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 PRELIMINARY AUDITED RESULTS FOR THE YEAR ENDED 31 AUGUST 2013

CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Audited year ended 31 August 2013 R'000	Audited year ended 31 August 2012 R'000
Gross revenue	1 168 165	1 071 936
Net insurance revenue	312 578	290 784
Other operating revenue	128 702	143 817
Net revenue	441 280	434 601
Operating expenses	(391 301)	(369 870)
- Direct expenses: Insurance and risk services	(244 226)	(215 333)
- Administration and other expenses	(60 744)	(67 116)
- Depreciation and amortisation	(3 475)	(3 514)
- Employee costs	(82 856)	(83 907)
Operating profit	49 979	64 731
Equity accounted income	522	723
Investment income	23 268	14 116
Other income	3 719	528
Finance charges	(462)	(427)
Profit before taxation	77 026	79 671
Taxation	(18 293)	(30 418)
Profit for the year	58 733	49 253
Other comprehensive income	-	-
Total comprehensive income	58 733	49 253
Attributable to:		
Equity holders of the parent	39 625	32 156
Non-controlling interest	19 108	17 097
Total comprehensive income	58 733	49 253
Headline earnings	39 980	32 163
Earnings per share (cents)		
- Basic	15.5	12.7
- Diluted	15.5	12.6
- Headline	15.6	12.7
- Diluted headline	15.6	12.6

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Audited at 31 August 2013 R'000	Audited at 31 August 2012 R'000
ASSETS		
Non-current assets	167 599	149 345
- Property, plant and equipment	14 102	14 601
- Intangible assets	46 865	46 457
- Loans receivable	12 801	4 073
- Deferred taxation	13 625	9 965
- Investment properties	3 978	3 851
- Investment in associates	323	311
- Investment in jointly controlled entities	3 566	3 756
- Investments held at fair value	72 339	66 331
Current assets	860 262	752 472
- Insurance assets	389 895	357 402
- Loans receivable	4 707	11 172
- Trade and other receivables	183 120	113 513
- Taxation	6 091	413
- Cash and cash equivalents	276 449	269 972
Total assets	1 027 861	901 817
EQUITY AND LIABILITIES		
Capital and reserves	327 625	288 297
- Ordinary share capital and share premium	176 704	175 917
- Retained earnings	137 354	97 694
- Share-based payment reserve	-	182
Equity attributable to equity holders of the parent	314 058	273 793
Non-controlling interest	13 567	14 504
Non-current liabilities	32 365	30 840
- Policyholder liabilities under insurance contracts	19 214	19 052
- Interest-bearing borrowings	2 695	3 753
- Deferred taxation	10 456	8 035
Current liabilities	667 871	582 680
- Insurance liabilities	454 147	422 561
- Trade and other payables	207 412	152 626
- Taxation	6 312	7 493
Total equity and liabilities	1 027 861	901 817
Net asset value per share (cents)	122.5	107.5
Tangible net asset value per share (cents)	104.2	89.2

SEGMENTAL ANALYSIS

	Corporate and Investment Services R'000	Insurance and Risk Services R'000	Direct R'000	Consoli-dation R'000	Total R'000
Year ended 31 August 2013					
Gross revenue	8 031	1 044 688	123 254	(7 808)	1 168 165
Net insurance revenue	-	312 578	-	-	312 578
Other operating revenue	8 031	5 225	123 254	(7 808)	128 702
Net revenue	8 031	317 803	123 254	(7 808)	441 280
Operating expenses	(14 698)	(304 208)	(80 203)	7 808	(391 301)
- Direct expenses: Insurance and risk services	-	(244 226)	-	-	(244 226)
- Administration and other expenses	(3 638)	(33 560)	(31 354)	7 808	(60 744)
- Depreciation and amortisation	(76)	(1 283)	(2 116)	-	(3 475)
- Employee costs	(10 984)	(25 139)	(46 733)	-	(82 856)
Operating profit (loss)	(6 667)	13 595	43 051	-	49 979
Equity accounted income	-	522	-	-	522
Investment income	16 626	15 945	603	(9 906)	23 268
Other income (expenses)	(14)	2 748	985	-	3 719
Finance charges	(3)	(459)	-	-	(462)
Profit before taxation	9 942	32 351	44 639	(9 906)	77 026
Taxation	(42)	(5 350)	(12 901)	-	(18 293)
Profit for the year	9 900	27 001	31 738	(9 906)	58 733
Other comprehensive income	-	-	-	-	-
Total comprehensive income	9 900	27 001	31 738	(9 906)	58 733
Attributable to:					
Equity holders of the parent	9 889	26 946	12 696	(9 906)	39 625
Non-controlling interest	11	55	19 042	-	19 108
Total comprehensive income	9 900	27 001	31 738	(9 906)	58 733
Headline earnings	9 903	27 287	12 696	(9 906)	39 980
As at 31 August 2013					
Total assets	177 364	938 602	44 889	(132 994)	1 027 861
Total liabilities	(7 473)	(799 055)	(24 339)	130 631	(700 236)
Inter-segment funding	(124 938)	113 370	11 568	-	-
Non-controlling interest	(173)	(400)	(12 997)	3	(13 657)
Capital employed	44 780	252 517	19 121	(2 360)	314 058

SEGMENTAL ANALYSIS (continued)

	Corporate and Investment Services R'000	Insurance and Risk Services R'000	Direct R'000	Consoli-dation R'000	Total R'000
Year ended 31 August 2012					
Gross revenue	6 184	938 062	132 838	(5 148)	1 071 936
Net insurance revenue	-	290 784	-	-	290 784
Other operating revenue	6 184	9 943	132 838	(5 148)	143 817
Net revenue	6 184	300 727	132 838	(5 148)	434 601
Operating expenses	(19 090)	(266 905)	(89 023)	5 148	(369 870)
- Direct expenses: Insurance and risk services	-	(215 333)	-	-	(215 333)
- Administration and other expenses	(5 294)	(29 548)	(37 422)	5 148	(67 116)
- Depreciation and amortisation	(131)	(1 204)	(2 179)	-	(3 514)
- Employee costs	(13 665)	(20 820)	(49 422)	-	(83 907)
Operating profit (loss)	(12 906)	33 822	43 815	-	64 731
Equity accounted income	-	723	-	-	723
Investment income	17 831	12 569	516	(16 800)	14 116
Other income (expenses)	(34)	312	250	-	528
Finance charges	(11)	(416)	-	-	(427)
Profit before taxation	4 880	47 010	44 581	(16 800)	79 671
Taxation	35	(14 066)	(16 387)	-	(30 418)
Profit for the year	4 915	32 944	28 194	(16 800)	49 253
Other comprehensive income	-	-	-	-	-
Total comprehensive income	4 915	32 944	28 194	(16 800)	49 253
Attributable to:					
Equity holders of the parent	4 904	32 774	11 278	(16 800)	32 156
Non-controlling interest	11	170	16 916	-	17 097
Total comprehensive income	4 915	32 944	28 194	(16 800)	49 253
Headline earnings	4 928	32 741	11 294	(16 800)	32 163
As at 31 August 2012					
Total assets	169 084	819 335	47 545	(134 147)	901 817
Total liabilities	(9 711)	(706 720)	(28 870)	131 781	(613 520)
Inter-segment funding	(127 302)	112 334	14 968	-	-
Non-controlling interest	(180)	(413)	(13 914)	3	(14 504)
Capital employed	31 891	224 536	19 729	(2 363)	273 793

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Audited year ended 31 August 2013 R'000	Audited year ended 31 August 2012 R'000
Net cash flows from operating activities	13 609	30 629
Net cash flows from investing activities	1 695	2 372
Net cash flows from financing activities	(8 827)	(32 891)
Total cash movement for the year	6 477	110
Cash at the beginning of the year	269 972	269 862
Total cash at the end of the year	276 449	269 972

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 2011	199 155	65 538	600	17 565	282 858
Total comprehensive income for the year	-	32 156	-	17 097	49 253
Equity options issued to executives	-	-	22	-	22
Equity options exercised	2 240	-	(440)	-	1 800
Loans advanced by non-controlling shareholders	-	-	-	5 101	5 101
Capital distribution	(25 478)	-	-	-	(25 478)
Dividends paid	-	-	-	(25 259)	(25 259)
Balance at 31 August 2012	175 917	97 694	182	14 504	288 297
Total comprehensive income for the year	-	39 625	-	19 108	58 733
Reversal of equity options	-	35	(35)	-	-
Equity options exercised	787	-	(147)	-	640
Loans repaid to non-controlling shareholders	-	-	-	(5 118)	(5 118)
Dividends paid	-	-	-	(14 927)	(14 927)
Balance at 31 August 2013	176 704	137 354	-	13 567	327 625

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

The accounting policies applied in the preparation of these condensed consolidated preliminary audited financial statements for the year ended 31 August 2013 ("audited 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 audited results have been prepared in terms of IAS 34 – Interim Financial Reporting, the South African Companies Act, No. 71 of 2008 and the Listings Requirements of JSE Limited. These condensed consolidated preliminary audited financial statements were prepared under the supervision of Mr Lourens Louw, the Financial Director of Conduit.

2. Changes in share capital

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

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

3. Reconciliation of headline earnings

	Audited 31 August 2013 R'000	Audited 31 August 2012 R'000
Profit attributable to ordinary equity holders of Conduit	39 625	32 156
Net loss (profit) on revaluation of investment properties	43	(41)
Loss on disposal of intangibles, property, plant and equipment	66	89
Impairment of associates and jointly controlled entities	267	-
Tax on the items above	(21)	(17)
Non-controlling interest on the items above (after taxation)	-	(24)
Headline earnings	39 980	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 R909 318

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.

Other than what is noted 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.

5. Directors

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

6. Dividends and other distributions

In anticipation of the capital requirements under the Solvency Assessment and Management ("SAM") regulatory framework and in order to accommodate growth in premium income, the board of directors of Conduit Capital has not recommended any dividend payment to ordinary shareholders for the year ended 31 August 2013 (2012: Nil).

7. Post balance sheet events

Other than the sale of the Group's holdings in Amalgamated Electronic Corporation Limited ("Amecor") (as announced on SENS on 15 October 2013), there were no events that resulted in a material impact on the Group between the reporting date and the date of publication of this report.

8. Audit opinion

Grant Thornton has audited the Group's results and their unqualified audit report is available for inspection at the Group's registered office.

The auditor's report does not necessarily cover all of the information contained in this announcement/financial report. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditor's work they should obtain a copy of that report together with the accompanying financial information from the registered office of the company.

9. Directors' responsibility

The directors take full responsibility for the preparation of the preliminary report and the financial information has been correctly extracted from the underlying Group financial statements.

The preliminary report is extracted from audited information, but is not itself audited.

COMMENTARY

REVIEW OF OPERATIONS

Corporate and Investment Services (Head Office and ancillary investments)

On 15 October 2013 we announced on SENS the disposal of our 27% interest in Amecor, realising R40.2 million (R2.00 per share).

At 28 February 2013 we recognised mark-to-market profits of 40 cents per Amecor share (R7.6 million after tax); by year-end that gain had retreated 15 cents per share, reducing the profit to R4.0 million. This was partially offset by a 10 cent (R2.0 million) dividend, resulting in a net gain of R6.0 million for the year. The table below demonstrates that 2012 was no less turbulent.

	6 months to February	6 months to August	Dividend	Net profit (loss)
2013	R7.6m	(R3.6m)	R2.0m	R6.0m
2012	R8.8m	(R10.9m)	R1.6m	(R0.5m)

At February 2014 we will book a further and final profit of 10 cents per Amecor share (or R1.6 million after tax) on the investment, bringing our total after-tax return over the 3-year period to approximately 57%. Quite apart from the asset being considered non-core to the Group's future strategy, in the end the investment proved friendlier on the income statement than on the stomach. That said, Amecor is by all accounts a solid business and ultimately it was not the sharp fluctuations in share price from one reporting period to the next that tipped the decision, but rather the fact that it has no future in ours.

Overall Corporate and Investment Services contributed R9.9 million to headline earnings (2012: R4.9 million)

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

For many general (non-specialist) insurers - what the Americans call Property & Casualty - this past underwriting year was an *Annus Horribilis.* If the natural perils weather losses at the end of last year (the early part of ours) didn't take their toll, then it fell to large fires, soft rates and anaemic motor portfolios to undermine underwriting profitability. Fortunately for us the impact of these occurrences was less severe, though we did have our fair share of hazards with which to contend. In May of this year, the management of one of our long-standing underwriting agencies unlawfully orchestrated the demise of its business with the purpose of quite literally establishing a mirror image of its former self, not next door, but behind the very same doors. In concert with the local office of an international insurer they succeeded in diverting a large portion of their portfolio from our Group. In favour of letting the legal process take its course we will resist the overwhelming temptation to name and shame the individual perpetrators. While in time lost business will be replaced by other opportunities (and there are many), for now we are left with little choice but to wipe the trickle of blood from our somewhat out of joint noses and write down the investment. The flip side of this particular coin is that some of the volatility brought about by the portfolio in question has been quite unintentionally ameliorated.

Whilst it is true that most risks or potential hazards can be priced, pricing for moral ones will always prove more difficult.

A stellar underwriting year it was not, yet once again we proved our resilience. Gross Premium Income advanced by 11.4% to R1.04 billion and Net Premium Income increased by a more modest 7.5%. The advances are respectable but only meaningful if they produce profit. We stand firm in our view that chasing premium growth at the expense of quality remains a vain pursuit, serving to do no more than to create more claims. Emphasis remains on quality, not quantity!

There is abundant opportunity for us in what has become a very cluttered and competitive market. Though we fight in the same arena, our business is distinguished by diversity in niched insurance classes that rely on specialised skills, which serve as barriers to entry for most insurers.

We have good reason to expect great things of our Insurance group in the coming years.

Conduit Direct (Credit management and debt recovery)

The marginal improvement in turnover and profit in the Direct division is to be commended. The division's overall client spread and individual client portfolio numbers are at record levels, still the impact of cautious lending practices for the past 2 years (despite what you may have read) has affected the true underlying portfolio volume. Practically, while we wait for the credit cycle to turn (which it eventually will) we continue to invest in technology with the aim of increasing production and not head count.

With effect from 1 September 2013 we no longer account for Anthony Richards and Associates Proprietary Limited ("ARA) as a subsidiary. Our control was not contractually entrenched and enjoyed over the last 8 years only through board representation. We are entirely satisfied that this aligns with the Group's future strategic direction (see below) and for the time being represents no more than a cosmetic alteration in our reporting.

The Direct division contributed a respectable R12.7 million to headline earnings, bettering last year's performance by 12.4% having benefitted from a lower tax charge. It is also noteworthy that ARA was recently accorded a **level 2 B-BBEE** rating, further embedding its status as an industry leader.

Strategic direction

Historically, the Group has been perceived as an Investment holding company with interests in Insurance, Credit recovery and debt management and (until recently) a peripheral investment in an electronics enterprise. This impression has been driven largely by the relative contribution of our investments to profitability and in all probability simply because we have not stated otherwise. It does however belie the fact that over the past few years the majority of our time, head office resource and capital have all been deliberately herded in the direction of our insurance segment.

By nailing our flag to the insurance mast we eliminate any room for confusion and squarely position ourselves as an Insurance Group. In order to formally effect this change, application will be made to JSE Limited to transfer our listing to the Insurance sector. As the Direct division will no longer be consolidated, it will be assimilated into the Corporate & Investment Services segment.

Our shareholders are no doubt wondering what we intend doing with the spoils of the Amecor transaction. Though the undiluted answer is that we intend to keep it, it does require further explanation. By April of 2014 insurers are required to submit the results of QIS3, the quantitative impact study, before the final implementation SAM in January 2016. It is the product of that study that will ultimately determine the capital course for all insurers. All indications are that between SAM and our present underwriting prospects, we will soak up the R40 million with ease. Until then the capital will be invested wisely and strictly in accordance with our investment framework. We know that a distribution may please some shareholders (and annoy others) but it would simply be an irresponsible action given our foreseeable future.

Change of year-end

It is anticipated that prior to the introduction of SAM, Conduit will change its year-end. The motivation for the change lies primarily in the likely increase in reporting requirements that will result in undue strain on staff resources over the Christmas period. It would have been ideal to follow the current February and August reporting cycle, however JSE rules dictate that year-end movements are limited to a maximum period of three months at a time. When the time does come, we will certainly ensure that our financial reporting provides a suitable basis for comparison with the prior period.

Embedded value update (our conservative valuation of the Group)

At interim stage we compared our embedded value calculation with the most recent (and only other) valuation available, being 31 August 2012. We now have the advantage of providing a more meaningful year-on-year comparison. For the purposes of this report, and indeed future ones, we will only compare year on year values. At interim stage we will speak purely to the operational result.

It was almost prophetic when at interims we drew shareholder attention to the potential for movements in the risk free rate to influence valuations. And so it came to pass. In just 6 months the risk free rate - the return that the man in the street can get on a long-term government bond - moved significantly upwards. Good for him/her, not so good for our embedded value calculation. Basically, as the rate goes up the cost of capital or equity - a fundamental building block in the discounted cash flow model - also rises. On the assumption that the rate of earnings growth remains unchanged, the cost of capital effectively increases as you, the investor, are prepared to pay less for the asset in order to achieve a higher rate of return. The negative impact of this change is fully accounted for in this year’s valuation.

We have grouped our explanatory notes (with some repetition for your convenience) and tabulated the numbers in exactly the same format and under the same headers as they appeared in the interim results to 28 February 2013.

Insurance and Risk activities

Parts 1 through 3 represent our **RISK** activities and Part 4 the **NON-RISK** component.

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 the cash in excess of our insurance float and working capital requirements.

Part 2 - The net present value of the expected returns on our **Insurance float**.

Part 3 - The value of the **Insurance book** utilising 36 months of underwriting performance data and moderate growth assumptions

Part 4 - Our share of cash surplus to working capital in our **NON-RISK** bearing investments, plus a modest amount attributable to the equity portion.

Direct activities

Part 5 - **Direct** accounts for our 40% interest in ARA.

Other

Part 6 - **Other** comprises investments in fixed property and the majority of our shareholding in Amecor. As before, unallocated group operating costs are accounted for as negative value adjustments.

		August 2013				August 2012
Part		Corporate & Investment Services R'000	Insurance & Risk services R'000	Direct R'000	Total R'000	Total R'000
1	RISK: Cash and investments	-	156 758	-	156 758	117 790
	- Surplus cash	-	116 778	-	116 778	78 731
	- Investments held at fair value	-	39 980	-	39 980	39 059
2	RISK: Insurance float	-	47 262	-	47 262	28 211
3	RISK: Insurance operations	-	135 393	-	135 393	90 553
4	NON-RISK	-	19 045	-	19 045	18 843
	- Investment in associates	-	260	-	260	-
	- Investment in joint ventures	-	3 482	-	3 482	-
	- Surplus cash	-	15 303	-	15 303	18 843
5	DIRECT	-	-	96 285	96 285	99 278
6	OTHER	10 543	13 007	-	23 550	18 127
	- Investments held at fair value	31 406	-	-	31 406	27 273
	- Operations	(20 863)	-	-	(20 863)	(22 054)
	- Properties	-	13 007	-	13 007	12 908

TOTAL	10 543	371 465	96 285	478 293	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)	4.1	144.9	37.6	186.6	146.3

Conclusion

The word 'colourful' would best describe 2013. Under trying conditions we managed to deliver headline earnings of R40.0 million or 15.6 cents equating to an annualized return on equity of 14.5% (20.1% pre-tax), up considerably on a return of 12.1% a year ago. We are all too cognisant of the fact that there is little point in hoarding capital if it does not deliver satisfactory risk-adjusted returns. In our instance the trend is positive and we are hard at work to achieve our targeted after-tax return of 20% over time. With R310 million in cash and investments at year-end, we certainly have the tools to ply our trade. I am confident of our team will prove as formidable as the Group's balance sheet.

We do look forward to our new incarnation as an Insurance Group.

For and on behalf of the Board

Jason D Druian
Chief Executive Officer

Lourens E Louw
Financial Director

Johannesburg
18 November 2013

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:

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Transfer secretaries:

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Sponsor:

Merchantec Capital

Auditors:

Grant Thornton
Chartered Accountants (SA)
Registered Auditors