited  
Third Floor, The Mall Offices, 11 Cradock Avenue  
Rosebank, 2196

**Registered address:**

Unit 7 Tulbagh, 360 Oak Avenue  
Randburg, 2194  
PO Box 97, Melrose Arch, 2076  
Telephone: 011 686 4200  
Facsimile: 011 886 0206

**Transfer secretaries:**

Computershare Investor Services (Proprietary) Limited  
Ground Floor, 70 Marshall Street, Johannesburg, 2001

**Sponsor:**

Merchantec Capital