

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" or "the Company")

CONDENSED CONSOLIDATED AUDITED RESULTS FOR THE YEAR ENDED 31 AUGUST 2014 AND CASH DIVIDEND

CHIEF EXECUTIVE OFFICER'S REPORT

The introduction of a 4th investment theme brings to life a new and tangible aspect to the Conduit investment proposition. There has been much to absorb over the past few reports and having them handy as you digest this one might prove helpful in appreciating the connectivity between the 3 established themes (Embedded value, Investments, Underwriting) and the newcomer. For the convenience of the less adventurous, certain important elements have been extracted from the Interim results commentary and replicated. We would encourage you to devote sufficient time to each theme, hopefully not surrendering to the impulse of allowing any single measure to dominate your decision. Complete with the usual pinch of subjective commentary, we present what is perhaps Conduit's most instructive report to date.

INVESTMENTS (Theme 1)

As Regulatory capital structures take shape and more of our historically lazy cash (from Pots 2b and 4 – detailed below) is deployed into equities, one would assume a stronger correlation of returns to equity markets. Well, not entirely. In reality, within each pot resides a distinct investment personality, primarily defined by the nature of the capital within the pot (regulatory or surplus) and the appropriate appetite for risk established at the time of setting performance benchmarks. Interestingly, of the R330+ million in investable assets, R203 million (from Pots 1; 2a and 3) is confined to highly liquid fixed income instruments (cash, money market, corporate and government bonds). For the rest, there is a greater degree of flexibility and - without betting the bank – it is here we ferret out opportunities for enhanced yield.

We do not purport to possess any inspiring hedging strategies, nor homemade crystal ball to help time our investments so perfectly as to escape the vagaries of the market. What we do have is a systematic, kick-the-tyres approach; one grounded in a mentality of thorough first-hand research and where a cup of tea with management ranks as high up the investment ladder as any Integrated Annual report – you'd be surprised how many great ideas make better investments on pulp than in person (and *vice versa*)!

We remain acutely aware that to some extent our portfolio will have a degree of naked exposure, yet we're comfortable in our own skin. There is additional comfort in knowing that our investment personality is infinitely better suited to basing decisions on solid fundamentals rather than the investment fantasy that plays itself out through market chatter and these days – believe it or not – social media.

In the February results announcement we undertook to expand on the investment table by including a column setting out the actual returns for the full 12-month period. On reflection, given the considerable reallocation and deployment of capital across the 4 money pots (spread over the year), this addition alone would have been of limited benefit. Whilst it would take account of any movement between asset classes, it would offer no insight into the time spent in each of those classes and therefore no indication of the true returns in each pot. In favour of a much-improved and certainly more meaningful version, we've skipped straight ahead to Version 2 below.

The 4 money pots – Benchmarks and objectives

Money pot	Objective	Investment strategy	Benchmark / Target	Time horizon (rolling periods)
Pot 1	Daily operational cash flow	Cash deposits with top 5 SA banks or equivalent (fixed income)	Current account rates +2%	Daily
Pot 2a	Insurance float*	50% allocated to cash deposits with top 5 SA banks or equivalent.	Short-Term Fixed Interest Index ("STeFI") + 1%	1 month – 4 years
Pot 2b		Other 50%: medium-term growth, multi-asset class, absolute return mandates, single asset fund mandates and strategic investments	Sufficient to ensure an overall investment return equal to CPI + 3% p.a. after expenses	3 – 5 years
Pot 3	Minimum regulatory capital ("CAR") ratio	Cash, money market, corporate bonds	STeFI + 1.5%	1 month – 4 years
Pot 4	Surplus assets	Medium-term growth, multi asset class and strategic investments	Sufficient to ensure an overall investment return equal to CPI + 3% p.a. after expenses	3 – 5 years

*Insurance Float = Policyholder liabilities *plus* Insurance liabilities *less* Insurance assets

The 4 money pots – Performance relative to benchmarks and objectives (actual and time weighted)

By March 2014 the fixed income and equity programmes were underway. Owing to a modest pick-up in both, investment returns in the second half of the year outpaced the first - ending 11.3% up year-on-year (31 Aug '14: R25.9 million *vs* 31 Aug '13: R23.3 million). Ironically, the recent volatility in equity markets has been to our benefit, stripping the fat off some interesting, but to our mind previously prohibitively expensive, stocks and making way for some carefully considered opportunity.

Money pot	Allocated 31 Aug '14 R'000 ¹⁾	Actually invested 31 Aug '14 R'000 ²⁾	Average deployed over year R'000	Days deployed	Benchmark target R'000	Benchmark target avg %	Actual return R'000 ³⁾	Actual return avg %	Time-weighted return avg %
Pot 1	27 835	27 835	26 970	365	543	2.0%	574	2.1%	2.1%
Pot 2a	37 483	37 483	41 099	289	2 699	6.6%	2 037	5.0%	6.3%
Pot 2b	37 483	37 483	40 004	365	5 143	12.9%	7 646	19.1%	n/a
Pot 3	139 034	139 034	134 649	296	9 531	7.1%	6 927	5.1%	6.4%
Pot 4	94 985	37 026	33 685	273	4 331	12.9%	5 251	15.6%	n/a
Pot 4 (excess)	-	57 959	68 900	365	8 858	12.9%	2 062	3.0%	n/a
TOTAL	336 819	336 819	345 308	320	31 105	9.0%	24 496	7.1%	n/a

- 1) **Allocated 31 Aug '14** refers to the amounts calculated and in turn allocated to each pot based on the published accounts.
- 2) **Actually invested 31 Aug '14** refers to amounts physically deployed as at 31 August 2014.
- 3) The difference between the **Actual return** of R24.5 million (reflected above) and the Investment income of R25.9 million (in the Statement of Profit or Loss and Other Comprehensive Income) relates to R1.2 million in income derived from third party loans and a minor profit on the revaluation of investment properties amounting to R0.2 million.

A portion of the unallocated assets in Pot 4 resides in a USD denominated Customer Foreign Currency ("CFC") account flowing from the Group's African activities. As the account is non-interest bearing and the balance fluctuates considerably throughout the year, returns tend to be lumpy. Account flows are managed by Group treasury and are drawn on as and when required. The R57.96 million (comprising the unallocated portion of Pot 4) will earn modest returns until suitable investments are identified.

As it is only possible to accurately calculate the exact capital allocation for each pot after finalisation of any given month-end, it follows that there will always be a discrepancy between the **Actually invested** amount and the **Allocated** amount at interim and year-end reporting dates. This is to be expected and is well within a tolerable margin. Where any meaningful amount falls short of the **Allocation**, it is likely a result of a *truly* unallocated amount that remains to be invested in terms of the relevant Pot mandate - Pot 4 being a case in point. The exact match in certain of the pots is a function of allocating capital in a descending cascade based on its rank in the working capital and regulatory food chain.

Dimly lit corners and crevices

The idea of establishing another deep value investment fund – of which there is no shortage - is neither novel nor interesting. Forming one with an investment philosophy anchored in the principles of value investing but as at home in the "dimly lit corners and crevices" as it is in the mainstream, begins to sound a great deal more appealing - and why it is we did just that. Mid-way through September 2014 we impregnated the Cannon Asset Managers - Conduit Capital (yet unnamed) fund with R10 million in capital, equally funded by Peregrine Holdings Limited (Cannon's parent company) and our Surplus Asset Pot 4. The fund has as its Investment Principals, Cannon's Chief Investment Officer, Dr Adrian Saville - a thoroughbred asset manager (he'll cringe when he reads this) - and a self-appointed one, me. All investment decisions are required to be unanimous and being patient investors (with skin in the game), until the initial capital is deployed and Adrian and I are satisfied that the mix and quality of assets meet a few important stress tests (including time), access to outside investors will be limited. Ultimately, the intention is to migrate the portfolio into a permanent capital structure open to retail and institutional investors.

UNDERWRITING (Theme 2)

The end of the 2014 financial year coincided with Robert Shaw's first completed year (in his second tenure) at the helm of the Constantia Insurance Group. Robert has the difficult task of having to marry relatively short-term financial objectives with a longer-term, purist insurance mind-set. Admittedly, having to report to shareholders twice a year hardly allows for the volatility and short-term knocks, which almost always accompany a portfolio reaching for scale. That said, it is encouraging that even at the risk of upsetting the delicate balance between shareholder interference and influence, Robert openly invites our participation in

matters of importance, be they strategic or operational. The significance of this is illustrated in the events below.

The dreadful November 2013 weather patterns and consequent R11.9 million negative impact on our Interim numbers, left a sizeable dent in the 2014 underwriting result; ultimately precipitating the decision (post year-end) to significantly reduce our exposure to the traditional Property and Motor class. Though an obvious aberration, the event(s) exposed vulnerabilities in parts of our portfolio, incapable of being remedied by any reasonable short-term measure. Insurance is a business where no quick (sticky tape and chewing gum) fix can patch, repair or mask a portfolio's failure to meet a number of non-negotiable underwriting criteria, *viz.* scale, effective delivery cost, market differentiation and most importantly Return on Regulatory Capital ("RoRC").

It is seldom, if ever, a comfortable process to terminate a book or class of business let alone gift it to competitors. Then again, to betray our underwriting principles and - like the Greek mythological King Sisyphus - endure the punishment of having to repeatedly haul a boulder up a hill, only to watch it roll down again, would seem a rather pointless pursuit.

While the contraction in premium will result in a temporary release of capital to the surplus asset Pot, it will be quickly absorbed by replacement premium. The significant reduction in service and delivery costs is likely to be of a more permanent nature, taking root in the second half of 2015.

Gross vs Net Premium

Our 3 insurers (1 short and 2 long-term) retain around a third of Premium written (after reinsurance). A good portion of the outward reinsurance relates to various high-volume, low-risk arrangements that leave us with a neat margin but limited exposure. The rest of the risk premium is ceded (laid-off in bookmaking speak) as proportional reinsurance, where our reinsurers *follow our fortunes*, sharing losses and profits in the same proportion as they share premium; in return we receive a reinsurance commission to cover direct delivery costs and, if all goes well, a profit commission down the line. To further protect downside risk, we purchase additional reinsurance cover to limit the loss from any single event to a maximum of 1% of our capital base – it is money well spent!

At first blush the 5% growth in Net Premium Income ("NPI") would seem at odds with the 15% reduction in Gross Premium Income ("GPI"). Don't be perturbed. It matters not what we "take" but what we "keep" and what appears to be a dramatic movement between the two is in fact only a function of business mix and a well thought out reinsurance programme. This is best explained through the numbers. Of the R1.04 billion in GPI written in 2013, some R463.0 million (or 44.5%) related to the aforementioned *neat margin* arrangements; largely reinsured. In 2014, the same business accounted for R338.5 million (or 38.3%) of the R883.0 million total, yet NPI grew to R332.9 million (31 Aug '13: R312.2 million). The traditional underwriting margin metric used by other insurers (*Underwriting Surplus divided by Gross Premium Income*) is distorted by our reinsurance programme and therefore of no value. Prior period GPI comparisons are similarly worthless as

an evaluation tool.

In the latter part of the year we added 8 new Underwriting Managers (5 long-term and 3 short-term) to the fold. Those that are not already writing business into the Group are expected to be doing so by half year. The portfolios vary in premium type, volume and profitability: some small but lucrative, others more significant but tighter on margin (i.e. fixed) as a consequence of our growing aversion to volatility. Each will take time to mature and develop and while Robert and his team are hard at work in diversifying the portfolio, the emphasis is - as it always has been - on quality not quantity!

Underwriting result

For each Rand of GPI we retain for net account, the Financial Services Board ("FSB") requires us to hold a minimum level of capital, varying according to the perceived risk in each class of business: this ratio of Capital to Risk is referred to as the Capital Adequacy Ratio or CAR. Whilst in reality the FSB expects a considerable buffer to minimum CAR (all of our insurers operate well above the minimum) we choose rather to judge underwriting achievement by calculating the return based on the actual required regulatory minimums (Pot 3), which we express as the **RoRC**. Any capital in excess of the stated minimum is then viewed as surplus and falls into the surplus asset pot (Pot 4).

Return on Regulatory Capital for 2014

Insurance Class	Examples of insurance types	Average capital allocated R'000	Target RoRC (pre-tax) %	Actual RoRC (pre-tax) %
Property	Property, homeowners content, cell phones, computers	13 211	28	0.1
Motor	Motor, HCV, motorcycles	18 183	20	14.2
Accident/ health	Gap cover, medical evacuation, Hospital cash plans	65 116	28	25.8
Guarantee	Solvency, Court and Construction bonds	7 329	28	28.6
Miscellaneous	Legal cover, credit shortfall, motor warranties	14 981	28	30.1
Long-term	Funeral	20 000	28	1.7
Total		138 820	27.0	19.0

Actual RoRC: Gross Underwriting Surplus *minus* Administration Costs

The figures quoted above are based on IFRS financial reporting requirements, which differ from the regulatory reporting format

In aggregate the 3 insurance companies registered a Gross Underwriting Surplus of R58.6 million (31 Aug '13: R68.4 million), falling short of expectations; particularly since the severe losses were experienced in the first half of the year. After deducting Administration Costs, the Net Underwriting Surplus amounted to R26.3 million (31 Aug '13: R36.1 million). Evidently, the quest for a more stable and predictable underwriting result is not yet over.

EMBEDDED VALUE (Theme 3)

This section picks up where the 2013 Embedded value theme left off and should ideally be read together. The Surplus cash line within the table has been modified to accommodate the shift from pure cash to highly liquid, low-risk investments (money market instruments, bank, corporate and government bonds/paper). But for the

elimination of the Direct segment and its incorporation into Corporate and Investment Services, the assumptions and methodology remain largely unchanged. Other than where the face value of the asset represents its actual value, a Discounted Cash Flow model (using modest assumptions) has been applied to determine the fair value. The table itself is self-explanatory and our notes have been narrowed accordingly.

Apart from the obvious value in the tangible assets, the calculation is also only as good as the quality of the assumptions and inputs attributed to the intangibles. Critically, the value should reflect the realistic amount shareholders might expect to receive or consider fair, either (A) in the event of an offer to minorities, or (B) were the Company to dispose of its underlying assets and distribute the proceeds. Though the table considers both, it is only in the latter scenario that we estimate the aggregate Capital Gains Tax charge across the asset base and deduct it from the total.

Part	August 2014			August 2013	
	Corporate and Investment Services R'000	Insurance and Risk Services R'000	Total R'000	Reformatted total R'000	
1	RISK: Cash and Investments	-	174 306	174 306	160 498
	- Surplus cash (including fixed income instruments)	-	113 766	113 766	119 564
	- Investments held at fair value	-	60 540	60 540	40 934
2	RISK: Insurance float	-	47 818	47 818	48 390
3	RISK: Insurance operations	-	158 359	158 359	138 624
4	NON-RISK	122 007	22 270	144 277	132 481
	- Investment in associates	122 007	3 498	125 505	113 248
	- Investment in joint ventures	-	698	698	3 565
	- Operations	-	4 177	4 177	-
	- Surplus cash	-	13 897	13 897	15 668
5	OTHER	4 978	13 718	18 696	23 861
	- Investments held at fair value	7 606	-	7 606	31 406
	- Operations	(2 628)	-	(2 628)	(20 863)
	- Properties	-	13 718	13 718	13 318
TOTAL	(A)	126 985	416 471	543 456	503 854
Embedded value per share	(A)	49.5	162.5	212.0	196.5
TOTAL A	b/f	126 985	416 471	543 456	503 854
Deferred capital gains tax		(18 398)	(13 078)	(31 476)	(25 560)
TOTAL	(B)	108 587	403 393	511 980	478 294
Embedded value per share	(B)	42.4	157.3	199.7	186.6
Number of shares in issue, net of treasury shares ('000)		256 377	256 377	256 377	256 377

Part 1 - Cash and Investments

The redistribution of capital through the fixed income and equity programme accounted for a pronounced movement between Surplus cash and Investments held at fair value. The aggregate face value of these investments at 31 August 2014 amounted to R174.3 million (31 Aug '13: R160.5 million).

Part 2 - Insurance float (Policyholder liabilities plus Insurance liabilities less Insurance assets)

The reduction in Insurance float from R83.5 million in 2013 to R75.0 million in 2014 relates primarily to the run-off of liabilities in the Wheels Underwriting Managers Heavy Commercial Vehicle portfolio. The improved investment yield (see Investment Return table Pots 2a and b) partly offset the negative movement in float

and resulted in a slight downward revision in value to R47.8 million (31 Aug '13: R48.4 million). As nice as it is to have the benefit of an insurance float - which amounts to an interest free loan – it is only a by-product of the type and volume of premium we write. From year-to-year the float will fluctuate and follow the fortunes of our investment account and it would be a rare circumstance indeed, where the promise of investment return outweighs the rotten risk in writing sub-quality premium.

Part 3 - Insurance operations

Notwithstanding a weaker 2014 overall underwriting performance, the consistent utilisation of 36 months of rolling underwriting data removes the peaks and troughs of performance. In this instance, the data nudged the valuation of the **Insurance book** upward to R158.4 million (31 Aug '13: R138.6 million).

Part 4 - Non-risk

The inclusion of our 40% interest in Anthony Richards and Associates Proprietary Limited ("ARA") under the Corporate and Investment Services segment accounts for R122.0 million (31 Aug '13: R113.0 million) of the R125.5 million in the value of Investments in associates. Cash of R13.9 million, plus our minority interests in several insurance intermediaries, represents the balance of the R144.3 million in value attributed to the NON-RISK section.

Part 5 - Other

With the elimination of the DIRECT segment, last year's Part 6 has become Part 5. As before, **OTHER** constitutes nothing more than a basket of equities (owned by Group and accounted for at market), fixed property (owned by the insurance companies and independently valued) and the Net Present Value liability of unallocated operating costs that have no obvious home elsewhere in the Group. Cash received on the sale of a large equity position considerably decreased Investments held at fair value and reduced the Capitalised operating costs liability - terribly confusing, we know! While the operating costs would remain in a takeover scenario (A), they would not in a 'break up' (B) and the value of OTHER would then improve substantially.

Key performance measures

The trend of explaining away performance anomalies and distortions in profitability through *normalised earnings* comparisons appears - by many companies' accounts - to have gained some recent momentum. As with most explanations that require too much explaining, they often invite more questions than answers. Having myself uttered the dreaded "normalised" word, it is entirely appropriate (perhaps even necessary) that I should defend its responsible use, more so where a true result (be it good, bad or indifferent) is hidden in the depths of IFRS accounting. Which brings me to now *over-explain* the reformatted statement of comprehensive income presented in our interim results, and now here again.

As previously reported, with effect from 1 September 2013 our interest in credit recovery and debt management specialist, ARA, would be accounted for as an associate - doing away with the Direct segment entirely. The change in accounting treatment required that we fair value our 40% interest in the company and bring to book R75.6 million (29.5 cents per share) in earnings and net asset value. Whilst we view the

resultant contribution to 2014 EPS as cosmetic (and rightly excluded from HEPS), we are satisfied that the identical one-off adjustment to NAV reveals a more realistic valuation of the asset.

Where headline earnings for the first half of the year trailed the comparative period by 14.3% (largely as a result of an anomaly in the 2013 tax line), by year-end the shortfall was eliminated and - above all the accounting and tax clutter - headline earnings of R40.16 million narrowly eclipsed last year's R39.98 million.

In 2013, as a subsidiary, the ARA results were consolidated. In 2014, as an associate, the earnings were equity accounted and skewed by the fair value adjustment. To make comparison with the corresponding 12-month period more meaningful, were we to disregard the ARA revaluation and include our share of ARA's profits on a like-for-like equity accounted basis in 2013 and 2014, the resultant profit before tax of R47.1 million for 2014 would compare favourably with the R45.1 million posted in 2013.

Net asset value, including the ARA fair value adjustment, advanced to R430.45 million or 167.9 cents per share. Tangible Net Asset Value ("TNAV") increased 16.4 cents to 120.6 cents (R309.27 million). A profit on the disposal of a joint venture asset (excluded from headline earnings) accounts for the difference between HEPS and the increase in TNAV. The Group remains completely debt free.

Gearing

While the security of having a fortress for a balance sheet should make for easy sleep, it is much less peaceful than one might expect. With it comes great expectation. Being unburdened by the weight of debt and the gaze of lenders and their covenants carries a different, but no less demanding load. Other than the interest free funding from the insurance float, having no gearing simply means we don't get to make money off other people's money. And, unless we borrow money, find a suitable place to invest it and make more on it than we pay for using it, we're better off without it.

Credit Rating

Global Credit Ratings ("GCR") affirmed Constantia Insurance Company Limited's rating of A-(ZA); moving it from a Neutral to Positive outlook.

"The positive outlook is based on Constantia's notably improved underwriting trend over the past three years. GCR views this to be reflective of the operational improvements and streamlining exercises undertaken over the review period, combined with a targeted business line focus. Consequently, GCR views the insurer's strengthened earnings capacity to be indicative of sustained underwriting profitability going forward." - Global Credit Rating, 12 May 2014.

DIVIDENDS (Theme 4)

This element is not entirely new to investors but its inclusion as a theme represents a positive and ideally sustainable investment attribute. The portion of the February commentary entitled *Dividends – to pay or not to pay* outlined the complexity of the dividend issue. Though none could argue the importance of *hoarding* capital in expectation of the onerous Solvency Assessment and Management (“SAM”) regime in 2016, the suggestion of *a positive dividend front* did allude to our intentions. In April, alongside our external Actuaries, we completed the Quantitative Impact Study 3 (QIS3) and then in October the SAM Light Parallel Run (“LPR”) for all 3 of our insurers – basically an “as if” model of our capital adequacy under SAM – giving us sufficient clarity to properly assess our future capital structure.

With that as a backdrop, the Board resolved to initiate a dividend programme, commencing with a cash dividend of 5 cents per ordinary share, payable out of retained earnings. The use of Secondary Tax on Company credits (amounting to the full 5 cents per ordinary share) will result in the dividend being exempt from dividend tax.

The decision to proceed comes with a margin of safety wide enough to drive a bus through (maybe a mid-sized one). The insurance disclaimer attached to the bus does however require that in order to sustain an uninterrupted annual dividend, our current capital, together with anticipated profits (looking 24 months out) must continue to exceed our working capital and regulatory needs.

Conclusion

Between the 4 investment themes, the Interim results commentary and what is presented above, Conduit has now laid itself bare for all to see and assess.

Jason D Druian

Chief Executive Officer

Johannesburg

27 November 2014

CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Having obtained approval to transfer our listing from the Speciality Finance sector to the Insurance sector of the JSE Main Board, we have significantly expanded the Statements of Profit or Loss and Other Comprehensive Income to include certain insurance specific information. Additionally, the ARA result - historically consolidated under the Direct division - now appears as a single line of Equity accounted income in the Corporate and Investment Services segment.

For ease of comparison, we have provided two additional **Reformatted** (but unaudited) columns which compare the two periods as if they were accounted for on a like-for-like basis, i.e. excluding the ARA revaluation for 2014 and accounting for it as if it were an associate in 2013.

	Audited year ended 31 Aug 2014 R'000	Audited year ended 31 Aug 2013 R'000	Reformatted unaudited year ended 31 Aug 2014 R'000	Reformatted unaudited year ended 31 Aug 2013 R'000
Gross written premium	882 998	1 039 463	882 998	1 039 463
Reinsurance premium	(550 080)	(727 308)	(550 080)	(727 308)
Net written premium	332 918	312 155	332 918	312 155
Net change in provision for unearned premium	(2 622)	423	(2 622)	423
Net premium income	330 296	312 578	330 296	312 578
Reinsurance commission received	413 076	531 854	413 076	531 854
Income from insurance operations	743 372	844 432	743 372	884 432
Net claims and movement in claims reserves	(142 097)	(174 512)	(142 097)	(174 512)
Insurance contract acquisition costs	(189 206)	(242 671)	(189 206)	(242 671)
Agency fees	(353 453)	(358 897)	(353 453)	(358 897)
Gross underwriting surplus	58 616	68 352	58 616	68 352
Administration costs	(32 293)	(32 260)	(32 293)	(32 260)
Net underwriting surplus	26 323	36 092	26 323	36 092
Non-insurance revenue	5 775	128 702	5 775	5 448
Other expenses	(30 145)	(114 815)	(30 145)	(34 612)
Operating profit	1 953	49 979	1 953	6 928
Equity accounted income	16 162	522	16 162	13 218
Investment income	25 889	23 268	25 889	22 665
Other income	97 375	3 719	3 513	2 734
Finance charges	(387)	(462)	(387)	(462)
Profit before taxation	140 992	77 026	47 130	45 083
Taxation	(24 508)	(18 293)	(6 200)	(5 392)
Profit for the year	116 484	58 733	40 930	39 691
Other comprehensive income	-	-	-	-
Total comprehensive income	116 484	58 733	40 930	39 691
Attributable to:				
Equity holders of the parent	116 383	39 625	40 829	39 625
Non-controlling interest	101	19 108	101	66
Total comprehensive income	116 484	58 733	40 930	39 691
Headline earnings	40 162	39 980	40 162	39 980
Earnings per share (cents)				
- Basic	45.4	15.5	15.9	15.5
- Diluted	45.4	15.5	15.9	15.5
- Headline	15.7	15.6	15.7	15.6
- Diluted headline	15.7	15.6	15.7	15.6

CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME PER SEGMENT

CORPORATE AND INVESTMENT SERVICES				
	Audited year ended 31 Aug 2014 R'000	Audited year ended 31 Aug 2013 R'000	Reformatted unaudited year ended 31 Aug 2014 R'000	Reformatted unaudited year ended 31 Aug 2013 R'000
Gross written premium	-	-	-	-
Reinsurance premium	-	-	-	-
Net written premium	-	-	-	-
Net change in provision for unearned premium	-	-	-	-
Net premium income	-	-	-	-
Reinsurance commission received	-	-	-	-
Income from insurance operations	-	-	-	-
Net claims and movement in claims reserves	-	-	-	-
Insurance contract acquisition costs	-	-	-	-
Agency fees	-	-	-	-
Gross underwriting surplus	-	-	-	-
Administration costs	-	-	-	-
Net underwriting surplus	-	-	-	-
Non-insurance revenue	13 973	8 031	13 973	8 031
Other expenses	(15,834)	(14 698)	(15 834)	(14 698)
Operating profit	(1 861)	(6 667)	(1 861)	(6 667)
Equity accounted income	13 592	-	13 592	12 696
Investment income	4 527	16 626	4 527	6 720
Other income (expenses)	22	(14)	22	(14)
Finance charges	(302)	(3)	(302)	(3)
Profit before taxation	15 978	9 942	15 978	12 732
Taxation	(125)	(42)	(125)	(42)
Profit for the year	15 853	9 900	15 853	12 690
Other comprehensive income	-	-	-	-
Total comprehensive income	15 853	9 900	15 853	12 690
Attributable to:				
Equity holders of the parent	15 847	9 889	15 847	12 679
Non-controlling interest	6	11	6	11
Total comprehensive income	15 853	9 900	15 853	12 690
Headline earnings	15 852	9 903	15 852	12 693
Earnings per share (cents)				
- Basic	6.2	3.9	6.2	5.0
- Diluted	6.2	3.9	6.2	5.0
- Headline	6.2	3.9	6.2	5.0
- Diluted headline	6.2	3.9	6.2	5.0

CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME PER SEGMENT (continued)

	INSURANCE AND RISK SERVICES			
	Audited year ended 31 Aug 2014 R'000	Audited year ended 31 Aug 2013 R'000	Reformatted unaudited year ended 31 Aug 2014 R'000	Reformatted unaudited year ended 31 Aug 2013 R'000
Gross written premium	882 998	1 039 463	882 998	1 039 463
Reinsurance premium	(550 080)	(727 308)	(550 880)	(727 308)
Net written premium	332 918	312 155	322 918	312 155
Net change in provision for unearned premium	(2 622)	423	(2 622)	423
Net premium income	330 296	312 578	330 296	312 578
Reinsurance commission received	413 076	531 854	413 076	531 854
Income from insurance operations	743 372	844 432	743 372	844 432
Net claims and movement in claims reserves	(142 097)	(174 512)	(142 097)	(174 512)
Insurance contract acquisition costs	(189 206)	(242 671)	(189 206)	(242 671)
Agency fees	(353 453)	(358 897)	(353 453)	(358 897)
Gross underwriting surplus	58 616	68 352	58 616	68 352
Administration costs	(32 293)	(32 260)	(32 293)	(32 260)
Net underwriting surplus	26 323	36 092	26 323	36 092
Non-insurance revenue	5 475	5 225	5 475	5 225
Other expenses	(27 586)	(27 722)	(27 586)	(27 722)
Operating profit	4 212	13 595	4 212	13 595
Equity accounted income	2 570	522	2 570	522
Investment income	21 226	15 945	21 226	15 945
Other income	3 491	2 748	3 491	2 748
Finance charges	(387)	(459)	(387)	(459)
Profit before taxation	31 152	32 351	31 152	32 351
Taxation	(6 075)	(5 350)	(6 075)	(5 350)
Profit for the year	25 077	27 001	25 077	27 001
Other comprehensive income	-	-	-	-
Total comprehensive income	25 077	27 001	25 077	27 001
Attributable to:				
Equity holders of the parent	24 982	26 946	24 982	26 946
Non-controlling interest	95	55	95	55
Total comprehensive income	25 077	27 001	25 077	27 001
Headline earnings	24 310	27 287	24 310	27 287
Earnings per share (cents)				
- Basic	9.7	10.5	9.7	10.5
- Diluted	9.7	10.5	9.7	10.5
- Headline	9.5	10.7	9.5	10.7
- Diluted headline	9.5	10.7	9.5	10.7

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

	DIRECT			
	Audited year ended 31 Aug 2014 R'000	Audited year ended 31 Aug 2013 R'000	Reformatted unaudited year ended 31 Aug 2014 R'000	Reformatted unaudited year ended 31 Aug 2013 R'000
Gross written premium	-	-	-	-
Reinsurance premium	-	-	-	-
Net written premium	-	-	-	-
Net change in provision for unearned premium	-	-	-	-
Net premium income	-	-	-	-
Reinsurance commission received	-	-	-	-
Income from insurance operations	-	-	-	-
Net claims and movement in claims reserves	-	-	-	-
Insurance contract acquisition costs	-	-	-	-
Agency fees	-	-	-	-
Gross underwriting surplus	-	-	-	-
Administration costs	-	-	-	-
Net underwriting surplus	-	-	-	-
Non-insurance revenue	-	123 254	-	-
Other expenses	-	(80 203)	-	-
Operating profit	-	43 051	-	-
Equity accounted income	-	-	-	-
Investment income	-	603	-	-
Other income	-	985	-	-
Finance charges	-	-	-	-
Profit before taxation	-	44 639	-	-
Taxation	-	(12 901)	-	-
Profit for the year	-	31 738	-	-
Other comprehensive income	-	-	-	-
Total comprehensive income	-	31 738	-	-
Attributable to:				
Equity holders of the parent	-	12 696	-	-
Non-controlling interest	-	19 042	-	-
Total comprehensive income	-	31 738	-	-
Headline earnings	-	12 696	-	-
Earnings per share (cents)				
- Basic	0.0	5.0	0.0	0.0
- Diluted	0.0	5.0	0.0	0.0
- Headline	0.0	5.0	0.0	0.0
- Diluted headline	0.0	5.0	0.0	0.0

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION PER SEGMENT

	GROUP		CORPORATE AND INVESTMENT SERVICES	
	Audited 31 Aug 2014 R'000	Audited 31 Aug 2013 R'000	Audited 31 Aug 2014 R'000	Audited 31 Aug 2013 R'000
ASSETS				
Non-current assets	444 553	167 599	35 774	36 875
- Property, plant and equipment	9 985	14 102	80	84
- Intangible assets	35 113	46 865	15	28
- Loans receivable	17 721	12 801	-	-
- Deferred taxation	9 364	13 625	4 844	4 943
- Investment properties	4 173	3 978	-	-
- Investment in associates	124 931	323	27 912	-
- Investment in joint ventures	93	3 566	-	414
- Investments held at fair value ^{Note A}	243 173	72 339	2 923	31 406
Current assets	572 787	860 262	47 399	15 551
- Insurance assets	345 605	389 895	-	-
- Loans receivable	376	4 707	-	-
- Investments held at fair value ^{Note A}	4 683	-	4 683	-
- Trade and other receivables	128 743	183 120	11 452	829
- Taxation	4 418	6 091	115	94
- Cash and cash equivalents ^{Note A}	88 962	276 449	31 149	14 628
Total assets	1 017 340	1 027 861	83 173	52 426
EQUITY AND LIABILITIES				
Capital and reserves	431 053	327 625	81 336	44 953
- Ordinary share capital and share premium	176 704	176 704	176 704	176 704
- Inter-group funding	-	-	(111 961)	(124 938)
- Retained earnings (Accumulated losses)	253 737	137 354	16 414	(6 986)
Equity attributable to equity holders of the parent	430 441	314 058	81 157	44 780
Non-controlling interest	612	13 567	179	173
Non-current liabilities	48 468	32 365	-	-
- Policyholder liabilities under insurance contracts	20 522	19 214	-	-
- Interest-bearing borrowings	-	2 695	-	-
- Deferred taxation	27 946	10 456	-	-
Current liabilities	537 819	667 871	1 836	7 473
- Insurance liabilities	400 049	454 147	-	-
- Trade and other payables	137 081	207 412	1 744	7 406
- Taxation	689	6 312	92	67
Total equity and liabilities	1 017 643	1 027 861	83 172	52 426
Capital expenditure	624	3 504	60	-
Net asset value per share (cents)	167.9	122.5	31.7	17.5
Tangible net asset value per share (cents)	120.6	104.2	27.6	17.5

Note A: The movement between Cash & cash equivalents and Investments held at fair value primarily relates to the shift from *pure* cash to highly liquid, low-risk investments (money market instruments, gilts, bank and corporate paper), expected to generate returns in excess of call rates.

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION PER SEGMENT (continued)

	INSURANCE AND RISK SERVICES		DIRECT	
	Audited 31 Aug 2014 R'000	Audited 31 Aug 2013 R'000	Audited 31 Aug 2014 R'000	Audited 31 Aug 2013 R'000
ASSETS				
Non-current assets	317 280	112 740	-	15 144
- Property, plant and equipment	9 905	10 413	-	3 607
- Intangible assets	37 461	37 663	-	11 537
- Loans receivable	17 721	7 595	-	-
- Deferred taxation	4 520	8 684	-	-
- Investment properties	4 173	3 977	-	-
- Investment in associates	3 157	323	-	-
- Investment in joint ventures	93	3 151	-	-
- Investments held at fair value ^{Note A}	240 250	40 934	-	-
Current assets	536 396	825 862	-	29 745
- Insurance assets	345 605	389 895	-	-
- Loans receivable	376	15 119	-	-
- Investments held at fair value ^{Note A}	-	-	-	-
- Trade and other receivables	128 298	169 824	-	12 952
- Taxation	4 303	5 615	-	382
- Cash and cash equivalents ^{Note A}	57 814	245 409	-	16 411
Total assets	853 676	938 602	-	44 889
EQUITY AND LIABILITIES				
Capital and reserves	276 526	252 917	-	32 118
- Ordinary share capital and share premium	-	-	-	-
- Inter-group funding	111 961	113 370	-	11 568
- Retained earnings	164 129	139 147	-	7 553
Equity attributable to equity holders of the parent	276 090	252 517	-	19 121
Non-controlling interest	436	400	-	12 997
Non-current liabilities	30 160	32 166	-	199
- Policyholder liabilities under insurance contracts	20 522	19 213	-	-
- Interest-bearing borrowings	-	2 695	-	-
- Deferred taxation	9 638	10 258	-	199
Current liabilities	546 990	653 519	-	12 572
- Insurance liabilities	400 049	454 147	-	-
- Trade and other payables	146 344	193 127	-	12 572
- Taxation	597	6 245	-	-
Total equity and liabilities	853 676	938 602	-	44 889
Capital expenditure	564	1 909	-	1 595
Net asset value per share (cents)	107.7	98.5	0.0	7.5
Tangible net asset value per share (cents)	93.1	83.8	0.0	3.0

Note A: The movement between Cash & cash equivalents and Investments held at fair value primarily relates to the shift from *pure* cash to highly liquid, low-risk investments (money market instruments, gilts, bank and corporate paper), expected to generate returns in excess of call rates.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Audited year ended 31 Aug 2014 R'000	Audited year ended 31 Aug 2013 R'000
Net cash flows from operating activities	(11 975)	13 609
Net cash flows from investing activities	(156 534)	1 695
Net cash flows from financing activities	(2 567)	(8 827)
Total cash movement for the year ^{Note A}	(171 076)	6 477
Cash at the beginning of the year	276 449	269 972
Cash disposed of ^{Note B}	(16 411)	-
Total cash at the end of the year	88 962	276 449

Note A: The considerable cash movement primarily relates to the shift from *pure* cash to highly liquid, low-risk investments (money market instruments, gilts, bank and corporate paper)

Note B: "Cash disposed of" refers to the deconsolidation of ARA's cash reflected in the Group's accounts at 31 August 2013 (due to its reclassification as an associate)

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 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
Total comprehensive income for the year	-	116 383	-	101	116 484
Reclassification of subsidiary to associate	-	-	-	(12 997)	(12 997)
Dividends paid	-	-	-	(59)	(59)
Balance at 31 August 2014	176 704	253 737	-	612	431 053

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

The accounting policies applied in the preparation of these condensed consolidated provisional audited financial statements for the year ended 31 August 2014 ("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 2013. The audited results have been prepared in terms of IAS 34 – Interim Financial Reporting, the South African Companies Act, 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.

Due to the early adoption of IFRS 9 - 13, IAS 27 - 28 and the amendments to IFRS 7 and IAS 32 during the previous financial year, there is no requirement to restate prior years' results.

2. Changes in share capital

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

	31 Aug 2014 '000	31 Aug 2013 '000
Number of shares	256 377	256 377
- Shares in issue	256 380	256 380
- Shares held as treasury shares	(3)	(3)
Weighted average number of shares	256 377	255 982
- Shares in issue	256 380	256 380
- Shares held as treasury shares	(3)	(398)
Diluted weighted average number of shares	256 377	255 982
- Shares in issue	256 380	258 380
- Shares held as treasury shares	(3)	(398)

3. Transactions with non-controlling interests

As previously reported, with effect from 1 September 2013 Conduit's 40% interest in ARA would be accounted for as an associate. This resulted in a reduction of R13.0 million in the carrying value of Non-controlling interest.

4. Associated companies

4.1. ARA's reclassification from a subsidiary to an associate resulted in a non-headline profit of R75.6 million and a corresponding increase in the carrying value of the Investments in Associates.

- 4.2. Constantia Insurance Holdings Proprietary Limited ("CIH"), a subsidiary of the Group, acquired a 40% interest in Administration Plus Proprietary Limited for a consideration of R1.1 million, effective 1 November 2014.

5. Disposal of jointly controlled company

Effective 1 January 2014 CIH disposed of its 50% interest in Catalyst Insurance Consultants Proprietary Limited for R3.9 million, resulting in a non-headline profit of R0.4 million.

6. Financial instruments

Fair value estimation

The financial assets valued at fair value through profit and loss in the statement of financial position are grouped into the fair value hierarchy as follows:

Financial assets	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
2014				
Listed investments	243 042	-	-	243 042
Investment properties	-	4 173	-	4 173
Unlisted investments	-	4 814	-	4 814
	<u>243 042</u>	<u>8 987</u>	<u>-</u>	<u>252 029</u>
2013				
Listed investments	68 059	-	-	68 059
Investment properties	-	3 978	-	3 978
Unlisted investments	-	4 280	-	4 280
	<u>68 059</u>	<u>8 258</u>	<u>-</u>	<u>76 317</u>

There have been no transfers between levels 1, 2 and 3 during the reporting period.

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period:

- Financial assets classified in Level 1 have been valued with reference to quoted prices and market rates (unadjusted) in active markets for identical assets or liabilities; and
- Financial assets classified in Level 2 have been valued by an independent third party according to a formula (using the fair market values of the underlying assets in the investment) in terms of which the investment could have been liquidated as at the reporting date.

7. Reconciliation of headline earnings

	Audited year ended 31 Aug 2014 R'000	Audited year ended 31 Aug 2013 R'000
Profit attributable to ordinary equity holders of Conduit	116 383	39 625
Net (profit) loss on revaluation of investment properties	(65)	43
Net loss on disposal of intangibles, property, plant and equipment	5	66
Net revaluation profit on reclassification from subsidiary to associate	(93 862)	-
Profit on disposal of jointly controlled entities	(937)	-
Impairment of associates and jointly controlled entities	-	267
Tax on the items above	18 638	(21)
Headline earnings	40 162	39 980

8. Contingent liabilities

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

9. Directors

There were no changes to the board of directors of Conduit Capital ("the Board") during the period under review.

10. Dividends

The Board of Directors resolved to initiate a dividend programme, commencing with a gross cash dividend of 5 cents per ordinary share, payable out of retained earnings. The use of Secondary Tax on Company credits will result in the dividend being exempt from dividend tax and result in a 5 cents per share net dividend. The salient dates are as follows:

Last day to trade cum-dividend:	Thursday, 11 December 2014
Shares trade ex-dividend:	Friday, 12 December 2014
Record date:	Friday, 19 December 2014
Payment date:	Monday, 22 December 2014

Share certificates may not be dematerialised or rematerialised between Friday, 12 December 2014 and Friday, 19 December 2014 (both days inclusive). Conduit's income tax number is 9490439032 and there are 256 379 818 ordinary shares in issue at the date of declaration of the cash dividend.

11. Events after reporting period

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.

12. 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 to obtain a copy of the audited Group annual financial information from the registered office of the Company.

13. Directors' responsibility

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

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

14. Change of Company Secretary

On the 6 June 2014, shareholders were advised on SENS that following the acquisition of the business of Probit Business Services Proprietary Limited by Computershare Investor Services Proprietary Limited ("Computershare"), CIS Company Secretaries Proprietary Limited, a subsidiary of Computershare, was appointed as the company secretary of Conduit Capital with effect from 5 June 2014.

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:

CIS Company Secretaries Proprietary Limited
70 Marshall Street
Johannesburg, 2001

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