Integrated Annual Report 2011

CONDUIT CAPITAL LIMITED

(Registration number 1998/017351/06)

AUDITED ANNUAL FINANCIAL STATEMENTS

31 August 2011

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CHIEF EXECUTIVE OFFICER'S REVIEW

REVIEW OF OPERATIONS

General

In the year to 31 August 2011 the Group posted the strongest set of results since 2007. Headline earnings per share advanced to 8.61 cents representing an 89% increase over the 4.55 cents in the comparative period. Tangible net asset value and net asset value ("NAV") per share improved to 87.58 and 106.0 cents, respectively. Although the gap has narrowed somewhat, the trading price of Conduit stock represents a notable discount to NAV. The Group's cash position at 31 August 2011 stood at a healthy R269.8 million.

The investment portfolio was largely unchanged from the first half of the year with overall gross investment returns, including the insurance "float", delivering a sound 12.8% during the year.

Conduit Insurance & Risk Services

The promising underwriting results reflected at the six months to 28 February 2011 showed consistency in the second half of the financial year across all insurance classes. In the year under review Constantia Insurance Company Limited ("Constantia") demonstrated the underlying quality of its commercial and personal lines portfolios by displaying a positive trend in premium growth and underwriting profitability. Though gross premium income increased to R781.3 million (2010: R656.2 million), a refined reinsurance programme led to a reduction in net retention to R245.4 million (2010: R276.6 million) and a considerable improvement in profitability. The result can be credited to the disciplined approach to underwriting, claims management and cost control adopted by the Constantia team and its valued insurance partners.

Statutory funding ratio and credit rating

Constantia's international solvency ratio as at 28 August 2011 improved to 58.5% (August 2010: 49.5%), well in excess of management and Global Credit Rating's ("GCR") target range. The statutory solvency ratio remained unchanged from February 2011 at 41.5% (August 2010: 36.8%). GCR has re-affirmed Constantia's credit rating at A –.

Conduit Direct

Anthony Richards & Associates Proprietary Limited ("ARA") performed impressively in the year under review, resulting in a marked increase in profitability over the comparative period. ARA celebrated its 10th anniversary in September, reflecting 10 years of positive contribution to an industry in which it has established itself as a market leader.

Results

Below are some key indicators for the financial years ended 31 August:

	2011	2010
Net asset value (R'000)	**265 293**	243 144
Tangible net asset value (R'000)	**219 204**	196 867
Total revenue (R'000)	**920 517**	771 207
Net revenue after direct insurance expenses (R'000)	**383 874**	384 030
Profit before tax (R'000)	**53 308**	29 595
Headline earnings (R'000)	**21 557**	11 392
Number of shares in issue (net of treasury shares) ('000)	**250 277**	250 277
Weighted average number of shares ('000)	**250 277**	250 277
Diluted number of shares ('000)	**256 531**	254 258
Net asset value per share (cents)	**106.00**	97.15
Tangible net asset value per share (cents)	**87.58**	78.66
Profit before tax per share (cents)	**21.30**	11.82
Basic earnings per share (cents)	**8.96**	4.55
Headline earnings per share (cents)	**8.61**	4.55
Diluted earnings per share (cents)	**8.74**	4.48
Diluted headline earnings per share (cents)	**8.40**	4.48

CONCLUSION

Simultaneously with the release of the February 2011 interim results on 20 April 2011, shareholders were advised that the Group was considering appropriate means of returning capital to shareholders. Since publication of that cautionary, we set about a process of carefully examining and exploring options that would best serve the interests of the Group. In doing so, we evaluated the possible disposal of certain assets and indeed entertained discussions with a number of suitors specific to our Insurance and Risk Services division – a most unsettling affair for staff as well as our valued business partners. In October 2011, the Board terminated these discussions and sought to address the issue of returning capital to shareholders through means other than the disposal of valuable assets.

Our focus through the years has been on consolidating and refining our business model, while fiercely protecting our balance sheet. Though it has been six years since acquiring our first asset, we have always been cognisant of the fact that, while capital is a precious commodity for any growing business, returns are equally precious for investors. Managing investor expectations and building a sustainable business model capable of weathering the storms – of which we've had a few – has been rather challenging. All the while, our NAV per share has steadily ticked up from approximately 7 cents in February of 2005 to 106 cents at year-end. The Group has certainly proven its resilience and, through the product of much hard work, is pleased to reward investor patience with a healthy capital distribution. On a practical level, the business remains wholly intact. The revision and simplification of our corporate and reporting structure further streamlines our business model and effectively consolidates the interdependent Head Office and Treasury, Private Equity and Financial Services divisions into a single Corporate and Investment Services division.

A particularly pleasing result for 2011 leaves us not with a feeling of complacency, but instead with one of appreciation at having revealed the true value of owning hard working, quality assets in an economic environment typified by low yields and extraordinary volatility. We are indeed expectant of a productive 2012.

Jason D Druian
Chief Executive Officer

Johannesburg
15 November 2011

SUSTAINABILITY REPORT

MANAGEMENT'S APPROACH TO SUSTAINABILITY AND INTEGRATED REPORTING

This is Conduit's first annual report towards meeting the JSE Limited ("JSE") requirements of Integrated Reporting and the King III Code on Corporate Governance ("King III"), which was published in 2009 by the Institute of Directors of Southern Africa, and is applicable to all listed companies with a financial year-end of February 2011 or later. It also meets all other legal requirements that the company must adhere to (including the new Companies Act).

The main difference between King III and the previous King Codes is the requirement for integrated reporting in terms whereof the operational, financial and sustainability (environmental, social and governance) issues are discussed in relation to the key drivers of the business. In this report, therefore, we explain how the executive of Conduit has applied its mind to considering these issues while developing the Business' strategy during the year ended 31 August 2011.

King III was adopted by the JSE as from 1 March 2010 as a Listing Requirement, with a "comply or explain" approach and we believe that this annual report is a move towards compliance with best international practice by providing stakeholders with a balanced view of our activities during the year.

REPORTING FRAMEWORK FOR 2011

The Board of Conduit has recognised our annual report as the most suitable vehicle to describe our evolving business model and the quality of decisions that have led to our financial results.

Being primarily a holding company, Conduit operates through three internal divisions or business silos, namely:

- Corporate and Investment Services, which combines the old Head Office and Treasury, Financial Services and Private Equity divisions;
- Insurance and Risk Services, which houses the Conduit Group's insurance interests; and
- Direct, which represents Conduit's interest in Anthony Richards & Associates Proprietary Limited ("ARA"), a credit recovery call centre.

In Table 1 below we detail the main operating aspects of our business and how our sustainability and financial objectives inter-relate:

Table 1

Business activity within Conduit	Management approach	Sustainability and financial objectives	Reporting scope and boundary
A shareholder in ARA, holding 40% of issued share capital and exercising Board control	• Board control representing our financial interest. • Knowledge sharing and ensuring compliance in terms of corporate governance, good business principles and an element of influence over the business strategy exercising Board control • No day-to-day management involvement	• Diversification into pertinent sectors of the economy • Diversification of earnings • Conduit group policies are not applied *per se,* as this business runs independently	ARA, treated as a subsidiary, is elaborated upon further on page 10 of this report
The shareholder in the Constantia Insurance Group ("Constantia") (which operates as insurer in both the long-term and short-term insurance industry in South Africa, dealing mainly through underwriting managers and administrators (UMAs) and, in turn, brokers), holding 100% of issued share capital and exercising management control	• Full ownership • Responsibility for strategic direction and involved in all day-to-day activities of the insurer	• Ensuring profitability of operating companies, along with sustainable cover to our policyholders • Sales-centred approach, personal service, strict underwriting and claims criteria gives the ability to pursue quality business • Excellent governance and compliance procedures provide not only risk mitigation, but also an opportunity for differentiation in the market	• Full range of activities as an insurer and, where our influence and control allows, within respective UMAs

The scope and boundaries for this annual report were therefore determined by considering:

(a) the influence and control available to us in our business activities; and

(b) the material issues as raised by each stakeholder relevant to each project (see table 2 below).

The executive team at Conduit fulfils both strategic and operational roles in the Company, as well as its subsidiaries, jointly controlled entities and associates. The past three years were spent resolving and repairing historical issues within aspects of Constantia and preparing for future growth. We believe that the tide has now turned and our efforts are starting to bear fruit. Our reporting strategy has correlated with this development – in previous years our annual report has principally focused on the financial returns and has not divulged much of the internal challenges and opportunities. Because the insurance business has been going through so much change, the predictability of the results has been more uncertain. We however now feel that there is sufficient progress to warrant, in addition to the new integrated reporting requirements of 2011, a broader approach to our disclosure this year.

STAKEHOLDER ANALYSIS AND ENGAGEMENT

We are accountable to our investors, shareholders, policyholders, business partners (reinsurers, UMAs and brokers) and regulators. Table 2 details the key stakeholders that are material to the success of the business and explains the important areas, determined by the Conduit Executive's experience, relevant for each stakeholder.

Table 2

Stakeholder	Relationship	Material issues	Communication forum or method of engagement
Institutional investors	Shareholders	• Share price, Dividend policy, Return on Capital, Profitability • Liquidity of stock • Management • Business risk and culture • Compliance, Governance	• SENS • Annual report • Print media • One on one bi-annual meetings • Information available on our website • General meetings of shareholders
Public shareholders	Shareholders	• Share price, Dividend policy, Return on Capital, Profitability • Liquidity of stock • Management • Business risk and culture • Compliance, Governance	• SENS • Annual report • Print media • Information available on our website • General meetings of shareholders
Staff	Employees	• Job security • Recognition and reward • Career development • Corporate policies (conditions of employment) • Culture and environment	• Internal newsletters every second month • Staff meetings • Workshops and training • Communication through themed events which serves multiple purposes of building culture and teamwork • Weekly status meetings between management and staff • Internal memoranda, mainly distributed via email and/or placed on various notice boards
Policy holders (relevant to Constantia)	Customers	• Reputation • Service and quick turnaround • Premium price • Payment of claims	• New and existing customers will receive formal correspondence in writing • When required to and only in certain circumstances do we engage with the customer directly • We respect the insurer's model of dealing through UMAs, who in turn deal with brokers, who represent the customer • Monthly reports and statistics
Providers of credit to third parties (relevant to ARA)	Customers	• Reputation • Debt recovery ability	• Monthly reports and statistics • *Ad hoc* inspections by ARA customers

SUSTAINABILITY REPORT (continued)

Table 2 (continued)

Stakeholder	Relationship	Material issues	Communication forum or method of engagement
UMAs	Partners	• UMA fees • Service • Product development and differentiation • Pricing • Broker or book loss ratio • Due diligence investigations on brokers and/or on blocks of business prior to take-on • Solvency and claims paying ability • Claims administration turnaround and efficiency by the insurer if the UMA is not mandated to handle same • Compliance • Systems and tools • Policy updates and endorsements	• Monthly financial reporting received from UMAs • Various departments will meet with UMAs on a regular basis • Formal written communication between the parties • Distribution of Constantia's credit rating report to partners
Brokers	Partners	• Service • Product development and differentiation • Pricing • Due diligence investigations on brokers and/or on blocks of business prior to take-on • Solvency and claims paying ability • Claims administration turnaround and efficiency by the insurer if the UMA is not mandated to handle same • Compliance • Systems and tools • Policy updates and endorsements	• Managed through the UMAs, or in some instances directly by the insurer on the same basis as that of the UMAs
Regulators and Industry Bodies applicable to our subsidiaries	Regulators	• Development of new policies and legislation • Implementation and compliance • Code of conduct of SAIA for Short-term insurers • Code of conduct of ASSISA for Long-term insurers • Council for Debt Collectors for ARA	• Representation on various committees of insurance institutes and associations within South Africa Compliance reports to regulators • Regulators engage via correspondence • or physical inspections
Reinsurers	Reinsurers	• Management of risks • Cash flow control • Policy wording and exclusions • Loss ratios • Profitability	• Annual treaty renewal • Ongoing relationship through reinsurance broker • Reporting of large losses
Global Credit Rating Co. ("GCR") (relevant to Constantia)	Credit rating agency	• International and statutory solvency • Liquidity and claims paying ability • Credit rating	• Annual meetings (audit and inspection) • Information requests by GCR
• Lawyers **• Recovery agents** **• Assessors, Surveyors & Investigators** **• Telephony and IT service providers**	Service providers	• Ability to pay • Screening criteria prior to appointments and on-going review • 3rd party audits of assessors, etc. • Ongoing stability and functionality of various IT platforms within Constantia • Data integrity • Ongoing stability and functionality of Call Centre and associated IT platforms within ARA • Data integrity	• Mainly outsourced independently, contracting individually with each service provider • Quarterly status meetings

ORGANISATIONAL PROFILE

In keeping with the theme of stakeholder engagement, i.e. getting stakeholders to know Conduit, we will use this opportunity to introduce our shareholders and stakeholders to some of the non-financial aspects of our businesses. This year we will start with an integrated discussion on certain aspects within Constantia and ARA.

As it is our "core" business, and the area where we maintain management control and influence, the bulk of our reporting will focus on Constantia.

1. Overview: Constantia

Conduit Risk and Insurance Holdings Proprietary Limited, a wholly-owned subsidiary of Conduit, is the holding company for the Conduit Group's insurance interests. Although five insurance licences exist, we operate through only three, namely:

Constantia Insurance Company Limited ("CICL")

The licence allows transactions in all classes of short-term insurance business with the focus however being mainly on Commercial and Personal Lines, Legal Expenses, Guarantee, Heavy Commercial Vehicles, Cell Phones, Autobody Warranties, Credit Life and certain Health products.

CICL deals mainly with UMAs, each of which focuses on its own niche products. UMAs are effectively an extension of the insurer, mandated to carry out a broad range of responsibilities (including relationship management with the broker, the issuing of policies, underwriting and administration, premium collection, claims administration, recoveries and salvages) on behalf of the insurer.

Constantia Life Limited ("CLL")

The licence allows certain long-term products such as Assistance (individual funeral) and Personal Accident policies. Importantly, CLL sells its product under the name of Goodall & Bourne, a brand synonymous with funeral insurance in the Western Cape Region over the last 80 years.

Constantia Life and Health Assurance Company Limited ("CLAH")

The long-term licence allows similar products to that of CLL; however, it caters mainly for Group Scheme business.

The abovementioned insurance companies, together with their supporting companies, are collectively referred to as *Constantia* or the *Constantia Insurance Group.*

1.1 *Developing resilience within Constantia*

A period of restructuring and consolidation during financial years 2008 and 2009 involved the shedding of underperforming books of business and the alignment of our key business lines with longer-term strategic objectives. At the same time, we have been focusing on enhancing our IT systems, skills base and in-house capabilities, particularly in the underwriting and claims administration functions, with a view to improving underwriting quality and efficiencies. The ability to demonstrate an improved return on capital is becoming more achievable as we continue to close out legacy issues.

The corrective measures that we have implemented in underperforming portfolios from 2008 have started to bear fruit as CICL's earned-loss ratio has moved more in line with the estimated industry average (60% in 2011 compared with 71% in 2008). Our relatively high earned-loss ratio has been the principal cause of our underwriting margin lagging the industry and UMA average over the past five years.

Growth in gross premium income ("GPI") will enable the insurance group to further sustain volatility in individual classes of business . In 2011, each UMA performed profitably and we believe that we have built a solid platform for future growth and resilience.

Our growth has been both organic (leveraging existing UMA arrangements, particularly in the motor sector, and expansion into the broker space) and acquisitive (acquisition of intermediaries' established distribution channels for penetration into targeted but previously inaccessible markets). Free capital has been largely applied to the insurance division to address on-going solvency requirements.

1.2 *Our business partners*

UMAs in which we have a shareholding, collectively, contribute 28.3% (2010: 31.6%) to CICL's GPI. Other UMAs (where there is no ownership) contributes collectively 71.7% (2010: 68.4%) of CICL's GPI.

1.3 *Future legal requirements for the insurance sector*

We have been investing heavily in our understanding of the future regulatory requirements as it applies to the insurance industry in South Africa. New legislative requirements relevant to the insurance sector include:

1.3.1. Companies Act

Preparations are underway to amend the existing Memorandum of Incorporation in order to reflect the changes required by the Companies Act, No. 71 of 2008. A Social and Ethics Committee will be established in the New Year. Minor adjustments to other structures are already taking place to ensure full compliance with the Companies Act.

1.3.2. Insurance Laws Amendment Act and related Binder Regulations

There has been active participation by staff in various industry forums such as the South African Insurance Association ("SAIA") to contribute towards the shaping of the content of the above Act and draft Regulations. This legislation is welcomed and is expected to have a positive impact on our relationships with our business partners.

1.3.3. Insurance Laws Amendment Bill and related draft Directive

These draft pieces of legislation have recently been published as part of the governance framework of the Regulator's Solvency Assessment and Management (SAM) initiative. The impact is being assessed and comment is provided via SAIA. Preparations are underway to further adapt our agreements with our business partners in line with these requirements.

1.3.4. Treating Customers Fairly (TCF)

When the Regulator issues its TCF Assessment Tool in the new year, we will be assessing our operations against the six core principles of TCF in order to identify where improvements can be made to our processes.

1.3.5. Financial Advisory and Intermediary Services Act

Two critical elements of this Act are receiving close attention. The Conflict of Interest protocol has created a better opportunity for smaller insurers to compete more effectively with the large insurers. All persons registered under this Act are required to sit for the Regulatory Examinations and preparations are in place to ensure that all affected staff achieve a pass before the deadline of 30 June 2012.

1.3.6. Consumer Protection Act

(a) The Financial Services Sector has been exempted from the requirements of this Act until October 2012. It is understood that the Regulator is seeking a permanent exemption from aligning existing legislation to this Act on the basis of the complete overhaul and rewrite of the insurance Acts, which will take place in 2013 and 2014.

(b) Nevertheless, some residual implications of this Act are expected to remain in respect of claims settlement processes, and remedies are already in place to alleviate these risks.

1.3.7. Protection of Personal Information Bill

After being effectively shelved for some years, this piece of legislation is expected to again receive attention in the new year and every opportunity will be used to monitor developments and assist the insurance industry with drafting comment on this Bill.

1.3.8. Although the only legal requirement currently in terms of reporting on compliance is through appointment of an external compliance officer, an internal compliance officer, together with our in-house legal resources, ensures a greater level of awareness of the changing legal and compliance environment within Constantia.

1.4 *SAM: An Opportunity to Integrate*

In February 2011 the Minister of Finance announced a complete overhaul of financial regulation. Based on the principles of the Solvency II Directive adopted by the European Parliament in 2010, the new Solvency Assessment and Management regime ("SAM") will supersede the current Financial Condition Reporting ("FCR") structure by 2014. Its aim is to align South Africa's long and short-term insurance sectors with international standards, while taking local conditions into account. In short, SAM can be compared to BASEL II for the banking sector in which all role players are governed and risk managed. If correctly implemented, SAM will help to ensure a sustainable insurance industry that has resilience to withstand shocks and meet policyholder obligations.

SAM is structured around three pillars:

1. Risk based capital in terms whereof insurers and reinsurers will have an option to either apply a standardised model prescribed by the Financial Services Board, or develop their own internal capital model by 2014;
2. Risk Management and Governance; and
3. Reporting and Disclosure requirements.

The above three pillars will be subject to an economic impact study and in this regard Constantia formed the SAM Committee, a sub-committee of the EXCO. With the assistance of internal resources as well as external consulting actuaries, the SAM Committee will be responsible for oversight and implementation of the various SAM initiatives and milestones.

As a leading underwriter in South Africa, we have been monitoring developments on this front very closely. We anticipate that SAM and the ultimate intended overhaul of the insurance legislation, proposed for 2014, will change the insurance landscape in South Africa significantly, and we see this as an opportunity to differentiate our service offering. We have therefore begun planning how to adapt our strategies and relationships in order to ensure that we:

(a) understand our new roles; and
(b) consider how this will present business opportunities and challenges going forward.

1.5 *Reinsurance*

The revised reinsurance structure for 2010/11 increased Constantia's efficiency in costs and risk participation. Reinsurers and their credit rating will also become more important under SAM and we have sufficiently diversified reinsurance capacity to spread this risk.

Our reinsurance treaties run parallel with our financial year and Africa Re remains the largest participant on most of the treaties with Hannover Re taking the remaining share, where applicable. For construction bonds, Hannover Re and Munich Re are engaged more extensively, together with SCOR Africa Limited. Excess of loss (XOL), clash and facultative arrangements have been put in place to mitigate risks above a certain limit. All motor cover outside the commercial quota share treaty is held for net account. Retention of non-motor commercial risks (property, accident and liability) is conservative and treaty capacity remained unchanged at R50 million for 2011.

1.6 *Goodall & Bourne*

CLL, operating under the brand of Goodall & Bourne, is a small, boutique funeral cover insurance company in Cape Town. It has 43,000 lives on its books and although it is a small contributor to Constantia's bottom line, it came with a strategic property in Long Street, Cape Town and more importantly, with an opportunity to provide an important service to the previously disadvantaged community of Cape Town.

While our other commercial and personal lines focus on preserving our clients' balance sheet, Goodall & Bourne offers something entirely different. Our policyholders believe that a person's funeral is the opportunity to "send them off in dignity" – that while they might have lived a life of poverty or hardship, a grand funeral is the means by which they can pass on in style.

Of course, in dealing with such personal and sensitive matters, we are mindful of the expectations placed on the insurer at the time of a policyholder's passing. Goodall & Bourne have been in business for 80 years and many of our policyholders have been contributing to their funeral policies, monthly for 20 to 30 years. Furthermore, our premium collection agents live within the communities which they serve and have been representing the company for an average of 30 years. We operate from six regional offices around Cape Town where further premiums are collected. The collection agents also use these regional offices to deposit all premium collected in the community from those who cannot go into a regional office to do so - usually in cash – and the relationships between the insured, collection agents and regional office representatives are very personal. We therefore make it our priority to understand what matters most during a family's time of mourning:

– Quick turnaround: As funerals are organised according to each family's religious beliefs, we ensure a 48-hour deadline for payment of claims, once all documentation has been submitted and authorised.
– Security and flexibility: If our clients do not have bank accounts, we can make cash payments. Given the prevalence of crime in our communities, we often arrange to pay the undertakers and other service providers directly, ensuring that our clients receive competitive prices without the risk of cash payments.
– Peace of mind: Our claims rejections rates are extremely low (1.7% of total claims value in 2011) as we realise how disappointing it is to have a policy rejected at the same time as the loss of a loved one. We also realise that the agents are being held accountable by their own communities for delivery when it is needed. We therefore place greater stress on the screening of new policies prior to acceptance to avoid disappointment later. HIV is becoming more of a business risk, as by law, disclosure is not required and we cannot reject applicants if they disclose their medical status to us.

Our challenges and opportunities going forward include:

– We acknowledge that we need to draft our policy wordings in plain language and that until now we have relied on our agents in the field to decode the legal documents into colloquial Afrikaans. Even though there is currently an exemption for the financial services industry in place, we have commenced with a process to bring all our documentation into compliance with the Consumer Protection Act.
– Although our brand is strong within the Coloured community, our policy numbers have been stable, however stagnated, over the last few years. The growth opportunity lies within the African community and we will need to position ourselves accordingly through promotions and relationship building in the townships outside of Cape Town.

1.7 *Deepening our understanding of the supply chain*

The desire to be an insurer of choice with a commitment to excellence and accountability is an incentive to deepen our understanding of and relationships with the various players in the supply chain, namely the agents, regional office representatives, UMAs and brokers. We have therefore engaged in a process of "getting to know" how the values and objectives of Constantia are communicated, and feedback and comments from our stakeholders sought. To achieve this we have embarked on a process of:

- Knowing our staff;
- Knowing our underwriting manager;
- Knowing our broker;
- Knowing our client/customer.

The result will assist in implementing strategies that are central to the functioning of the insurance business and will ensure that all parties played their role in delivering value to the insured.

1.8 *Identifying new opportunities*

We have identified that the changing compliance environment in the insurance sector is in itself a business opportunity. We continue to operate our call centre that provides technical and compliance advice in terms of FAIS on the insurance products offered by leading retailers and financial institutions, on both a staff and customer level, from Randburg. Although relatively small at present, we expect that future compliance requirements will drive consolidation within the market and an increased need for the outsourcing of compliance functions.

Additionally, numerous opportunities via different distribution channels will be a focus for Constantia in the short to medium-term.

SUSTAINABILITY REPORT (continued)

2. Overview: Anthony Richards & Associates

ARA has been in existence for ten years and for some time now has been firmly established in its position in the top tier of all Credit Recovery Agencies in the country. Given the nature of the business, the importance of governance and fair labour practices are critical for the following reasons:

- Training and quality assurance: ARA assumes the collection of debt on behalf of large listed companies and therefore takes on significant responsibility to do so professionally and responsibly. Striking a fine balance between meeting the client's strategic objectives and the rights of the debtor requires extensive investment in training and quality assurance. Our clients include the big banks, clothing retailers, healthcare providers, etc. and we cannot risk their reputation being damaged by one errant call. Each call is recorded and clients are able to audit our processes in full. The only independent body governing the debt collection industry in South Africa is the Council of Debt Collectors (established under the Debt Collectors Act of 2003). A code of conduct has been established, and ARA's company code of conduct fully complies with all aspects thereof. Given that ARA employs 1 100 people it is a testament to our high levels of training and quality assurance that only a handfull of complaints were received during the 2011 financial year (all of which were upheld by the council in ARA's favour). All our staff sign a non-disclosure agreement to ensure protection of debtor details. Any breach of our code of conduct results in disciplinary action.
- Staff retention: Due to the high investment in our people, we find that our staff are highly sought after. All our call centre employees are female, either black or coloured, and the average age is 25 years. In many cases these women come from communities wherein domestic violence or social vices are the norm, and hence we have provided a full-time nurse at the call centre to be able to tend to not only their health, but also their psychological needs. Annual HIV testing and counselling is provided on a confidential basis and time is provided during office hours for staff to receive further medical attention or counselling. Given that, for most of our employees, this is their first job, our evaluation process is very strict. We run an assessment centre prior to placing any of our new candidates on a project. As the majority of our candidates leave for better pay elsewhere, our retention strategy is one of investing in their ability to earn commission through good performance.

At ARA therefore, we believe that we provide an important social service in two aspects:

1. We go beyond just collecting outstanding funds by encouraging our staff to inform the debtor about their debt obligations and hence assist with rehabilitating our clients' customers (within the constraints of our service to the client, if so requested), such that the debtors' credit rating is preserved. Having a negative credit rating in South Africa is very limiting and is a scenario best avoided.
2. We provide an important opportunity for young women to begin their careers and establish their financial independence. Many of our candidates choose to leave us for reasons of wanting to seek education beyond high school, as they have realised:
   (a) the importance of being credit-worthy; and
   (b) their own professional potential.

CONDUIT CORPORATE POLICIES

We have implemented group policies to ensure consistency in the standards of internal management across the companies within the Conduit group. These are updated periodically (last performed January 2011) and determine the relevant structures and roles within our companies. Policies cover matters relating to conditions of employment, health and safety, training and development, recruitment, labour relations and IT. All staff are required to become familiar with and abide to their contents.

Conduit operates from a head office in Randburg and shares premises with Constantia. As our staff compliment is small, the structure is designed to be flexible and maintain the depth of skills in the subsidiaries. Health and safety issues are of low risk to our operations and environmental issues are limited to impacts associated with small office operations. None of these issues has been raised as material by any of our stakeholders.

Corporate Social Investment ("CSI") projects are supported by the Conduit Group and during 2010 and 2011 we have contributed to the following initiatives:

- Conduit in association with Constantia and ARA supported a building initiative at the New Jerusalem Children's Home. This combined effort commenced in 2009 and finished in late 2010.
- In 2010/11 Conduit and Constantia again combined to support The South African Rugby Legends project called the "Iqhawe programme" which is effectively teaching children (mainly boys) from previously disadvantaged communities about playing rugby, the benefits of sport and life skills.
- ARA in 2011 have also generously donated to the Community Chest – a non-profit organisation which supports and participates in collective, inclusive community efforts that build capacity and mobilise resources to improve lives and create positive, long-term social change in local communities.

CONCLUSION

We are proud of our achievements thus far and recognise that there is still much more we can do. We are excited by the opportunities that the Conduit Group offers in contributing to sustainability, which we are hopeful will have a meaningful impact on all our stakeholders.

CORPORATE GOVERNANCE STATEMENT

The directors fully support the principles of good corporate governance established by the Code of Corporate Practices and Conduct ("the Code") of the King Report on Corporate Governance and are committed to the implementation thereof. During the year under review, there has been compliance, except as set out herein, with the Code in all material aspects.

FINANCIAL STATEMENTS

The annual financial statements set out in this report have been prepared by the directors in accordance with International Financial Reporting Standards. They are based on appropriate accounting policies which have been consistently applied and which are supported by reasonable and prudent judgements and estimates.

The directors are responsible for the preparation of the annual financial statements and related financial information that fairly present the state of affairs and the results of the company and of the group. The external auditors are responsible for independently auditing and reporting on these annual financial statements in conformity with International Standards on Auditing.

GOING CONCERN

The annual financial statements have been prepared on the going concern basis since the directors have every reason to believe that the company and the group have adequate resources in place to continue operations for the foreseeable future.

STRUCTURE OF THE BOARD

At year-end the board of directors ("the Board") consisted of seven members. The directors have a wide range of skills and the majority have financial services experience. Any changes to the composition of the Board are approved by the Board as a whole. All executive directors and non-executive directors are subject to re-election in accordance with the provisions of the Memorandum of Incorporation.

New directors will be nominated and appointed by the Board, as and when required. All directors so appointed are required to step down at the next annual general meeting ("AGM") in order for them to be re-elected by the shareholders. An abridged CV of the nominated director is sent to shareholders with the notice, at least 15 business days before the AGM. At the AGM shareholders vote by separate resolution to determine whether the director will be re-elected.

The capacity of the directors is categorised as follows:

• Reginald Berkowitz	Independent non-executive director and Chairman
• Jason Druian	Executive director – Chief Executive Officer
• Scott Campbell #	Independent non-executive director
• Lourens Louw	Financial director
• Stanley Shane	Non-executive director
• Günter Steffens ##	Independent non-executive director
• Gavin Toet	Executive director

New Zealander
German

Mr Larry Prosser was appointed as a director on 2 March 2010. As a result of his emigration, he resigned as a director on 13 April 2011.

With effect from 1 September 2010, the status of Mr Stanley Shane changed from that of executive director to non-executive director. Mr Shane retains various directorships in subsidiary companies of the group.

In accordance with the terms of the Memorandum of Incorporation the following directors, who are both eligible and available for re-election, will retire:

- Lourens Louw – Financial Director
- Scott Campbell – Independent non-executive director
- Günter Steffens – Independent non-executive directo

The Board is aware that during the year under review independent non-executive directors represented a minority on the Board. The Board's independence will however be maintained by:

- keeping the roles of the Chairman and the Chief Executive Officer separate;
- ensuring functioning Board committees are comprised mainly of independent non-executive directors;
- all directors, with permission of the Board, being entitled to seek independent professional advice on the group's affairs at the group's expense;
- all directors having access to the advice and the services of the company secretary; and
- the appointment or dismissal of the company secretary being decided by the Board as a whole and not by one individual director.

CORPORATE GOVERNANCE STATEMENT (continued)

ATTENDANCE AT BOARD MEETINGS

At least four Board meetings are held each year. During the year under review the following Board meetings were held:

Name	23 March 2011	14 April 2011	24 August 2011	9 November 2011
Berkowitz, R S	P	P	P	P
Campbell, S M	P	P	P	P
Druian, J D	P	P	P	P
Louw, L E	P	P	P	P
Prosser, H L	P	–	–	–
Shane, S D	P	P	P	P
Steffens, G Z	P	P	P	P
Toet, G	P	P	P	P
Number of Board members	8	7	7	7
Number present	8	7	7	7

Key: P = Present/Participated
A = Apology/Absent
– = Not a director at the time

AUDIT COMMITTEE

The audit committee consists of three independent non-executive directors, Messrs Günter Steffens (the Chairman of the committee), Reginald Berkowitz and Scott Campbell. The audit committee meets three times per year with executive management and the auditors, reviewing accounting, auditing and financial reporting matters in order to ensure that an effective control environment is maintained in the group. The audit committee also monitors proposed changes in accounting policies, reviews the internal audit function, which was outsourced, and discusses the accounting implications of major transactions.

The audit committee receives a high level of co-operation from directors, management and staff and is satisfied that controls and systems within the group have been adhered to and, where necessary, improved during the year under review.

The audit committee will continue to monitor and appraise internal operating structures, controls and systems to ensure that these are maintained and continue contributing to the ongoing functioning of the company.

The audit committee sets the principles and approves the use of the external auditors for non-audit services.

ATTENDANCE AT AUDIT COMMITTEE MEETINGS

Name	14 April 2011	24 August 2011	9 November 2011
Steffens, G Z	P	P	P
Berkowitz, R S	P	P	P
Campbell, S M	P	P	P
Druian, J D	*	*	*
Louw, L E	*	*	*
Prosser, H L	*	–	–
Shane, S D	*	*	*
Toet, G	*	*	*
Number of committee members	3	3	3
Number present	3	3	3

Key: P = Present/Participated
A = Apology/Absent
* = Not a committee member, but attended by invitation

REVIEW OF MANAGEMENT AND FINANCIAL CONTROLS

The directors and the audit committee continuously review the management and financial controls of the group to ensure that:

- an effective system of internal controls and accounting records is maintained for the group;
- the assets of the group are safeguarded and appropriately insured.

INTERNAL CONTROL

The effectiveness of the internal control system is monitored through management overviews. The Board is responsible for the group's systems of internal control. These systems are designed to provide reasonable, but not absolute, assurance as to the integrity and reliability of the financial statements and to safeguard, verify and maintain accountability of its assets and to select and minimise significant fraud, potential liability, loss and material misstatement while complying with applicable laws and regulations.

There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statements preparation and asset safeguarding.

The controls throughout the group concentrate on critical risk, and these areas are closely monitored. Continued reviews and reporting structures enhance the control environment. Nothing has come to the attention of the directors to indicate that a material breakdown in the controls within the group has occurred during the year.

RISK MANAGEMENT

The focus of risk management in the group is on identifying, assessing, managing and monitoring all known forms of risk across the group. While operating risk cannot be fully eliminated, the group endeavours to minimise such risk by ensuring that the appropriate infrastructure, controls, systems and ethics are applied throughout the group and managed within predetermined procedures and constraints.

The risk committee comprises the Chairman of the audit committee, the Financial Director, an Executive Director and the Financial Manager. The risk committee reports to the audit committee.

ATTENDANCE AT FORMAL RISK COMMITTEE MEETINGS

Name	17 February 2011	16 August 2011
Steffens, G Z	P	P
Alberts, R	P	P
Louw, L E	P	P
Toet, G	P	P
Number of committee members	4	4
Number present	4	4

Key: P = Present/Participated
A = Apology/Absent

A number of informal risk management meetings were also held during the year under review.

REMUNERATION COMMITTEE

The group's remuneration policies and philosophy is determined by the remuneration committee. The remuneration committee's main responsibility is to consider, review and make recommendations to the Board concerning the remuneration policies and principles of the group and to review and approve the remuneration and terms of employment of the executive directors and senior employees of the group. All the group's executive directors have service contracts, the details of which are disclosed in the body of the annual report.

During the year under review the remuneration committee comprised the independent Chairman of the Board and two independent non-executive directors. The Chief Executive Officer attends Remuneration Committee meetings by invitation. The remuneration committee meets at least twice per year.

ATTENDANCE AT REMUNERATION COMMITTEE MEETINGS

Name	24 August 2011	9 November 2011
Berkowitz, R S	P	P
Campbell, S M	P	P
Steffens, G Z	P	P
Druian, J D	*	*
Number of committee members	3	3
Number present	3	3

Key: P = Present/Participated
A = Apology/Absent
* = Not a committee member, but attended by invitation

CORPORATE GOVERNANCE STATEMENT (continued)

EMPLOYMENT EQUITY AND PRACTICES

The group is committed to providing equal opportunities for its employees regardless of their ethnic origin or gender.

The directors are of the view that affirmative action, structured in an economically viable and self-sustaining manner, is an essential and integral part of a sound employment strategy. Where applicable, employment equity policies have been formalised and, where required, plans have been submitted to the Department of Labour.

ENVIRONMENT

The group is committed to pursuing sound environmental policies in all aspects of its business and seeks to encourage and promote good environmental practice among its employees and within the community in which it operates.

DIRECTORS' RESPONSIBILITY AND APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS as at 31 August 2011

The directors are required by the Companies Act, No. 71 of 2008, to ensure that adequate accounting records are maintained and are responsible for the content and the integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of Conduit Capital Limited and its subsidiaries ("the group") as at the end of the financial period and the results of their operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards. The external auditors are engaged to express an independent opinion on the annual financial statements.

The annual financial statements are prepared in accordance with International Financial Reporting Standards and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the group and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the Board sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. These standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. The controls are monitored throughout the group and all employees are required to maintain the highest ethical standards in ensuring that business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management is on identifying, assessing, managing and monitoring key risks across the entities. While operating risk cannot be fully eliminated, the group endeavours to minimise such risk by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion that, based on their enquiries and the information and explanations given by management, the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the group's cash flow forecasts for the year to 31 August 2012 and, in the light of this review and the current financial position, they are satisfied that the group has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements set out on pages 19 to 78, which have been prepared on the going concern basis, were approved by the Board on 15 November 2011 and were signed on its behalf by:

R S Berkowitz	**J D Druian**	**L E Louw**
Chairman	*Chief Executive Officer*	*Financial Director*

Johannesburg
15 November 2011

COMPANY SECRETARY'S CERTIFICATE

Pursuant to our duties in term of section 88(2)(e) of the Companies Act, No. 71 of 2008, ("the Act") we certify that to the best of our knowledge and belief the company has filed all such returns and notices as are required of a public company in terms of the Act, and that all such returns are true, correct and up to date.

Probity Business Services (Proprietary) Limited
Company Secretary

Johannesburg
15 November 2011

REPORT OF THE AUDIT COMMITTEE

This report is issued to the shareholders of Conduit Capital Limited ("the Company" or " Conduit") pursuant to the Audit Committee's duty to report in terms of section 94(7)(f) of the Companies Act, No. 71 of 2008 ("the Companies Act"), the JSE Limited Listings Requirements and King III.

Role and mandate of the Audit Committee

The Audit Committee is a committee of the board of directors of Conduit ("the Board") and, in addition to having specific statutory responsibilities to the shareholders in terms of the Companies Act, it assists the Company and its subsidiaries' ("the group") boards through advising and making submissions on financial reporting, oversight of the risk management process and internal financial controls, external and internal audit functions and statutory and regulatory compliance of the group. Its duties and terms of reference are set out in a formal Charter, approved by the Board.

Composition of meetings

The Audit Committee comprises three independent non-executive directors: Mr G Z Steffens (Chairman), Mr R S Berkowitz and Mr S M Campbell.

The Chief Executive Officer, the Financial Director, other directors, senior financial executives and representatives from the external auditors attend the meetings by invitation only.

The external auditors enjoy unrestricted access to the Audit Committee and its Chairman and during the year under review time was allotted for the committee and the external audit representatives to meet without the management team present.

Frequency of meetings

Meetings were held in April 2011, August 2011 and November 2011.

Statutory responsibilities

In fulfilment of its statutory duties the Audit Committee during the year:

1. nominated Grant Thornton for reappointment at the AGM as the group's external auditor for the 2011 financial year;
2. agreed the fees to be paid to the external auditor and reviewed the terms of their engagement;
3. ensured that the appointment of the external auditor complied with all applicable legislation;
4. determined the nature and extent of non-audit work to be performed by Grant Thornton and pre-approved any non-audit engagements; and
5. made itself available to deal with any complaints relating to the accounting practices or the internal audit of the group or relating to the content or audit of the financial statements of the group or the internal financial controls of the group or any related matters. No such matters were, however, referred to the committee.

Independence of the external auditors

The committee has satisfied itself that Grant Thornton is independent.

Other responsibilities

In addition to its statutory responsibilities, the Audit Committee has executed its duties over the past financial year in accordance with its Charter. These duties included:

1. recommending the half-year and annual financial results of the group to the Board after reviewing the results and the accounting policies applied, considering the external auditor's comments and reviewing any significant estimates or assumptions included in the results;
2. considering the going concern status of the group and making a recommendation to the Board on such;
3. monitoring the internal control environment;
4. overseeing the development of the internal audit function;
5. overseeing the performance of the risk management function; and
6. satisfying itself that the Financial Director is adequately experienced and qualified.

G Z Steffens
Audit Committee Chairman

Johannesburg
15 November 2011

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF CONDUIT CAPITAL LIMITED

We have audited the group annual financial statements and annual financial statements of Conduit Capital Limited, which comprise the consolidated and separate statements of financial position as at 31 August 2011, and the consolidated and separate statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes and the directors' report, as set out on pages 19 to 78.

Directors' responsibility for the financial statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these financial statements present fairly, in all material respects, the consolidated and separate financial position of Conduit Capital Limited as at 31 August 2011, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Grant Thornton

GRANT THORNTON
Chartered Accountants (SA)
Registered Auditors
South African Member of Grant Thornton International

per S Ho
Partner
Chartered Accountant (SA)
Registered Auditor

137 Daisy Street, Sandown, Johannesburg, 2196

15 November 2011

DIRECTORS' REPORT

The directors have pleasure in presenting their report for the year ended 31 August 2011.

NATURE OF THE BUSINESS

Conduit Capital Limited is an investment holding company that, through its subsidiaries and associates, carries on business in the financial services industry with the main focus currently being on insurance and credit recovery.

SHARE CAPITAL

The authorised share capital of the company is 500 million ordinary shares of one cent each (2010: 500 million).

There were no changes to the issued share capital or to treasury shares held during the year.

See note 17 of the annual financial statements for further details.

SHARE PREMIUM

The group's share premium account amounted to R196.65 million (2010: R196.65 million).

ACQUISITIONS, DISPOSALS AND IMPAIRMENTS OF PROPERTY, PLANT AND EQUIPMENT, SOFTWARE, INVESTMENTS AND FINANCIAL ASSETS

The group made the following cash acquisitions and investments during the year:

1. Property, plant and equipment, software and other intangible assets to the value of approximately R3.5 million (2010: R3.1 million);
2. 20.08 million shares, representing a 26.5% interest in Amalgamated Electronics Corporation Limited for an aggregate purchase consideration of approximately R24.48 million (2010: Nil);
3. Jointly controlled entities to the value of approximately R2.4 million (2010: Nil); and
4. Subsidiaries to the value of approximately R3.1 million (2010: Nil).

The group disposed of and impaired the following assets and investments during the year:

1. Assets held for sale with a book value of approximately R10.25 million were sold for a net consideration of R10.6 million;
2. The sale of an associate company for R1.48 million resulted in a reversal of impairment of approximately R0.89 million (2010: R1.37 million was impaired); and
3. Trade debtors and loans of R5.95 million were impaired and written off through profit and loss (2010: R2.94 million impaired). No previous period impairments were reversed through profit and loss (2010: Nil).

INTEREST IN SUBSIDIARIES

The company's interest in the consolidated after-tax profits (losses) of its subsidiary companies are as follows:

	2011 R'000	2010 R'000
Profits	**27 017**	27 551
Losses	**(2 849)**	(15 432)

SUBSEQUENT EVENTS

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.

DIRECTORS' REPORT (continued)

DIRECTORS AND OFFICERS

The following persons acted as directors:

Name			Appointed	Resigned
Berkowitz, Reginald S	(Chairman)	# * R	24 May 2005	
Campbell, Scott M ++		# * R	9 April 2000	
Druian, Jason D	(Chief Executive Officer)		24 May 2005	
Louw, Lourens E	(Financial Director)		25 August 2004	
Prosser, Harold L			2 March 2010	13 April 2011
Shane, Stanley D		**	21 January 1999	
Steffens, Günter Z +		# * R	26 April 2007	
Toet, Gavin			8 September 2009	

Key: * Non-executive (Independent)
** Non-executive
# Audit committee
R Remuneration committee
+ German
++ New Zealander

With effect from 1 September 2010, the status of Mr Stanley David Shane changed from that of executive director to non-executive director. Mr Shane retains various directorships in subsidiary companies of the group.

Mr Harold Larry Prosser emigrated and resigned as an executive director with effect from 13 April 2011.

The company secretary is Probity Business Services Proprietary Limited. Its business address is Third Floor, The Mall Offices, 11 Cradock Avenue, Rosebank, 2196. Its postal address is PO Box 85392, Emmarentia, 2029.

DIRECTORS' SHAREHOLDING

As at 31 August 2011 certain directors beneficially owned 56.16 million (2010: 62.21 million) ordinary shares in Conduit Capital. The directors held rights to a further 4 million (2010: 8 million) share options. Full details of these holdings are disclosed in note 37 to the annual financial statements.

DIRECTORS' INTEREST IN CONTRACTS

Other than their letters of employment with the company, no director of the company has an interest in any contract that a company within the group has entered into.

BORROWING LIMITATIONS OF DIRECTORS

In terms of the Memorandum of Incorporation of the company, the directors may exercise all the powers of the company to borrow money, as they consider appropriate. At 31 August 2011 and 31 August 2010 the company's borrowings totalled as follows:

	2011 **R'000**	2010 R'000
Borrowings from other group companies	**3 433**	3 346

DIVIDENDS

The Board has not recommended any dividend payment to ordinary shareholders for the 2011 financial year (2010: Nil).

AUDIT COMMITTEE

The Audit Committee's report appears on page 17.

AUDITORS

Grant Thornton are the company's auditors and will continue in office in accordance with section 90 of the Companies Act, No. 71 of 2008, with Ms S Ho being the registered individual auditor.

SPECIAL RESOLUTIONS

A special resolution that extended the mandate given to the company (or one of its wholly-owned subsidiaries), by way of a general approval, to acquire the company's own securities upon such terms and conditions and in such amounts as the directors may from time to time decide, but subject to the provisions of the Companies Act and the JSE Listings Requirements and subject to certain terms and conditions, was approved by shareholders at the company's annual general meeting that was held on 16 February 2011. The special resolution was registered by the Registrar of Companies on 4 March 2011.

CAPITAL DISTRIBUTION

Shareholders are advised that following a resolution passed by the Board on 9 November 2011, the Board declared a distribution to shareholders, by way of a capital reduction out of the share premium account, of 10 cents per share for the year ending 31 August 2012.

The salient dates in respect of the capital distribution are as follows:

	2011
Last day to trade cum distribution on	Friday, 2 December
Shares will trade ex-distribution from	Monday, 5 December
Record date	Friday, 9 December
Payment of distribution	Monday, 12 December

Shareholders may not dematerialise or rematerialise their shares between Monday, 5 December 2011 and Friday, 9 December 2011, both dates inclusive.

STATEMENTS OF FINANCIAL POSITION

	Notes	GROUP 31 August 2011 R'000	GROUP 31 August 2010 R'000	COMPANY 31 August 2011 R'000	COMPANY 31 August 2010 R'000
ASSETS					
Non-current assets		**143 629**	107 229	**171 891**	153 762
– Property, plant and equipment	4	**14 457**	14 998	**133**	240
– Intangible assets	5	**46 089**	46 277	**33**	53
– Loans receivable	6	**5 351**	6 884	**–**	–
– Deferred taxation	7	**7 190**	7 976	**–**	–
– Investment properties	8	**3 442**	3 403	**–**	–
– Investment in associates	9	**281**	756	**–**	49
– Investment in jointly controlled entities	10	**3 325**	–	**–**	–
– Investment in subsidiaries	11	**–**	–	**171 725**	153 420
– Investments held at fair value	12	**63 494**	26 935	**–**	–
Current assets		**669 503**	595 334	**2 402**	13 295
– Insurance assets	13	**316 026**	228 542	**–**	–
– Investments held at fair value	12	**4 592**	3 858	**–**	–
– Trade and other receivables	14	**78 761**	91 519	**200**	105
– Taxation		**262**	1 160	**–**	–
– Cash and cash equivalents	15	**269 862**	270 255	**2 202**	13 190
Non-current assets held for sale	16	**4 750**	15 050	**–**	–
Total assets		**817 882**	717 613	**174 293**	167 057
EQUITY AND LIABILITIES					
Capital and reserves		**282 858**	259 563	**170 476**	163 193
– Ordinary share capital	17	**2 503**	2 503	**2 564**	2 564
– Share premium		**196 652**	196 652	**223 477**	223 477
– Retained earnings (Accumulated losses)		**65 538**	43 626	**(56 165)**	(63 211)
– Share-based payment reserve	19	**600**	363	**600**	363
Equity attributable to equity holders of the parent		**265 293**	243 144	**170 476**	163 193
Non-controlling interest		**17 565**	16 419	**–**	–
Non-current liabilities		**28 629**	40 054	**–**	–
– Policyholder liabilities under insurance contracts	20	**19 661**	21 837	**–**	–
– Interest-bearing borrowings	21	**3 796**	12 661	**–**	–
– Deferred taxation	7	**5 172**	5 556	**–**	–
Current liabilities		**506 395**	417 996	**3 817**	3 864
– Insurance liabilities	13	**379 765**	307 848	**–**	–
– Loans payable	35.6	**–**	–	**3 433**	3 346
– Trade and other payables	22	**122 341**	102 268	**384**	518
– Current portion of interest-bearing borrowings	21	**3 175**	6 235	**–**	–
– Taxation		**1 114**	1 636	**–**	–
– Bank overdraft	15	**–**	9	**–**	–
Total equity and liabilities		**817 882**	717 613	**174 293**	167 057

STATEMENTS OF COMPREHENSIVE INCOME

	Notes	GROUP 31 August 2011 R'000	GROUP 31 August 2010 R'000	COMPANY 31 August 2011 R'000	COMPANY 31 August 2010 R'000
Gross revenue	23	**920 517**	771 207	**1 353**	3 788
Net insurance revenue	24	**274 764**	296 457	**–**	–
Other operating revenue	23.2	**109 110**	87 573	**1 353**	3 788
Net revenue		**383 874**	384 030	**1 353**	3 788
Operating expenses		**(356 046)**	(374 304)	**(2 246)**	(2 329)
– Direct expenses: Insurance and risk services	25	**(219 375)**	(246 314)	**–**	–
– Administration and other expenses		**(58 720)**	(54 963)	**(987)**	(1 137)
– Depreciation and amortisation		**(3 519)**	(3 152)	**(143)**	(68)
– Employee costs		**(74 432)**	(69 875)	**(1 116)**	(1 124)
Operating profit (loss)		**27 828**	9 726	**(893)**	1 459
Equity accounted income	9 & 10	**667**	57	**–**	–
Investment income	26	**24 923**	18 119	**7 858**	6 025
Other income		**1 190**	3 790	**116**	–
Finance charges	27	**(1 300)**	(2 097)	**(101)**	(1)
Profit before taxation	28	**53 308**	29 595	**6 980**	7 483
Taxation	31	**(16 988)**	(6 006)	**–**	–
Profit for the year		**36 320**	23 589	**6 980**	7 483
Other comprehensive income		**–**	–	**–**	–
Total comprehensive income		**36 320**	23 589	**6 980**	7 483
Attributable to:					
Equity holders of the parent		**22 419**	11 389		
Non-controlling interest		**13 901**	12 200		
Profit for the year		**36 320**	23 589		
EARNINGS PER SHARE (CENTS)					
– Basic	33.4.1	**8.96**	4.55		
– Diluted	33.4.2	**8.74**	4.48		

STATEMENTS OF CHANGES IN EQUITY

GROUP	Ordinary share capital R'000	Share premium R'000	Retained earnings R'000	Share-based payment reserve R'000	Non-controlling interest R'000	Total R'000
Balance at 1 September 2009	2 503	196 652	31 729	1 004	14 623	246 511
Reversal of equity options	–	–	1 004	(1 004)	–	–
Transaction with owners	–	–	(496)	–	(4)	(500)
Total comprehensive income for the year	–	–	11 389	–	12 200	23 589
Equity options issued to executives	–	–	–	363	–	363
Dividends paid	–	–	–	–	(10 400)	(10 400)
Balance at 31 August 2010	2 503	196 652	43 626	363	16 419	259 563
Reversal of equity options	–	–	66	(66)	–	–
Transaction with owners	–	–	(573)	–	(2 555)	(3 128)
Total comprehensive income for the year	–	–	22 419	–	13 901	36 320
Equity options issued to executives	–	–	–	303	–	303
Dividends paid	–	–	–	–	(10 200)	(10 200)
Balance at 31 August 2011	**2 503**	**196 652**	**65 538**	**600**	**17 565**	**282 858**

STATEMENTS OF CHANGES IN EQUITY

COMPANY	Ordinary share capital R'000	Share premium R'000	Accumu-lated losses R'000	Share-based payment reserve R'000	Total R'000
Balance at 1 September 2009	2 564	223 477	(71 698)	1 004	155 347
Reversal of equity options	–	–	1 004	(1 004)	–
Total comprehensive income for the year	–	–	7 483	–	7 483
Equity options issued to executives	–	–	–	363	363
Balance at 31 August 2010	2 564	223 477	(63 211)	363	163 193
Reversal of equity options	–	–	66	(66)	–
Total comprehensive income for the year	–	–	6 980	–	6 980
Equity options issued to executives	–	–	–	303	303
Balance at 31 August 2011	**2 564**	**223 477**	**(56 165)**	**600**	**170 476**

STATEMENTS OF CASH FLOWS

	Notes	GROUP 31 August 2011 R'000	GROUP 31 August 2010 R'000	COMPANY 31 August 2011 R'000	COMPANY 31 August 2010 R'000
Cash flows from operating activities		**34 166**	17 339	**7 294**	8 034
– Cash generated (utilised) by operations	34.2	**48 202**	14 871	**(463)**	2 010
– Interest received		**11 702**	15 527	**1 058**	1 625
– Finance charges		**(1 300)**	(2 097)	**(101)**	(1)
– Dividends received		**1 972**	1 169	**6 800**	4 400
– Dividends paid		**(10 200)**	(10 400)	**–**	–
– Taxation paid	34.3	**(16 210)**	(1 731)	**–**	–
Cash flows from investing activities		**(22 866)**	(14 082)	**(7)**	(41)
– Acquisition of subsidiaries	34.4	**(3 128)**	–	**–**	–
– Disposal of subsidiaries	34.4	**–**	6 255	**–**	–
– Acquisition of jointly controlled entities		**(2 433)**	–	**–**	–
– Disposal of associates		**1 478**	73	**–**	–
– Dividends received from associates		**230**	360	**–**	–
– Acquisition of property, plant and equipment		**(2 900)**	(2 582)	**(12)**	(43)
– Disposal of property, plant and equipment		**40**	37	**9**	6
– Acquisition of investment properties		**(5)**	(17)	**–**	–
– Disposal of property held for sale		**10 600**	3 836	**–**	–
– Acquisition of other intangible assets		**(567)**	(511)	**(4)**	(11)
– Disposal of other intangible assets		**34**	47	**–**	7
– Acquisition of financial investments		**(37 712)**	(38 901)	**–**	–
– Disposal of financial investments		**11 497**	17 321	**–**	–
Cash flows from financing activities		**(11 684)**	(7 845)	**(18 275)**	(4 734)
– Movement in interest-bearing borrowings		**(11 925)**	(5 543)	**–**	–
– Movement in loans payable to third parties		**–**	–	**87**	(4 047)
– Movement in loans receivable from third parties		**808**	(2 268)	**–**	–
– Movement in loans to associates		**203**	(34)	**(57)**	(49)
– Movement in loans to jointly controlled entities		**(770)**	–	**–**	–
– Movement in loans to subsidiaries		**–**	–	**(18 305)**	(638)
Net (decrease) increase in cash and cash equivalents		**(384)**	(4 588)	**(10 988)**	3 259
Cash and cash equivalents at the beginning of the year		**270 246**	274 836	**13 190**	9 931
Cash disposed of		**–**	(2)	**–**	–
Cash and cash equivalents at the end of the year		**269 862**	270 246	**2 202**	13 190

SEGMENTAL ANALYSIS OF EARNINGS

Segment reporting

The group operates three main business segments: Corporate and Investment Services, Insurance and Risk Services and Direct. In identifying its operating segments, management generally follows the group's product lines, which represent the main services provided by the group.

Each of these operating segments is managed separately as each one requires different technologies and other resources, as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices.

The measurement policies the group uses for segment reporting under IFRS 8 are the same as those used in its financial statements.

	Corporate and Investment Services R'000	Insurance and Risk Services R'000	Direct R'000	Inter-segment eliminations R'000	Consoli-dation entries R'000	Total R'000
Year ended 31 August 2011						
Gross revenue	6 418	815 088	103 830	(4 819)	–	920 517
– External customers	1 599	815 088	103 830	–	–	920 517
– Other operating segments	4 819	–	–	(4 819)	–	–
Net insurance revenue	–	274 764	–	–	–	274 764
Other operating revenue	6 418	3 681	103 830	(4 819)	–	109 110
Net revenue	6 418	278 445	103 830	(4 819)	–	383 874
Operating expenses	(18 403)	(272 211)	(70 251)	4 819	–	(356 046)
– Direct expenses: Insurance and risk services	–	(219 375)	–	–	–	(219 375)
– Administration and other expenses	(4 052)	(28 538)	(30 949)	4 819	–	(58 720)
– Depreciation and amortisation	(259)	(1 146)	(2 114)	–	–	(3 519)
– Employee costs	(14 092)	(23 152)	(37 188)	–	–	(74 432)
Operating profit (loss)	(11 985)	6 234	33 579	–	–	27 828
Equity accounted income	203	464	–	–	–	667
Investment income	17 229	13 911	583	–	(6 800)	24 923
Other income	130	946	114	–	–	1 190
Finance charges	(2)	(1 298)	–	–	–	(1 300)
Profit before taxation	5 575	20 257	34 276	–	(6 800)	53 308
Taxation	(906)	(4 693)	(11,389)	–	–	(16 988)
Profit for the year	4 669	15 564	22 887	–	(6 800)	36 320
Non-controlling interest	(51)	(81)	(13 769)	–	–	(13 901)
Profit attributable to ordinary shareholders	4 618	15 483	9 118	–	(6 800)	22 419
Headline adjustments	(21)	(1 007)	166	–	–	(862)
Headline earnings	4 597	14 476	9 284	–	(6 800)	21 557
As at 31 August 2011						
Total assets [Note A]	200 249	730 098	51 660	(161 762)	(2 363)	817 882
Total liabilities	(22 136)	(650 368)	(24 279)	161 759	–	(535 024)
Inter-group funding	(129 034)	117 466	11 568	–	–	–
Non-controlling interest	(168)	(302)	(17 098)	3	–	(17 565)
Capital employed	48 911	196 894	21 851	–	(2 363)	265 293
Note A:						
Total assets include the following:						
– Investment in associates	*–*	*281*	*–*	*–*	*–*	*281*
– Investment in joint ventures	*–*	*3 325*	*–*	*–*	*–*	*3 325*
– Additions to property, plant and equipment	*53*	*457*	*2 390*	*–*	*–*	*2 900*
– Additions to intangible assets (Computer software)	*41*	*368*	*158*	*–*	*–*	*567*
– Additions to investment property	*–*	*5*	*–*	*–*	*–*	*5*

SEGMENTAL ANALYSIS OF EARNINGS (continued)

	Corporate and Investment Services R'000	Insurance and Risk Services R'000	Direct R'000	Inter-segment eliminations R'000	Consoli-dation entries R'000	Total R'000
Year ended 31 August 2010						
Gross revenue	14 000	696 611	72 931	(12 335)	–	771 207
– External customers	1 665	696 611	72 931	–	–	771 207
– Other operating segments	12 335	–	–	(12 335)	–	–
Net insurance revenue	–	296 457	–	–	–	296 457
Other operating revenue	14 000	12 977	72 931	(12 335)	–	87 573
Net revenue	14 000	309 434	72 931	(12 335)	–	384 030
Operating expenses	(21 082)	(314 844)	(50 716)	12 338	–	(374 304)
– Direct expenses: Insurance and risk services	–	(246 314)	–	–	–	(246 314)
– Administration and other expenses	(5 792)	(39 043)	(22 445)	12 317	–	(54 963)
– Depreciation and amortisation	(131)	(1 737)	(1 284)	–	–	(3 152)
– Employee costs	(15 159)	(27 750)	(26 987)	21	–	(69 875)
Operating profit (loss)	(7 082)	(5 410)	22 215	3	–	9 726
Equity accounted income	(34)	91	–	–	–	57
Investment income	9 225	12 608	688	(2)	(4 400)	18 119
Other income	13	3 777	–	–	–	3 790
Finance charges	(1)	(2 095)	–	(1)	–	(2 097)
Profit before taxation	2 121	8 971	22 903	–	(4 400)	29 595
Taxation	1 213	214	(7 433)	–	–	(6 006)
Profit for the year	3 334	9 185	15 470	–	(4 400)	23 589
Non-controlling interest	(39)	(2 878)	(9 283)	–	–	(12 200)
Profit attributable to ordinary shareholders	3 295	6 307	6 187	–	(4 400)	11 389
Headline adjustments	–	3	–	–	–	3
Headline earnings	3 295	6 310	6 187	–	(4 400)	11 392
As at 31 August 2010						
Total assets Note B	183 513	642 754	42 546	(148 837)	(2 363)	717 613
Total liabilities	(10 372)	(575 460)	(21 052)	148 834	–	(458 050)
Inter-group funding	(141 903)	130 335	11 568	–	–	–
Non-controlling interest	(117)	(2 776)	(13 529)	3	–	(16 419)
Capital employed	31 121	194 853	19 533	–	(2 363)	243 144
Note B:						
Total assets include the following:						
– Investment in associates	*–*	*708*	*48*	*–*	*–*	*756*
– Additions to property, plant and equipment	*308*	*568*	*1 744*	*(38)*	*–*	*2 582*
– Additions to intangible assets (Computer software)	*13*	*211*	*287*	*–*	*–*	*511*
– Additions to investment property	*–*	*17*	*–*	*–*	*–*	*17*

ACCOUNTING POLICIES

1. BASIS OF PREPARATION

The group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are in compliance with the JSE Limited's Listing Requirements and the South African Companies Act, No. 71 of 2008. The group's financial statements have been prepared on the historical cost basis, except for the measurement of investment properties and certain financial instruments at fair value, the application of the equity method in accounting for investments in associated companies and jointly controlled entities and the valuation of long-term policyholder liabilities on a financial soundness valuation basis. The financial statements incorporate the principal accounting policies set out below, which are consistently applied to all the years presented, unless otherwise stated.

It should be noted that, as IFRS is implemented internationally, evolving practices with regard to the interpretation and application of standards under IFRS could impact future reported results and disclosure.

2. SIGNIFICANT JUDGEMENTS

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. The use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates, which may be material to the annual financial statements. Significant judgements include:

Impairment testing

The recoverable amounts of cash generating units and individual assets, including goodwill, have been determined based on either the higher of value-in-use calculations or fair values. These calculations require the use of estimates and assumptions.

To determine the recoverable amount, management estimate expected future cash flows from each cash generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows (refer note 5.4.1). In the process of measuring expected future cash flows, management makes assumptions about future profits, which are dependent on future events and circumstances.

Trade and other receivables

The group assesses its trade and other receivables for impairment at each statement of financial position date. In determining whether an impairment loss should be recorded in profit or loss, the group makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

Investment properties

The fair value of investment properties has been determined with the use of open market values by professional property valuators.

Insurance liabilities

Insurance contract accounting requires that estimates and judgements be made. In particular, judgement is required in estimating reserves in respect of reported claims which have not yet been settled, in the determination of the Incurred But Not Reported ("IBNR") provision (refer to note 13) and in estimating future cash flows in respect of salvages and claims recoveries.

The policyholder liabilities arising from long-term insurance contracts are determined by the statutory actuaries based on appropriate estimates and assumptions.

Investment in subsidiaries, associates, jointly controlled entities and unlisted equities

Estimates and judgements are exercised in the valuation of unlisted shares (notes 9, 10, 11, 12.1.2 and 12.2.2). Fair values are determined either by way of discounting expected future cash flows where reliable information is available or by using the net asset value of the investment, as appropriate to the circumstances of each individual investment.

Additional judgements include:

- the determination by way of an option pricing model of the fair value of the share options that were issued to executive directors and senior management (note 19).

Management believes that the estimates and assumptions that were used in order to make these judgements at year-end were reasonable.

3. BASIS OF CONSOLIDATION

The consolidated annual financial statements include the financial position, results and cash flow information of the company and its subsidiaries, including its share trust. The results of subsidiaries acquired and disposed of during the year are included in the consolidated financial statements from the date that effective control was acquired and up to the date that effective control ceased. Control is defined as the ability to govern the financial and operating policies of an entity.

On acquisition the group recognises the subsidiary's identifiable assets, liabilities and contingent liabilities at fair value, except for assets classified as held-for-sale, which are recognised at fair value less cost to sell. The excess of cost of shares acquired over the fair value of subsidiaries' identifiable net assets at dates of acquisition is expressed as goodwill. Goodwill is carried at cost and is assessed annually for impairment.

All inter-group transactions, balances and unrealised surpluses and deficits on transactions between group companies have been eliminated. Unrealised deficits are not eliminated to the extent that they provide evidence of impairment.

4. PROPERTY, PLANT AND EQUIPMENT

The cost of property, plant and equipment is recognised as an asset only when:

– it is probable that future economic benefits associated with the item will flow to the group; and

– the cost of the item can be measured reliably.

Cost includes costs initially incurred to acquire or construct an item of property, plant and equipment, as well as costs subsequently incurred to add to, replace part of, or service such item. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Property, plant and equipment are carried at cost, less accumulated depreciation and impairment losses. Each item's useful life and residual value is reassessed on an annual basis and its carrying value is restated by applying an appropriate depreciation charge against profit or loss, unless the depreciation charge is included in the carrying amount of another asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognised. The gain or loss from the derecognition of an item of property, plant and equipment is determined as the difference between the net proceeds on disposal, if any, and the carrying amount of the item.

Depreciation is provided on all property, plant and equipment (other than land) to write down the cost, less expected residual value, by equal instalments over their useful lives. The current estimated useful lives are as follows:

Category	*Expected useful life*
Motor vehicles	5 years
Computer hardware	3 – 6 years
Furniture and fittings	6 – 10 years
Office equipment	5 – 10 years
Leasehold improvements	1 – 5 years
Owner occupied property	20 years

5. GOODWILL

Goodwill arising on consolidation represents the excess of the cost of acquisition over the group's interests in the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary at the date of acquisition. Goodwill on the acquisition of subsidiaries is included in intangible assets, while goodwill on the acquisition of associates or jointly controlled entities is included in investments in associates or jointly controlled entities. Internally-generated goodwill is not recognised as an asset.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the group at which management monitors goodwill.

5. GOODWILL (continued)

Cash-generating units to which goodwill has been allocated are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the group's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect their respective risk profiles as assessed by management.

Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

On the disposal of a subsidiary, the attributable amount of unimpaired goodwill is included in the determination of the profit or loss on disposal.

Should the group's/company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities be in excess of the cost of the business combination, the difference is immediately recognised as a profit in profit or loss.

6. INTANGIBLE ASSETS

Intangible assets are recognised only when the cost can be measured reliably and if it is probable that the expected future economic benefits that are attributable to the asset will flow to the group. Internally generated brands, customer lists and items similar in substance are not recognised as intangible assets.

Intangible assets are initially recognised at cost.

The useful life of intangible assets is assessed at the individual asset level as having either a finite or an indefinite life. Where an intangible asset has a finite life, it is amortised over its useful life through profit or loss. Amortisation periods and methods of amortisation for intangible assets with a finite useful life are reviewed annually, or earlier where an indicator of impairment exists. Intangibles assessed as having indefinite useful lives are not amortised, as there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the group. Intangibles with indefinite useful lives are reviewed annually to ensure that the carrying value does not exceed the recoverable amount, regardless of whether an indicator of impairment is present and whether or not the intangible asset continues to have an indefinite life.

The expected useful lives of the different categories of intangible assets are estimated to be as follows:

Category	*Expected useful life*
Computer software	2 – 5 years
Other	Indefinite

7. INVESTMENT PROPERTIES

Investment properties are classified as properties that are held to earn rental income and/or for capital appreciation and that are not occupied by companies within the group. Owner-occupied properties are held for the supply of services and administration purposes. This distinguishes owner-occupied properties from investment properties.

Investment properties are initially recognised at cost. At the statement of financial position date, investment properties are measured at fair value as determined by professional property valuators using open market values. When investment properties become owner occupied, the group reclassifies them to property, plant and equipment, using the fair value at the date of reclassification as the cost. A gain or loss arising from a change in fair value is included in net profit for the period in which it arises.

8. ASSOCIATE COMPANIES

Group

An associate is an enterprise in which the investor has a long-term interest and over which it exercises significant influence, but not control, and which is neither a subsidiary nor a jointly controlled interest of the investor.

Interests in associates are accounted for under the equity method, except when the investment is acquired and held exclusively with a view to its disposal in the near future, in which case the investment in associate is accounted for under the cost method. The equity method of accounting is the method whereby the investment is initially recorded at cost and adjusted thereafter for the post-acquisition change in the group's share of net assets of the associate. The use of the equity method is discontinued from the date that the group ceases to have significant influence over an associate.

Impairment losses reduce the carrying amount of investments in associates.

Distributions received from the associate reduce the carrying amount of the investment.

Company

Interests in associates are stated at cost, less any impairment losses.

9. JOINTLY CONTROLLED ENTITIES

A joint venture is an enterprise in which the investor has a long-term interest and over which it exercises joint control.

Interests in jointly controlled entities are accounted for under the equity method, except when the investment is acquired and held exclusively with a view to its disposal in the near future, in which case the investment is accounted for under the cost method. The equity method of accounting is the method whereby the investment is initially recorded at cost and adjusted thereafter for the post-acquisition change in the group's share of net assets of the jointly controlled entity, less any impairment losses. The use of the equity method is discontinued from the date that the group ceases to have joint control over the entity.

Distributions received from the jointly controlled entity reduce the carrying amount of the investment.

10. INVESTMENT IN SUBSIDIARIES

Company

Investments in subsidiaries are stated at cost, less any impairment losses.

The cost of an investment in a subsidiary is calculated as the aggregate of:

- the fair value, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the company; *plus*
- any costs directly attributable to the purchase of the subsidiary.

An adjustment to the cost of a business combination is reported in equity and will no longer result in goodwill adjustments or gains and losses.

11. NON-CURRENT ASSETS HELD FOR SALE

Non-current assets (and disposal groups) are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use.

This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets are classified as held for sale from the date these conditions are met and are measured at the lower of their carrying amount and their fair value less costs to sell. Any resulting impairment is reported through profit or loss.

On classification as held for sale the assets are no longer depreciated. Comparative amounts are not adjusted.

ACCOUNTING POLICIES (continued)

12. FINANCIAL INSTRUMENTS

12.1 Initial recognition

The group classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial assets and financial liabilities are recognised on the statement of financial position when the group or the company becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are initially recognised at fair value. Where financial assets or liabilities are not subsequently recognised at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial instrument are added to the fair value.

12.2 Subsequent measurement

After initial recognition, these instruments are measured as follows:

Investments in securities

Investments in equity and debt securities are recognised on a trade-date basis and are initially measured at fair value. Investments are classified as "at fair value through profit or loss" and at subsequent statement of financial position dates investments in equity and debt securities are valued at fair value, with changes in fair value being recognised in profit or loss.

Fair value represents the current market value based on the quoted market price where a regulated market exists, otherwise fair value is determined by the directors on the basis of the more appropriate of either return, or the value of the most recent offer to purchase the shares in an investment in instances where such an offer is a valid offer, or net asset value. Investments in securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

Derivative financial instruments

Investments in derivatives may give rise to financial assets and in some cases also to financial liabilities due to the nature of these financial instruments and the entering into either long or short positions. Derivatives are initially measured at the cost of the contract, but are marked to market on each statement of financial position date based on the current price of the contract where a regulated market exists, failing which the fair value of investments are estimated using appropriate pricing models. Gains and losses are included in profit or loss in the period in which they arise.

Loans, trade and other receivables

Loans, trade and other receivables are initially measured at fair value and are subsequently measured at amortised cost using the effective interest method, provided that the group's objective in holding the assets is to realise the contractual cashflows and that cashflows associated with the assets comprise only payments of principle and interest amounts thereon, on specified dates. If these conditions are not met, they are measured subsequently at fair value.

Financial liabilities

Financial liabilities, including trade and other payables, loans payable, borrowings and other liabilities, are recognised initially at fair value and are subsequently measured at amortised cost, using the effective interest method.

12.3 Gains and losses

A gain or loss arising from a change in a financial asset or liability is recognised as follows:

- a gain or loss on a financial asset or liability classified as at fair value through profit or loss is recognised in profit or loss; and
- where financial assets and liabilities are carried at amortised cost, a gain or loss is recognised in profit or loss through the amortisation process when the financial asset or liability is derecognised or impaired.

12. FINANCIAL INSTRUMENTS (continued)

12.4 Cash and cash equivalents

Cash and cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to insignificant risk in change in value. These include cash on hand and deposits held on call with banks, where these amounts are held for the benefit of the group. Cash and cash equivalents are measured at initial recognition at fair value, and thereafter at amortised cost, provided that the group's objective in holding the assets is to realise the contractual cashflows and that cash flows associated with the assets comprise only payments of principle and interest amounts thereon, on specified dates. If these conditions are not met, they are measured subsequently at fair value.

12.5 Loans to/from group companies

These include loans to/from subsidiaries, associates, jointly controlled entities and fellow subsidiaries and are carried at amortised cost, as for other loans and receivables.

13. SHARE CAPITAL AND EQUITY

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

If the company reacquires its own equity instruments, those are deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the company's own equity instruments. Consideration paid or received shall be recognised directly in equity. The same principles are applied in the consolidated annual financial statements to the company's shares that are held by subsidiaries.

14. INSURANCE CONTRACTS

14.1 Classification of insurance contracts

A contract is classified as an insurance contract if it is a contract under which the group's insurance entities accept significant insurance risk from another party, the policyholder, by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event, the insured event, adversely affects the policyholder. Such contracts are accounted for in terms of IFRS 4: Insurance Contracts.

Insurance risk is risk other than financial risk, transferred from the holder of a contract to the issuer. Financial risk is defined as the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

An insurance risk is significant if the benefits to be paid under the contract, if the insured event occurs, are materially higher than any benefit to be paid under the contract should the insured event not occur.

The group classifies financial guarantee contracts as insurance contracts.

14.2 Recognition and measurement of insurance contracts

14.2.1 Premiums

Premium income relates to premiums received on insurance contract business entered into during the year, irrespective of whether the risk cover in terms of that contract relates in whole or in part to later accounting periods, together with any adjustments to premiums recognised in prior accounting periods and changes to the unearned premium liability. Premiums are shown gross of commission payable to intermediaries and management fees payable to underwriting managers and exclude value added taxation levied on premiums, where applicable.

Premiums are recognised as revenue (earned premiums) proportionally over the period of cover provided by the insurance contract. The portion of premium received on in-force contracts that relates to unexpired risks at the statement of financial position date is reported as the unearned premium liability. The liability is generally calculated on a time proportionate basis.

14. INSURANCE CONTRACTS (continued)

14.2 Recognition and measurement of insurance contracts (continued)

14.2.2 Acquisition costs and deferred acquisition costs

Acquisition costs, which include commissions paid to intermediaries, are recognised over the period in which the related premiums are earned. A deferred acquisition cost asset is recognised in respect of costs paid relating to premium income which remains unearned as at statement of financial position date.

14.2.3 Claims

Claims paid are recognised in profit or loss and consists of claims and related expenses paid in the year and changes in the provision for outstanding claims, together with any other adjustments to claims estimates from previous years. Where applicable, adjustments are made for salvage and subrogation recoveries received.

The provision for outstanding claims comprises the group's estimate of the undiscounted ultimate cost of settling all claims incurred but unpaid at the statement of financial position date, whether reported or not, and related internal and external claims handling expenses. Related anticipated reinsurance recoveries are disclosed separately as assets. These estimated reinsurance and other recoveries are assessed in a manner similar to the assessment of the claims outstanding. Outstanding claims are stated net of expected subrogation and salvage recoveries.

Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the group and statistical analyses, including an implicit risk margin to allow for the ultimate cost of claims incurred but not reported, and to estimate the expected ultimate cost of more complex claims that may be affected by external factors such as court rulings. The methods used to value these provisions, and the estimates made, are reviewed regularly.

14.2.4 Profit commission

In terms of agreements entered into with the underwriting managers, whereby a profit commission will become due and payable if a loss ratio below a stipulated level is achieved, a provision is made to cover estimated profit commissions payable. The provision is based on the performance of the affected underwriting managers as at the statement of financial position date. However, this provision may change should the results be affected by any claims developments after this date. Final payment of profit commissions are only made after these subsequent claims developments.

14.2.5 Reinsurance

Reinsurance contracts are contracts entered into by the group with reinsurers under which the group is compensated for the entire or a portion of losses arising on one or more of the insurance contracts issued by the group.

The group cedes reinsurance in the normal course of business for the purpose of limiting its net loss exposure. Reinsurance arrangements do not relieve the group from its direct obligations to its policyholders.

Only contracts that give rise to a significant transfer of insurance risk are accounted for as reinsurance. Amounts recoverable under such contracts are recognised in the same year as the related claim.

The benefits to which the group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers as well as longer-term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

Outward reinsurance premiums are recognised as an expense in accordance with the pattern of reinsurance services received.

14. INSURANCE CONTRACTS (continued)

14.2 Recognition and measurement of insurance contracts (continued)

14.2.5 Reinsurance (continued)

Amounts recoverable under reinsurance contracts are assessed for impairment at the statement of financial position date. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the group may not recover all amounts due and that there is a reliably measurable impact on the amounts that the group will receive from the reinsurer. Impairment losses are recognised in profit or loss.

14.2.6 Reinsurance commission

Commission on reinsurance contracts placed with reinsurers is received to cover the administration costs of the group and is earned over the period over which the premium is earned. The commission is earned consistent with the pattern of risk of the underlying direct insurance policies.

14.2.7 Statutory contingency reserve

The contingency reserve is calculated in terms of the Short Term Insurance Act at the higher of 10% of net premium written over the last 12 months and the reserve held at the previous year-end. Transfers to and from this reserve are taken directly to or from retained income.

14.2.8 Liquidity adequacy test and unexpired risk provision

An unexpired risk provision is raised for any deficiencies arising when unearned premiums, net of associated acquisition costs, are insufficient to meet expected claims and expenses after taking into account future investment return on the investments supporting the unearned premiums provision and unexpired risk provision. The expected claims are calculated having regard to events that have occurred prior to the statement of financial position date. Unexpired risks surpluses and deficits are aggregated where business classes are managed together.

14.2.9 Policyholder liabilities under long-term insurance contracts

The group's liabilities under unmatured policies of long-term insurance contracts are calculated at the statement of financial position date by the Independent Statutory Actuary in accordance with prevailing legislation, on the 'Financial Soundness Valuation' basis using a discounted cash flow methodology as prescribed by PGN 104 issued by the Actuarial Association of South Africa. The transfer to or from the policyholder liabilities under insurance contracts reflected in profit or loss represents the increase or decrease in actuarial liabilities. The reports of the Statutory Actuary are included in the annual financial statements of the relevant subsidiary companies and are available to shareholders on request.

15. OFFSETTING

Financial assets and liabilities are offset and the net reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is the intention to settle on a net basis or realise the asset and settle the liability simultaneously.

16. REVENUE RECOGNITION

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised on an accrual basis in accordance with the substance of the relevant transaction and by reference to the stage of completion of the transaction at the statement of financial position date. The outcome of a transaction can be measured reliably when all the following conditions are satisfied:

– the amount of revenue can be measured reliably;

– it is probable that the economic benefits associated with the transaction will flow to the group;

– the stage of completion of the transaction at the statement of financial position date can be measured reliably; and

– the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

The stage of completion is determined with reference to the amount of work performed in relation to the total transaction.

ACCOUNTING POLICIES (continued)

16. REVENUE RECOGNITION (continued)

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue shall be recognised only to the extent of the expenses recognised that are recoverable.

Service fees are recognised as revenue over the period during which the service is performed.

Rental income is recognised on a straight-line basis over the lease term.

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for goods and services provided in the normal course of business, net of trade discounts and volume rebates, and value-added tax.

17. INCOME FROM INVESTMENTS

Dividends are recognised when the right to receive payment, which is registered ownership on the last day to register, is established.

Interest is recognised on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity of the financial instrument.

18. OPERATING LEASES

Leases under which the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Rights and obligations incurred under operating leases are accrued in profit or loss over the period of the lease on a straight-line basis.

19. FINANCE LEASES

Assets held under finance lease are capitalised. At the commencement of the lease these assets are reflected at the lower of fair value and the present value of the minimum lease payments. The related liability is recognised at an equivalent amount. Finance charges are written off over the periods of the leases based on the effective rates of interest.

20. EMPLOYEE BENEFITS

Short-term employee benefits

The cost of short-term employee benefits (those payable within 12 months after the service is rendered, such as paid leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render the service that increases their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of profit sharing and bonus payments are recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Share-based compensation

The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in the assumptions about the number of options that are expected to become exercisable. At each statement of financial position date, the group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in profit or loss and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received, net of any directly attributable transaction costs, are credited to share capital and share premium when the options are exercised.

21. IMPAIRMENT OF ASSETS

Reinsurance assets

The group assesses at each statement of financial position date whether there is objective evidence that reinsurance assets are impaired. The reinsurance assets are impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the reinsurance asset that can be reliably estimated.

Objective evidence that a reinsurance asset is impaired includes observable data that come to the attention of the group about the following events:

– significant financial difficulty of the reinsurer;

– a breach of contract, such as default; or

– it becoming probable that the reinsurer will enter bankruptcy or other financial reorganisation.

The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed in profit or loss.

Receivables related to insurance contracts

Receivables and payables are recognised when due. These include amounts due to and from insurance contract holders. If there is objective evidence that the insurance receivable is impaired, the group reduces the carrying amount of the insurance receivable accordingly and recognises the impairment loss in profit or loss. The group gathers the objective evidence that an insurance receivable is impaired using the same process adopted for reinsurance assets. The impairment loss is also calculated under the same method used for reinsurance assets.

Other assets

The group assesses at each statement of financial position date whether there is any indication that an asset may be impaired. If any such indication exists, the group estimates the recoverable amount of the asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. The reduction is an impairment loss, which is immediately recognised in profit or loss.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation other than goodwill is recognised immediately in profit or loss. Any reversal of an impairment loss of a revalued asset is treated as revaluation increase.

22. TAXATION

Tax expenses and income

Current tax and deferred tax is charged against profit or loss and is based on the expected taxable income for the year, as adjusted for items which are non-assessable or disallowed, as well as any adjustment of tax payable for previous years, except to the extent that the tax arises from:

– a transaction or event which is recognised, in the same or a different period, directly in equity; or

– a business combination.

Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from, or paid to, the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the statement of financial position date.

22. TAXATION (continued)

Deferred taxation

Deferred tax is accounted for using the liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base (or tax value) used in the computation of current taxable profits.

A deferred tax asset or liability is recognised for all taxable temporary differences, except to the extent that the deferred tax asset or liability arises from the initial recognition of goodwill, or the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit/tax loss.

No deferred tax asset or liability is recognised for any taxable temporary differences associated with investment in subsidiaries, associates and interests in jointly controlled entities, where the parent, investor or venturer is able to control the timing reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised.

A deferred tax asset is recognised for the carry forward of unused tax losses and unused Secondary Tax on Companies ("STC") credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused STC credits can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the statement of financial position date.

In respect of temporary differences arising out of fair value adjustments on investment properties, deferred taxation is provided at the income tax rate to the extent that the carrying value is expected to be recovered through use of the property, or at the Capital Gains Tax rate, to the extent that recovery is anticipated to be mainly through disposal.

Secondary Taxation on Companies

Dividends declared/paid are subject to STC, but may be reduced by dividends received during the dividend cycle. Where the dividends received exceed dividends declared/paid within a cycle, there is no liability to pay STC. The excess dividends received are carried forward to the next dividend cycle and are disclosed as STC credits in the taxation note. Where dividends declared/paid exceed the dividends received during a cycle, the relevant rates of STC is applied against the difference between the dividends received and those declared/paid. This tax amount is disclosed as part of the tax charge in profit or loss and the notes to the financial statements.

23. FOREIGN CURRENCIES

A foreign currency transaction is recorded on initial recognition in Rand, by applying to the foreign currency amount the spot exchange rate between the functional currency at the date of the transaction.

At each statement of financial position date:

– foreign currency monetary items are translated using the closing rate;
– non-monetary items that are measured in terms of historical cost in foreign currency are translated using the exchange rate at the date of the transaction; and
– non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated in initial recognition during the period or in previous annual financial statements, are recognised in profit or loss in the period in which they arise.

When a gain or loss on a non-monetary item is recognised directly in equity, any exchange component of that gain or loss is recognised directly in equity. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

Cash flows arising from transactions in a foreign currency are recorded in Rand by applying to the foreign currency amount the exchange rate between the Rand and the foreign currency at the date of the cash flow.

24. CHANGES IN ACCOUNTING POLICY

There have been no changes in the accounting policy in the current year.

25. STATEMENTS AND INTERPRETATIONS NOT YET EFFECTIVE

At the date of authorisation of these financial statements, the following IFRS and International Financial Reporting Interpretations Committee ("IFRIC") Standards and Interpretations, which are expected to be relevant to the group's financial reporting in the future, were in issue but not yet effective. The group has not early adopted any of these pronouncements. Certain other new Standards and Interpretations have been issued, but are not expected to have a material impact on the group's annual financial statements.

25.1 IFRS 9: Financial Instruments

The Financial Instruments standard to replace IAS 39 is being introduced in a phased approach. The first phase, issued in 2009 and effective for the 2014 financial year, deals with the categorisation and accounting for financial assets. It categorises financial assets as either being carried at amortised cost or fair value, depending on the business model and contractual cashflows of the group. This first phase was early adopted by the group in the previous financial year.

The second phase, issued in 2010, is also effective for the 2014 financial year and has not been early adopted by the group. This phase extends the scope of IFRS 9 to address the classification and measurement of liabilities and derecognition criteria, amongst other.

Future phases will address, *inter alia*, hedge accounting and impairments to financial instruments, but have not yet been released as a final standard.

25.2 IFRS 10: Consolidated Financial Statements

The statement becomes effective 1 January 2013 and affects the 2014 financial year. It takes a new approach to the concept of control, looking at the returns an entity has rights to, the power it exerts over another entity and the connection between the two.

The statement is not expected to have a material impact on the group.

25.3 IFRS 11: Joint Arrangements

The statement becomes effective 1 January 2013 and affects the 2014 financial year. It differentiates between joint operations and jointly controlled entities and prescribes the equity method in accounting for jointly controlled entities in consolidated accounts, removing the option of proportionate consolidation.

The statement will not materially impact the group, as the group has elected to account for jointly controlled entities according to the equity method in terms of the current statement.

25.4 IFRS 12: Disclosure of Interests in Other Entities

The statement becomes effective 1 January 2013 and affects the 2014 financial year. It consolidates disclosure requirements for interests held in other entities, whether subsidiaries, associates, jointly controlled entities or unconsolidated entities.

The statement, while requiring additional disclosures, is not expected to affect the group significantly.

25.5 IFRS 13: Fair Value Measurement

The statement becomes effective 1 January 2013 and affects the 2014 financial year. It consolidates disclosure requirements and guidance on measuring fair value of the various classes of assets and liabilities into a single statement. Fair value is defined as the 'exit price' or the value an entity would receive (or pay) for transferring an asset (or liability) in the primary market for that asset (or liability).

Management is in the process of assessing the impact of the new statement, but no significant impact is expected.

ACCOUNTING POLICIES (continued)

25. STATEMENTS AND INTERPRETATIONS NOT YET EFFECTIVE (continued)

25.6 Amendments to IAS 1: Presentation of Financial Statements

The amendments become effective 1 July 2012 and affect the 2013 financial year. It requires the group to differentiate between items of Other Comprehensive Income that may in future be reclassified to profit or loss and items that will not be reclassified to profit or loss. The Statement of Comprehensive Income will be renamed the Statement of Profit or Loss and Other Comprehensive Income, but may still be represented as two separate statements.

These amendments are not expected to have a significant impact on the group.

25.7 Amendments to IAS 12: Income Taxes

The amendments become effective 1 January 2012 and affect the 2013 financial year. This amendment introduces a rebuttable presumption for the purposes of determining the rate to be applied to calculating deferred tax, that the carrying value of investment properties will be recovered through a sale. Certain conditions need to be fulfilled in rebutting the presumption.

These amendments are not expected to have a significant impact on the group.

25.8 Amendments to IAS 24: Related Parties

The amendments became effective 1 January 2011 and affect the 2012 financial year. The amendments introduce certain refinements to the definition of a related party.

The statement may require additional disclosures but will have no impact on the group's accounting policies.

25.9 Amendments to IAS 27: Separate Financial Statements and IAS 28: Investments in Associates and Joint Ventures

The amendments become effective 1 January 2013 and affects the 2014 financial year. Amendments have been made to these statements to bring them in line with the new IFRS 10, 11 and 12. IAS 28 continues to prescribe the mechanics of equity accounting, however changes to the scope have been made as a result of the publication of IFRS 11.

25.10 Future standards

It is noted that the International Accounting Standards Board ("IASB") is currently engaged in projects reviewing the accounting standards and principles for accounting for Insurance Contracts, Revenue recognition and leases. While the final standards have not yet been released and thus the impact cannot be assessed at this stage, it is possible that these changes will materially impact accounting policies and disclosures in the future.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

1. GROUP FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

The carrying amounts presented in the statement of financial position relate to the following categories of assets and liabilities:

1.1 Assets

	2011		2010	
	Financial assets at amortised cost R'000	**Fair value through profit and loss R'000**	Financial assets at amortised cost R'000	Fair value through profit and loss R'000
Non-current				
Loans receivable	**5 351**	**–**	6 884	–
Investments	**–**	**63 494**	–	26 935
– Listed investments	**–**	**51 861**	–	15 754
– Unlisted investments	**–**	**11 633**	–	11 181
Current				
Investments	**–**	**4 592**	–	3 858
– Listed investments	**–**	**1 629**	–	1 115
– Unlisted investments	**–**	**2 963**	–	2 743
Trade and other receivables	**78 761**	**–**	91 519	–
Cash and cash equivalents	**269 862**	**–**	–	270 255
	353 974	**68 086**	98 403	301 048

1.2 Liabilities

	2011 Financial liabilities at amortised cost R'000	2010 Financial liabilities at amortised cost R'000
Non-current		
Interest-bearing borrowings	**3 796**	12 661
Current		
Trade and other payables	**122 341**	102 268
Current portion of interest-bearing borrowings	**3 175**	6 235
Bank overdraft	**–**	9
	129 312	121 173

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

1. GROUP FINANCIAL ASSETS AND LIABILITIES BY CATEGORY (continued)

1.3 Fair value hierarchy

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:

	Assets			
	Level 1 R'000	**Level 2 R'000**	**Level 3 R'000**	**Total R'000**
2011				
Listed investments	**53 490**	**–**	**–**	**53 490**
Unlisted investments	**10 659**	**2 963**	**974**	**14 596**
	64 149	**2 963**	**974**	**68 086**
2010				
Listed investments	16 869	–	–	16 869
Unlisted investments	10 234	2 743	947	13 924
	27 103	2 743	947	30 793

There have been no significant 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;
- 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; and
- The fair value of the financial assets classified in Level 3 has been determined by inputs that are not based on observable market data in that the future expected cash flows from the underlying unlisted entity have been discounted at market related rates. The financial instruments within this level can be reconciled from beginning to ending balances as follows:

	2011 R'000	**2010 R'000**
Financial assets at fair value through profit and loss		
Opening balance	**947**	1 866
Profits (Losses) recognised in profit and loss	**27**	(919)
Closing balance	**974**	947

Changing inputs to the Level 3 valuations to reasonable alternative assumptions would not significantly change amounts recognised in profit and loss, total assets, total liabilities or total equity.

2. COMPANY FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

The carrying amounts presented in the statement of financial position relate to the following categories of assets and liabilities:

2.1 Assets

	2011 Financial assets at amortised cost R'000	2010 Financial assets at amortised cost R'000	2010 Fair value through profit and loss R'000
Current			
Trade and other receivables	**200**	105	–
Cash and cash equivalents	**2 202**	–	13 190
	2 402	105	13 190

2.2 Liabilities

	2011 Financial liabilities at amortised cost R'000	2010 Financial liabilities at amortised cost R'000
Current		
Loans payable	**3 433**	3 346
Trade and other payables	**384**	518
	3 817	3 864

3. GAINS AND LOSSES ON FINANCIAL ASSETS AND FINANCIAL LIABILITIES PER CATEGORY

The following table presents the total net gains or losses for each category of financial assets and financial liabilities:

3.1 GROUP

		Financial assets at amortised cost R'000	**Fair value through profit and loss R'000**	**Financial liabilities at amortised cost R'000**	**Total R'000**
3.1.1	*2011*				
	Interest received	**11 922**	**–**	**–**	**11 922**
	Finance charges	**–**	**–**	**(1 300)**	**(1 300)**
	Dividend income	**–**	**1 972**	**–**	**1 972**
	Realised fair value adjustment of financial assets	**–**	**384**	**–**	**384**
	Unrealised fair value adjustment of financial assets	**–**	**10 311**	**–**	**10 311**
	Amounts written off	**(5 949)**	**–**	**–**	**(5 949)**
		5 973	**12 667**	**(1 300)**	**17 340**
3.1.2	*2010*				
	Interest received	488	15 264	–	15 752
	Finance charges	–	–	(2 097)	(2 097)
	Dividend income	–	1 187	–	1 187
	Realised fair value adjustment of financial assets	–	2 382	–	2 382
	Unrealised fair value adjustment of financial assets	–	(24)	–	(24)
	Amounts written off	(2 938)	–	–	(2 938)
		(2 450)	18 809	(2 097)	14 262

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

3. GAINS AND LOSSES ON FINANCIAL ASSETS AND FINANCIAL LIABILITIES PER CATEGORY (continued)

3.2 COMPANY

	Financial assets at amortised cost R'000	Fair value through profit and loss R'000	Financial liabilities at amortised cost R'000	Total R'000
3.2.1 2011				
Interest received	**1 058**	**–**	**–**	**1 058**
Finance charges	**–**	**–**	**(101)**	**(101)**
Dividend income	**–**	**6 800**	**–**	**6 800**
Impairment losses	**(106)**	**–**	**–**	**(106)**
	952	**6 800**	**(101)**	**7 651**
3.2.2 2010				
Interest received	–	1 625	–	1 625
Finance charges	–	–	(1)	(1)
Dividend income	–	4 400	–	4 400
	–	6 025	(1)	6 024

4. PROPERTY, PLANT AND EQUIPMENT

4.1 GROUP

	2011 Cost R'000	Accumulated depreciation R'000	Net carrying value R'000	2010 Cost R'000	Accumulated depreciation R'000	Net carrying value R'000
– Owner occupied properties (Note A)	**6 351**	**–**	**6 351**	6 351	–	6 351
– Leasehold improvements	**1 203**	**(844)**	**359**	1 177	(575)	602
– Computer hardware	**6 945**	**(4 464)**	**2 481**	5 835	(3 665)	2 170
– Office equipment	**4 351**	**(2 665)**	**1 686**	4 452	(2 430)	2 022
– Furniture and fittings	**6 572**	**(3 196)**	**3 376**	6 656	(2 952)	3 704
– Motor vehicles	**342**	**(138)**	**204**	248	(99)	149
	25 764	**(11 307)**	**14 457**	24 719	(9 721)	14 998

Note A: A register that contains full details of all properties is available for inspection at the group's registered office

	Owner occupied properties R'000	Leasehold improvements R'000	Computer hardware R'000	Office equipment R'000	Furniture and fittings R'000	Motor vehicles R'000	Total R'000
2011							
Movement for the year							
– Opening carrying value	**6 351**	**602**	**2 170**	**2 022**	**3 704**	**149**	**14 998**
– Reclassification	**–**	**–**	**(4)**	**10**	**(5)**	**–**	**1**
– Additions	**–**	**26**	**1 401**	**711**	**664**	**98**	**2 900**
– Disposals	**–**	**–**	**(18)**	**(408)**	**(217)**	**–**	**(643)**
– Depreciation	**–**	**(269)**	**(1 068)**	**(649)**	**(770)**	**(43)**	**(2 799)**
	6 351	**359**	**2 481**	**1 686**	**3 376**	**204**	**14 457**

4. PROPERTY, PLANT AND EQUIPMENT (continued)

4.1 GROUP (continued)

	Owner occupied properties R'000	Lease-hold improve-ments R'000	Com-puter hard-ware R'000	Office equip-ment R'000	Furniture and fittings R'000	Motor vehicles R'000	Total R'000
2010							
Movement for the year							
– Opening carrying value	6 356	612	2 205	1 551	4 643	281	15 648
– Reclassification	–	–	–	213	(213)	–	–
– Additions	–	242	1 049	807	370	114	2 582
– Reclassified to investment properties	(5)	–	–	–	–	–	(5)
– Disposals	–	–	(12)	–	–	(8)	(20)
– Depreciation	–	(252)	(900)	(507)	(828)	(82)	(2 569)
– Disposed of as part of sale of business	–	–	(172)	(42)	(268)	(156)	(638)
	6 351	602	2 170	2 022	3 704	149	14 998

4.2 COMPANY

	2011 Cost R'000	**Accumulated depreciation R'000**	**Net carrying value R'000**	2010 Cost R'000	Accumulated depreciation R'000	Net carrying value R'000
– Leasehold improvements	**67**	**(67)**	**–**	67	(38)	29
– Computer hardware	**195**	**(143)**	**52**	196	(120)	76
– Office equipment	**55**	**(48)**	**7**	55	(42)	13
– Furniture and fittings	**248**	**(174)**	**74**	248	(126)	122
	565	**(432)**	**133**	566	(326)	240

	Leasehold improve-ments R'000	Computer hardware R'000	Office equipment R'000	Furniture and fittings R'000	Total R'000
2011					
Movement for the year					
– Opening carrying value	**29**	**76**	**13**	**122**	**240**
– Additions	**–**	**12**	**–**	**–**	**12**
– Depreciation	**(29)**	**(36)**	**(6)**	**(48)**	**(119)**
	–	**52**	**7**	**74**	**133**
2010					
Movement for the year					
– Opening carrying value	24	53	16	155	248
– Additions	–	43	–	–	43
– Disposals	–	(6)	–	–	(6)
– Depreciation	5	(14)	(3)	(33)	(45)
	29	76	13	122	240

	GROUP		COMPANY	
	31 August 2011 R'000	31 August 2010 R'000	**31 August 2011 R'000**	31 August 2010 R'000
5. INTANGIBLE ASSETS				
– Goodwill (Note 5.1)	**44 887**	44 887	**–**	–
– Computer software (Note 5.2)	**1 192**	1 380	**33**	53
– Broker relationships and other (Note 5.3)	**10**	10	**–**	–
	46 089	46 277	**33**	53
5.1 Goodwill				
5.1.1 Net carrying value				
– Cost	**67 128**	67 308	**–**	–
– Impairment	**(22 241)**	(22 421)	**–**	–
– Net carrying value	**44 887**	44 887	**–**	–
5.1.2 Goodwill per cash generating unit				
– Anthony Richards & Associates Proprietary Limited	**10 516**	10 516	**–**	–
– Black Ginger 92 Proprietary Limited	**1 992**	1 992	**–**	–
– Conduit Risk and Insurance Holdings Proprietary Limited	**32 379**	32 379	**–**	–
	44 887	44 887	**–**	**–**
5.2 Computer software				
5.2.1 Net carrying value				
Cost	**6 402**	5 743	**161**	157
Amortisation	**(5 210)**	(4 363)	**(128)**	(104)
Net carrying value	**1 192**	1 380	**33**	53
5.2.2 Movement for the year				
At beginning of year	**1 380**	1 543	**53**	72
Additions	**567**	511	**4**	11
Disposals	**(34)**	(47)	**–**	(7)
Disposal as part of sale of business/subsidiary	**–**	(44)	**–**	–
Reclassification to property, plant and equipment	**(1)**	–	**–**	–
Amortisation	**(720)**	(583)	**(24)**	(23)
	1 192	1 380	**33**	53

The remaining expected useful life of computer software is 1 to 5 years.

	GROUP		COMPANY	
5.3 Broker relationships and other				
5.3.1 Net carrying value				
Cost	**10**	10	**–**	–
Amortisation	**–**	–	**–**	–
Net carrying value	**10**	10	**–**	–

5. INTANGIBLE ASSETS (continued)

5.4 Impairment testing of intangible assets

5.4.1 Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the following individual cash generating units, which are reportable segments for impairment testing:

- Anthony Richards & Associates Proprietary Limited;
- Black Ginger 92 Proprietary Limited; and
- Conduit Risk and Insurance Holdings Proprietary Limited ("CRIH").

The recoverable amount of each unit has been determined based on a "value in use calculation" that:

- uses cash flow projections based on actual and budgeted results covering a one-year period;
- adjusts such projections with a variable growth rate of between 5% and 10% in order to take account of future prospects in each unit for a period of five years;
- extrapolates cash flows beyond the fifth year by using growth rates ranging between 4.0% and 5.5%;
- discounts cash flows at after-tax rates ranging between 18.3% and 19.9%.

These calculations indicate that there is no need for impairment of the carrying value of goodwill in the current financial period.

The directors believe that any reasonable change in the key assumptions would not cause the carrying amounts of the cash generating units to exceed the recoverable amounts that remain.

5.4.2 Impairment testing of other intangible assets

The useful life and residual value of each asset is assessed twice annually and its carrying value is restated by applying the appropriate impairment or amortisation charge against the statement of comprehensive income.

These calculations indicate that there is no need for impairment of the carrying value of other intangible assets in the current financial period.

	GROUP		COMPANY	
	31 August 2011 R'000	31 August 2010 R'000	**31 August 2011 R'000**	31 August 2010 R'000
6. LOANS RECEIVABLE				
Unsecured loans	**6 076**	6 884	**–**	–
Less: Impairment	**(725)**	–	**–**	–
	5 351	6 884	**–**	–

Unsecured loans' repayment and interest terms are as follows:

- R0.77 million carries interest at prime and is repayable by 31 August 2014;
- R1.91 million carries interest at prime plus 1% and is repayable in quarterly instalments of R0.51 million plus interest;
- R2.61 million carries interest at prime and is repayable by 15 March 2015; and
- the remainder is interest free and there is no fixed repayment term.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

	GROUP		COMPANY	
	31 August 2011 R'000	31 August 2010 R'000	**31 August 2011 R'000**	31 August 2010 R'000
7. DEFERRED TAX				
Balance at beginning of year	**2 420**	(1 994)	**–**	–
Gain as part of sale of business/subsidiary	–	192	**–**	–
Charge against the statement of comprehensive income	**(402)**	4 222	**–**	–
Balance at end of year	**2 018**	2 420	**–**	–
Relating to:	**2 018**	2 420	**–**	–
Provisions and accruals	**(1 280)**	486	**–**	–
Accelerated capital allowances	**(774)**	(1 025)	**–**	–
Fair valuing of long-term loans	**203**	–	**–**	–
Unrealised gains on investment properties	**(1 505)**	(1 853)	**–**	–
Unrealised gains on investments	**(3 346)**	(4 010)	**–**	–
Estimated tax losses	**8 720**	8 822	**–**	–
Comprising:	**2 018**	2 420	**–**	–
Deferred tax assets	**7 190**	7 976	**–**	–
Deferred tax liabilities	**(5 172)**	(5 556)	**–**	–

8. INVESTMENT PROPERTIES

	GROUP		COMPANY	
	31 August 2011 R'000	31 August 2010 R'000	**31 August 2011 R'000**	31 August 2010 R'000
8.1 Net carrying value				
Cost	**2 006**	2 001	**–**	–
Fair value adjustment	**1 436**	1 402	**–**	–
Net carrying value	**3 442**	3 403	**–**	–
8.2 Movement for the year				
At beginning of year	**3 403**	8 545	**–**	–
Additions	**5**	17	**–**	–
Reclassification from owner occupied properties	**–**	5	**–**	–
Reclassification to held for sale	**–**	(4 800)	**–**	–
Fair value adjustment (Note 26)	**34**	(364)	**–**	–
	3 442	3 403	**–**	–

A register that contains full details of all properties is available for inspection at the group's registered office.

The fair value of each investment property was determined by the following professional property valuator with the use of open market values:

– Mills Fitchet Magnus Penny Proprietary Limited: Gibbons, A.R. (AEI (ZIM), FIV (SA))

	GROUP		COMPANY	
	31 August 2011 R'000	31 August 2010 R'000	**31 August 2011 R'000**	31 August 2010 R'000
9. INVESTMENT IN ASSOCIATES				
At beginning of year	**756**	2 469	**49**	–
Disposals	**(1 478)**	(73)	**–**	–
Attributable portion of earnings	**545**	57	**–**	–
Loans	**(203)**	34	**57**	49
Dividend received	**(230)**	(360)	**–**	–
Reversal of impairment (Impairment)	**891**	(1 371)	**(106)**	–
Balance at end of year	**281**	756	**–**	49

Details of the investments are set out in Notes 35.1 and 35.2

Associates' summary information

The aggregate assets, liabilities, revenue and profits (losses) of the associates, all of which are unlisted, were as follows:

	Assets R'000	Liabilities R'000	Revenue R'000	Profit R'000
2011				
Various, as listed in Note 35.1	**12 876**	**(10 784)**	**21 033**	**2 084**
2010				
Various, as listed in Note 35.1	18 153	(9 265)	12 182	207

	GROUP		COMPANY	
	31 August 2011 R'000	31 August 2010 R'000	**31 August 2011 R'000**	31 August 2010 R'000
10. INVESTMENT IN JOINTLY CONTROLLED ENTITIES				
Acquisitions	**2 433**	–	**–**	–
Loans	**770**	–	**–**	–
Attributable portion of earnings	**122**	–	**–**	–
Balance at end of year	**3 325**	–	**–**	–

Details of the investments are set out in notes 35.3 and 35.4.

Jointly controlled entities' summary information

The aggregate assets, liabilities, revenue and profits of the jointly controlled entities, all of which are unlisted, were as follows:

	Assets R'000	Liabilities R'000	Revenue R'000	Profit R'000
2011				
Various, as listed in Note 35.3	**689**	**(113)**	**6 103**	**243**

	COMPANY 31 August 2011 R'000	COMPANY 31 August 2010 R'000
11. INVESTMENT IN SUBSIDIARIES		
Unlisted shares at cost, less amounts written off	**13 085**	13 085
Equity loans	**122 305**	123 387
Other amounts due by subsidiaries	**36 335**	16 948
Net carrying value (refer Notes 35.5 and 35.6)	**171 725**	153 420
Directors' valuation	**298 404**	264 961

The directors' valuation of the underlying shares for trading entities is based on cash flow projections using the principles described in section 5.4.1, while the valuation of non-trading entities is based on the entities' Net Asset Value, adjusted for the recoverability or forgiveness of inter-group loans receivable or payable.

	GROUP 31 August 2011 R'000	GROUP 31 August 2010 R'000	COMPANY 31 August 2011 R'000	COMPANY 31 August 2010 R'000
12. INVESTMENTS HELD AT FAIR VALUE THROUGH PROFIT AND LOSS				
12.1 Long-term investments				
Listed investments (Note 12.1.1)	**51 861**	15 754	**–**	–
– Listed equities	**45 471**	9 939	**–**	–
– Bonds	**6 390**	5 815	**–**	–
Unlisted investments (Note 12.1.2)	**11 633**	11 181	**–**	–
	63 494	26 935	**–**	–
12.1.1 Listed equities and bonds at valuation				
Opening net book value	**15 754**	4 196	**–**	–
Additions	**37 712**	26 901	**–**	–
Disposals	**(11 497)**	(17 321)	**–**	–
Fair value adjustment (Note 26)	**9 892**	1 978	**–**	–
Closing net book value	**51 861**	15 754	**–**	–
12.1.2 Unlisted investments at valuation				
Opening net book value	**11 181**	1 866	**–**	–
Additions	**–**	9 500	**–**	–
Fair value adjustment (Note 26)	**452**	(185)	**–**	–
Closing net book value	**11 633**	11 181	**–**	–
Directors' valuation at net book value	**11 633**	11 181	**–**	–
12.2 Short-term investments				
– Listed investments (Note 12.2.1)	**1 629**	1 115	**–**	–
– Unlisted investments (Note 12.2.2)	**2 963**	2 743	**–**	–
	4 592	3 858	**–**	–
12.2.1 Listed equities at valuation				
Opening net book value	**1 115**	858	**–**	–
Fair value adjustment (Note 26)	**514**	257	**–**	–
Closing net book value	**1 629**	1 115	**–**	–

	GROUP		COMPANY	
	31 August 2011 R'000	31 August 2010 R'000	**31 August 2011 R'000**	31 August 2010 R'000
12. INVESTMENTS HELD AT FAIR VALUE THROUGH PROFIT AND LOSS (continued)				
12.2 Short-term investments (continued)				
12.2.2 Unlisted investments at valuation				
Opening net book value	**2 743**	–	**–**	–
Additions	**–**	2 500	**–**	–
Accrued dividends (Note 26)	**–**	18	**–**	–
Accrued interest (Note 26)	**220**	225	**–**	–
Closing net book value	**2 963**	2 743	**–**	–
13. INSURANCE ASSETS AND LIABILITIES				
13.1 Gross insurance liabilities				
Claims reported but not paid	**(120 688)**	(100 694)	**–**	–
Claims incurred but not reported	**(31 460)**	(31 272)	**–**	–
Unearned premiums, net of deferred acquisition costs	**(227 617)**	(175 882)	**–**	–
– Unearned premiums	**(341 756)**	(262 580)	**–**	–
– Deferred acquisition costs	**114 139**	86 698	**–**	–
Total insurance liabilities	**(379 765)**	(307 848)	**–**	–
13.2 Recoverable from reinsurers				
Claims reported but not paid	**74 593**	36 472	**–**	–
Claims incurred but not reported	**19 577**	19 741	**–**	–
Unearned premiums, net of deferred reinsurance commission revenue	**221 856**	172 329	**–**	–
– Unearned premiums	**335 218**	258 441	**–**	–
– Deferred reinsurance commission revenue	**(113 362)**	(86 112)	**–**	–
Reinsurers' share of insurance liabilities	**316 026**	228 542	**–**	–
13.3 Net insurance liabilities				
Claims reported but not paid	**(46 095)**	(64 222)	**–**	–
Claims incurred but not reported	**(11 883)**	(11 531)	**–**	–
Unearned premiums	**(5 761)**	(3 553)	**–**	–
Total net insurance liabilities	**(63 739)**	(79 306)	**–**	–

13.4 Incurred But Not Reported ("IBNR") provision

The directors have estimated that the IBNR provision calculated at 7%, as required by the Short-Term Insurance Act, is excessive in terms of the portfolio of business underwritten by the group. In light of this, the provision has been revised and calculated at an average rate of 4.8% for the 2011 financial year (2010: 4.3%).

Had the IBNR provision been calculated at the statutory rate of 7%, the net provision would have been R5.28 million greater (2010: R7.24 million greater) than the net R11.88 million currently provided for (2010: R11.53 million).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

13. INSURANCE ASSETS AND LIABILITIES (continued)

13.4 Incurred But Not Reported ("IBNR") provision (continued)

At the reporting date the group performed a detailed exercise (that included the use of cumulative chainladder calculations in the three largest underwriting managers) in order to assess the required reserves and run-off assets in the insurance division. Although showing quite significant variances between the IBNR and asset levels in the various books, it was determined that overall levels of current reserving is sufficient when compared to the best estimate of what these reserves should be. IBNR on the remaining schemes continue to be raised on 4% as it has been found that sensitivity to IBNR is very low in many of these schemes – a move in reserving merely translates into a corresponding move in the commission payable. The average value across the division, determined as a result of this exercise, approximates 4.8% of the net insurance premium for the year.

It is important to note that, for the purpose of calculating the solvency margin in terms of the Financial Services Board requirements, the IBNR provision has been calculated at the statutory 7%.

	GROUP		COMPANY	
	31 August 2011 R'000	31 August 2010 R'000	**31 August 2011 R'000**	31 August 2010 R'000
14. TRADE AND OTHER RECEIVABLES				
Deposits and prepaid expenses	**2 023**	1 172	**85**	74
Insurance receivables	**52 580**	74 035	**–**	–
Trade receivables	**20 158**	12 935	**75**	409
Loans – Secured	**263**	240	**–**	–
Loans – Unsecured	**33**	614	**–**	–
Other receivables – Unsecured	**6 587**	3 826	**40**	–
Less: Impairment	**(2 883)**	(1 303)	**–**	(378)
	78 761	91 519	**200**	105
Secured loans relating to a loan made by the IMR Share Trust to a director of the company and secured by shares	**263**	240	**–**	–
Value of security relating to the above loan	**1 400**	1 040	**–**	–

Secured loans attract interest at prime and are repayable by mutual agreement.

Unsecured loans attract no interest and have no fixed repayment dates.

The directors are of the opinion that the value of the above receivables approximates their fair value.

15. CASH AND CASH EQUIVALENTS

Comprising:

	GROUP 2011	GROUP 2010	COMPANY 2011	COMPANY 2010
Cash	**120**	9	**–**	–
Call accounts	**234 628**	232 298	**2 164**	13 190
Current accounts	**35 114**	37 948	**38**	–
	269 862	270 255	**2 202**	13 190
Bank overdraft	**–**	(9)	**–**	–
Net cash and cash equivalents	**269 862**	270 246	**2 202**	13 190

Balances on call include amounts held on call at banks, as well as amounts held on call at stockbrokers.

	GROUP		COMPANY	
	31 August 2011 R'000	31 August 2010 R'000	**31 August 2011 R'000**	31 August 2010 R'000
16. NON-CURRENT ASSETS HELD FOR SALE: PROPERTY				
16.1 Net carrying value				
Cost	**1 782**	10 824	**–**	–
Fair value adjustment	**2 968**	4 226	**–**	–
Net carrying value	**4 750**	15 050	**–**	–
16.2 Movement for the year				
At beginning of year	**15 050**	14 900	**–**	–
Reclassification from investment properties	**–**	4 800	**–**	–
Disposals	**(10 600)**	(3 836)	**–**	–
Fair value adjustment (Note 26)	**300**	(814)	**–**	–
	4 750	15 050	**–**	–

Certain properties have been presented as 'held for sale' following approval by the Investment Committee to dispose of them within the next 12 months. It is anticipated that the properties will be disposed of directly or through agents, subject to a minimum price. A register that contains full details of all properties available for sale is available for inspection at the group's registered office.

The fair value of each property held for sale was determined by the following professional property valuator with the use of open market values:

– Mills Fitchet Magnus Penny Proprietary Limited:

Gibbons, A.R. (AEI (ZIM), FIV (SA))

	GROUP		COMPANY	
17. ORDINARY SHARE CAPITAL				
Authorised				
500 000 000 ordinary shares of 1 cent each (2010: 500 000 000)	**5 000**	5 000	**5 000**	5 000
Issued				
256 379 818 ordinary shares of 1 cent each (2010: 256 379 818)	**2 564**	2 564	**2 564**	2 564
Treasury shares:				
– 3 509 760 ordinary shares of 1 cent each held by Conduit Management Services Proprietary Limited (2010: 3 509 760)	**(35)**	(35)	**–**	–
– 1 650 370 ordinary shares of 1 cent each held by the IMR Share Trust (2010: 1 650 370)	**(17)**	(17)	**–**	–
– 943 091 ordinary shares of 1 cent each held by Marble Gold 213 Proprietary Limited (2010: 943 091)	**(9)**	(9)	**–**	–
	2 503	2 503	**2 564**	2 564

	GROUP		COMPANY	
	31 August 2011 R'000	31 August 2010 R'000	**31 August 2011 R'000**	31 August 2010 R'000
In terms of a resolution passed at the most recent annual general meeting, all authorised and unissued shares are placed under the control of the company's directors who are authorised, until the forthcoming annual general meeting, to issue all or any of the unissued shares at their discretion, subject to the Companies Act, No. 71 of 2008, the JSE Limited's Listings Requirements and the company's Memorandum of Incorporation.				
Number of shares (net of treasury shares held)	**250 276 597**	250 276 597	**256 379 818**	256 379 818

Shares under option

As at the reporting date, 7 500 000 shares in the company were under option in terms of the Group Senior Executive Option Scheme (2010: 9 000 000) (also see Note 19). There were no contracts in place for the sale of shares (2010: Nil).

18. INSURANCE CONTINGENCY RESERVE

In terms of the Short-Term Insurance Act, the group's short-term insurance subsidiary is required to hold a contingency reserve equivalent to 10% of its net premiums written during the year. The contingency reserve held by the group's short-term insurance subsidiary as a result of this requirement amounts to R24.786 million (2010: R26.815 million).

The annualised premiums written since acquisition have been less than the annualised premiums written prior to acquisition, which would have resulted in a net debit on the post-acquisition contingency reserve account. Consequently, and notwithstanding the fact that there is a contingency reserve in the short-term insurance subsidiary, no post-acquisition contingency reserve has been raised in the group for the year that ended on 31 August 2011 (2010: Nil).

19. SHARE-BASED PAYMENT RESERVE

No new share options were awarded to executive directors and staff during 2010/11. Two tranches of share options were awarded to and accepted by executive directors and senior management during 2009/10. The conditions attached to these were as follows:

Tranche 1 – A total of five million options awarded on 20 November 2009

- The options' strike price was 40 cents;
- The employee has to remain in service until the exercise date (in 2011 this condition was relaxed for five hundred thousand of the options);
- The vesting period for 50% of the options was 30 November 2010 and any options not exercised one year thereafter, will lapse;
- The vesting period for the remaining 50% of the options is 30 November 2011 and any options not exercised one year thereafter, will lapse;
- Options could be exercised at any time after vesting, while the group is not in a closed period, for one year after the vesting date;
- Shares will be issued on receipt of payment therefor, which must be made by no later than five working days after the date on which the options were exercised;
- The group has no legal or constructive obligation to repurchase or settle the options in cash.

Tranche 2 – A total of four million options awarded on 2 March 2010

- The options' strike price was 40 cents;
- The employee has to remain in service until the exercise date (in 2011 this condition was relaxed for two million of the options);

19. SHARE-BASED PAYMENT RESERVE (continued)

- The options will vest between 2 March 2011 and 31 May 2012 and any options not exercised by 28 February 2013 will lapse (in 2011 this condition was amended to the effect that any options not exercised by 30 November 2011 would lapse);
- Options could be exercised at any time after vesting, while the group is not in a closed period, until 28 February 2013 (in 2011 amended to 30 November 2011);
- Shares will be issued on receipt of payment therefor, which must be made by no later than five working days after the date on which the options were exercised;
- The group has no legal or constructive obligation to repurchase or settle the options in cash.

Five hundred thousand of the Tranche 1 share options and two million of the Tranche 2 share options were cancelled during the year. An amount of R65 593 in the share-based payment reserve, which accounted for the fair value of these options that was expensed through profit or loss, was transferred directly to retained earnings, i.e. there was no corresponding credit to profit or loss.

The following share options remained outstanding on the reporting date:

	Date awarded	Last day of exercise	Exercise price (cents)	Number of underlying shares
2011	**20 November 2009**	**30 November 2011**	**40.00**	**2 500 000**
	20 November 2009	**30 November 2012**	**40.00**	**2 000 000**
	2 March 2010	**30 November 2011**	**40.00**	**2 000 000**
2010	20 November 2009	30 November 2011	40.00	2 500 000
	20 November 2009	30 November 2012	40.00	2 500 000
	2 March 2010	28 February 2013	40.00	4 000 000

The fair value of share options granted during 2009/10 and that remained outstanding as at the reporting date was R0.62 million. R0.6 million of this has been accounted for at the financial reporting date (2010: R0.36 million) using a model that is based on the American binomial method. The significant inputs into this model are:

- the 30-day volume weighted average of the share price as at the date of the options being awarded;
- the option exercise price;
- the vesting period;
- the volatility, measured at the standard deviation of expected share price returns as at the date of awarding the options; and
- expected staff turnover time.

Due to the new direction that the group has taken 6½ years' ago and the resultant movement in the share price, volatility for purposes of the valuation was based on the statistical analysis of the daily share price from 1 March 2005 only.

	GROUP		COMPANY	
	31 August 2011 R'000	31 August 2010 R'000	**31 August 2011 R'000**	31 August 2010 R'000
20. POLICYHOLDER LIABILITIES UNDER INSURANCE CONTRACTS				
Opening balance	**21 837**	24 548	**–**	–
Transfer to statement of comprehensive income	**(2 176)**	(2 711)	**–**	–
	19 661	21 837	**–**	–

Policyholder liabilities are determined by the statutory actuaries of the underlying long-term insurance companies. The reports of the statutory actuaries are set out in the annual financial statements of these subsidiary companies and are available to shareholders on request.

	GROUP		COMPANY	
	31 August 2011 R'000	31 August 2010 R'000	**31 August 2011 R'000**	31 August 2010 R'000
20. POLICYHOLDER LIABILITIES UNDER INSURANCE CONTRACTS (continued)				
20.1 Analysis of policyholder liabilities				
Individual funeral cover	**17 731**	20 246	**–**	–
Group funeral cover	**1 930**	1 591	**–**	–
	19 661	21 837	**–**	–
20.2 Maturity analysis of policyholder liabilities				
Policyholder liabilities are expected to become payable as follows:				
– Up to one year	**2 632**	2 079	**–**	–
– One year to five years	**536**	665	**–**	–
– More than five years	**16 493**	19 093	**–**	–
	19 661	21 837	**–**	–

20.3 Key assumptions

For the group funeral business an IBNR reserve was established based on the most recent claims run-off numbers. These claims run-off numbers were based on the results of "experience investigations" and current and expected future market conditions. In certain instances a deficiency reserve was established to allow for any expected losses on the group funeral policies.

For individual business units, a prospective valuation is carried out with the following principal assumptions:

- Inflation rate 5.13% (2010: 4.92%)
- Interest rate 6.63% (2010: 7.02%)
- Withdrawal assumptions were based on experience in the portfolio and in the market.
- Mortality rates were based on SA85/90 Heavy (2010: SA85/90 Heavy) and the relevant AIDS tables, adjusted to reflect the most recent claims experience.

20.4 Sensitivities

Policyholder liabilities have been calculated at R19.66 million by the statutory actuary as at 31 August 2011 (2010: R21.84 million). The following scenarios indicate the value of the liabilities if the factors influencing the valuation had to change by the percentages given:

Factor	Level of change	Resulting liability R'000	Change %
Main basis	None	19 661	0.00
Mortality (and other claims)	10% increase	19 803	0.72
Expenses	10% increase	21 076	7.20
Investment returns	1% reduction	21 171	7.68
Withdrawals	10% increase	18 934	(3.70)
Inflation	1% increase	20 826	5.93

	GROUP 31 August 2011 R'000	GROUP 31 August 2010 R'000	COMPANY 31 August 2011 R'000	COMPANY 31 August 2010 R'000
21. INTEREST BEARING BORROWINGS				
Non-current	**3 796**	12 661	**–**	–
– Secured	**–**	10 001	**–**	–
– Unsecured	**3 796**	2 660	**–**	–
Current				
– Secured	**3 175**	6 235	**–**	–
	6 971	18 896	**–**	–
21.1 Non-current borrowings				
Secured				
Mortgage loan obligations	**–**	7 346	**–**	–
Cumulative preference shares (Note A)	**3 175**	8 890	**–**	–
	3 175	16 236	**–**	–
Less: Current portion of obligation	**(3 175)**	(6 235)	**–**	–
– Mortgage loan obligations	**–**	(520)	**–**	–
– Preference shares	**(3 175)**	(5 715)	**–**	–
	–	10 001	**–**	–
Unsecured				
Cumulative preference shares (Note B)	**2 735**	2 660	**–**	–
– Face value	**2 750**	2 750	**–**	–
– Fair value adjustment	**(15)**	(90)	**–**	–
Other	**1 061**	–	**–**	–
	3 796	2 660	**–**	–
21.2 Current portion of borrowings				
Secured				
Mortgage loan obligations	**–**	520	**–**	–
Cumulative preference shares (Note A)	**3 175**	5 715	**–**	–
	3 175	6 235	**–**	–

The group's authorised preference share capital consists of 25 400 cumulative redeemable shares of one cent each (2010: 25 400) and 7 750 cumulative redeemable shares of R1 000 each (2010: 7 750).

The group's issued preference share capital consists of 3 175 cumulative redeemable shares of one cent each (2010: 8 890) and 2 750 cumulative redeemable shares of R1 000 each (2010: 2 750).

Note A:

The dividend is calculated at a rate of 79% of the prime overdraft rate, as quoted by Nedbank Limited from time to time and is cumulative in nature. The final payment was due by October 2011 and the cumulative preference shares are secured by the investment in Conduit Risk and Insurance Holdings Proprietary Limited ("CRIH") with a directors' valuation of R184.6 million.

Note B:

The dividend is calculated at a rate 5% of the face value of the preference shares and is cumulative in nature. There is no specified redemption date, other than a stipulation that the preference shares will be redeemed by no later than October 2019.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

	GROUP		COMPANY	
	31 August 2011 R'000	31 August 2010 R'000	**31 August 2011 R'000**	31 August 2010 R'000
22. TRADE AND OTHER PAYABLES				
Accruals	**25 943**	8 411	**282**	241
Insurance payables	**48 489**	54 434	**–**	–
Trade payables	**47 739**	39 067	**102**	277
Dividends payable – Preference shares	**170**	356	**–**	–
	122 341	102 268	**384**	518
23. REVENUE				
23.1 Insurance revenue				
Gross insurance premiums	**811 407**	683 634	**–**	–
– Local	**808 513**	679 604	**–**	–
– Foreign	**2 894**	4 030	**–**	–
23.2 Other revenue – local	**109 110**	87 573	**1 353**	3 788
Advisory, consulting and management fees received from group companies	**–**	–	**1 260**	3 788
Advisory, consulting, management and other fees, fees received from third parties	**7 526**	14 250	**–**	–
Commissions	**101 227**	72 798	**93**	–
Rental income	**357**	525	**–**	–
	920 517	771 207	**1 353**	3 788
24. NET INSURANCE REVENUE				
Gross premiums written	**811 407**	683 634	**–**	–
Reinsurance premiums paid	**(536 895)**	(395 678)	**–**	–
Unearned premium reserve movements	**252**	8 501	**–**	–
	274 764	296 457	**–**	–
25. DIRECT EXPENSES – INSURANCE AND RISK SERVICES				
Gross claims paid, change in provision for outstanding claims and IBNR	**(277 567)**	(285 865)	**–**	–
Reinsurers' share of claims paid and change in provision for outstanding claims	**113 007**	63 173	**–**	–
Net claims paid	**(164 560)**	(222 692)	**–**	–
Net expenses for the acquisition of insurance contracts, including commissions and profit commissions	**(56 991)**	(26 333)	**–**	–
Transfer from policyholder liabilities	**2 176**	2 711	**–**	–
	(219 375)	(246 314)	**–**	–

	GROUP 31 August 2011 R'000	GROUP 31 August 2010 R'000	COMPANY 31 August 2011 R'000	COMPANY 31 August 2010 R'000
26. INVESTMENT INCOME				
Interest income	**11 922**	15 752	**1 058**	1 625
– Received	**11 702**	15 527	**1 058**	1 625
– Accrued (Note 12.2.2)	**220**	225	**–**	–
Investment income (listed shares and bonds)	**12 378**	3 422	**–**	–
– Dividend income	**1 972**	1 187	**–**	–
Received	**1 972**	1 169	**–**	–
Accrued (Note 12.2.2)	**–**	18	**–**	–
– Fair value adjustment (unrealised)	**9 859**	161	**–**	–
– Fair value adjustment (realised)	**547**	2 074	**–**	–
Investment income (unlisted shares and bonds)	**452**	(185)	**6 800**	4 400
– Dividend income (subsidiaries)	**–**	–	**6 800**	4 400
– Fair value adjustment (unrealised)	**452**	(185)	**–**	–
Investment losses (other)	**171**	(870)	**–**	–
– Derivatives (losses) profits	**(163)**	308	**–**	–
– Fair value adjustment (Investment properties and properties held for sale)	**334**	(1 178)	**–**	–
	24 923	18 119	**7 858**	6 025
27. FINANCE CHARGES				
Interest paid	**(674)**	(953)	**(101)**	(1)
– Property finance	**(350)**	(618)	**–**	–
– Other	**(324)**	(335)	**(101)**	(1)
Preference dividends paid	**(551)**	(1 034)	**–**	–
Fair value adjustment (low interest loans and preference shares)	**(75)**	(110)	**–**	–
	(1 300)	(2 097)	**(101)**	(1)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

	GROUP		COMPANY	
	31 August 2011 R'000	31 August 2010 R'000	**31 August 2011 R'000**	31 August 2010 R'000
28. PROFIT BEFORE TAXATION				
The profit before taxation incudes:				
Income				
Profit on disposal of business/subsidiaries	**–**	4 671	**–**	–
Profit on disposal and revaluation of associates	**891**	–	**–**	–
Profit on disposal of property, plant and equipment	**30**	17	**9**	–
Expenses				
Auditors' remuneration	**(2 530)**	(2 416)	**(271)**	(499)
– Current year	**(1 996)**	(1 662)	**(271)**	(258)
– Prior year underprovision	**(275)**	(639)	**–**	(241)
– Other services	**(259)**	(115)	**–**	–
Consulting fees paid	**(1 710)**	(1 188)	**(14)**	(8)
Depreciation and amortisation	**(3 519)**	(3 152)	**(143)**	(68)
Direct operating expenses in respect of investment properties	**(442)**	(366)	**–**	–
Financial assets impaired and written off	**(5 949)**	(2 938)	**–**	–
Fines and penalties	**(6)**	–	**–**	–
Forex losses	**–**	(1)	**–**	–
Impairment of associates	**–**	(1 371)	**(106)**	–
Legal fees	**(3 204)**	–	**9**	–
Loss on disposal of property, plant and equipment	**(633)**	–	**–**	–
Management fees paid to third parties	**(558)**	(2 874)	**(12)**	(24)
Operating lease charges	**(7 515)**	(8 824)	**–**	–
– Equipment	**(1 567)**	(2 067)	**–**	–
– Premises	**(5 948)**	(6 757)	**–**	–
Secretarial fees	**(296)**	(263)	**(73)**	(85)
Staff costs **	**(64 343)**	(61 396)	**(17)**	(38)
– Salaries and wages (excluding directors' emoluments)	**(62 552)**	(59 254)	**–**	–
– Share options	**(17)**	(38)	**(17)**	(38)
– Provident fund (defined contribution plan)	**(1 774)**	(2 104)	**–**	–
** The top 3 salaries included in staff costs, other than directors, are as follows:				
– Employee A	**–**	1 311	**–**	–
– Employee B	**1 225**	1 225	**–**	–
– Employee C	**932**	853	**–**	–
– Employee D	**777**	–	**–**	–

29. DIRECTORS' EMOLUMENTS

	Directors' fees R'000	Basic salary R'000	Bonuses R'000	Cost of share options R'000	Other benefits R'000	Total R'000
29.1 2011						
Paid for by company:						
Non-executive						
Berkowitz, R S	**375**	**–**	**–**	**–**	**–**	**375**
Campbell, S M	**171**	**–**	**–**	**–**	**–**	**171**
Steffens, G Z	**267**	**–**	**–**	**–**	**–**	**267**
Executive						
Louw, L E	**–**	**–**	**–**	**59**	**–**	**59**
Prosser, H L	**–**	**–**	**–**	**168**	**–**	**168**
Toet, G	**–**	**–**	**–**	**59**	**–**	**59**
	813	**–**	**–**	**286**	**–**	**1 099**
Paid for by subsidiaries:						
Non-executive						
Shane, S D [a)]	**1 491**	**–**	**–**	**–**	**–**	**1 491**
Executive						
Druian, J D	**–**	**2 475**	**–**	**–**	**27**	**2 502**
Louw, L E	**–**	**1 416**	**–**	**–**	**65**	**1 481**
Prosser, H L [b)]	**–**	**1 235**	**800**	**–**	**–**	**2 035**
Toet, G	**–**	**1 404**	**–**	**–**	**77**	**1 481**
	1 491	**6 530**	**800**	**–**	**169**	**8 990**
	2 304	**6 530**	**800**	**286**	**169**	**10 089**

[(a)] Mr Stanley Shane's status changed to that of non-executive director on 1 September 2010. The whole of his fee was paid to Rino Personnel Proprietary Limited, his employer during the period.

[(b)] Mr Larry Prosser resigned as a director of the group on 13 April 2011.

	Directors' fees R'000	Basic salary R'000	Bonuses R'000	Cost of share options R'000	Other benefits R'000	Total R'000
29.2 2010						
Paid for by company:						
Non-executive						
Berkowitz, R S	350	–	–	–	–	350
Campbell, S M	160	–	–	–	–	160
Steffens, G Z	250	–	–	–	–	250
Executive						
Louw, L E	–	–	–	78	–	78
Prosser, H L	–	–	–	169	–	169
Toet, G	–	–	–	78	–	78
	760	–	–	325	–	1 085
Paid for by subsidiaries:						
Executive						
Druian, J D	–	2 261	290	–	24	2 575
Louw, L E	–	1 231	121	–	53	1 405
Prosser, H L	–	476	–	–	–	476
Shane, S D	–	1 668	145	–	65	1 878
Toet, G	–	890	100	–	70	1 060
	–	6 526	656	–	212	7 394
	760	6 526	656[(c)]	325	212	8 479

[(c)] Bonuses provided for in 2009 on a non-specific basis and subsequently allocated and paid to specific individuals in 2010.

29. DIRECTORS' EMOLUMENTS (continued)

29.3 Directors' service contracts

In order to facilitate a smooth handover upon an executive director's resignation from the group, all executive directors' service contracts are terminable on two calendar months' notice. Each director is remunerated in full during his notice period.

Executive directors' service contracts contain confidentiality clauses and provisions in terms of which the directors are restrained from competing (either directly or indirectly) with the group during their employment and for a period of up to two years after the termination of their employment with the group. They can furthermore not solicit any of the group's staff. The directors are not entitled to any remuneration in respect of any of these restrictions.

30. RETIREMENT BENEFITS

6.25% of the group's employees, all employed by the Insurance and Risk Services division, contribute to the Conduit Risk and Insurance Holdings Provident Fund, which is part of an umbrella fund and which is a defined contribution plan. Once the contributions have been paid, the group has no further payment obligations. The regular contributions constitute net periodic costs for the period in which they are due and as such are included in staff costs.

Contributions for the year under consideration amounted to R1.77 million (2010: R2.1 million). The umbrella fund and its participants are registered in terms of and regulated by the Pension Funds Act, 1956.

The rest of the group has no formal or informal retirement benefit arrangements for employees or directors.

31. TAXATION

	GROUP		COMPANY	
	31 August 2011 R'000	31 August 2010 R'000	**31 August 2011 R'000**	31 August 2010 R'000
31.1 Taxation				
South African normal taxation	**(14 657)**	(8 057)	**–**	–
– Current year	**(14 424)**	(7 421)	**–**	–
– Prior period underprovision	**(233)**	(636)	**–**	–
Deferred tax	**(402)**	4 222	**–**	–
Secondary Tax on Companies	**(1 929)**	(2 171)	**–**	–
Taxation per statement of comprehensive income	**(16 988)**	(6 006)	**–**	–
31.2 Taxation reconciliation				
Profit before tax	**53 308**	29 595	**6 980**	7 483
Standard South African normal taxation	**(14 926)**	(8 287)	**(1 954)**	(2 095)
Non-taxable income	**3 237**	6 989	**1 904**	1 232
Non-deductible expenses	**(3 370)**	(4 933)	**(59)**	(166)
Prior period under provision	**(1 496)**	(1 658)	**–**	–
Deferred tax asset not raised in companies with losses	**(1 684)**	(188)	**(29)**	–
Utilisation of previously unrecognised tax losses	**1 696**	3 674	**110**	1 029
Capital Gains Tax rate differential	**1 484**	568	**28**	–
Secondary Tax on Companies	**(1 929)**	(2 171)	**–**	–
Taxation per statement of comprehensive income	**(16 988)**	(6 006)	**–**	–

Deferred tax assets have not been recognised in group companies that do not anticipate generating sufficient taxable income to utilise these assets in the foreseeable future. The tax assets not so recognised as at year-end amounted to R8.93 million (2010: R7.08 million).

The group has unutilised credits that arose in respect of Secondary Tax on Companies of R4.13 million (2010: R3.28 million). This credit is not recognised as an asset unless it is expected to be realised within a year.

	GROUP		COMPANY	
	31 August 2011 R'000	31 August 2010 R'000	**31 August 2011 R'000**	31 August 2010 R'000

32. COMMITMENTS AND CONTINGENT LIABILITIES

32.1 Commitments: Operating leases

At the period-end the group had outstanding commitments under non-cancellable operating leases, which fall due as follows:

	GROUP 2011 R'000	GROUP 2010 R'000	COMPANY 2011 R'000	COMPANY 2010 R'000
Equipment leases	**109**	1 490	**–**	–
– Within one year	**106**	1 326	**–**	–
– In second to fifth years	**3**	164	**–**	–
Property leases	**5 753**	8 400	**–**	–
– Within one year	**3 955**	1 951	**–**	–
– In second to fifth years	**1 798**	6 449	**–**	–
	5 862	9 890	**–**	–

Operating lease payments largely represent rentals payable for office properties and office equipment. Leases are negotiated for terms ranging between three and five years. Rentals on office properties escalate at an average rate of 10% per annum, while there are no escalations on office equipment.

32.2 Contingent liabilities

32.2.1 Contingent rent is payable in connection with parking for which no rental agreement exists.

32.2.2 The group's bankers have issued the following guarantees on behalf of the group:

– CBS Property Portfolio Limited for office rent	**R432 455**
– South African Post Office Limited for postage	**R100 000**

The guarantees are secured by corresponding cash deposits held at the banks who have issued the guarantees.

32.2.3 The group reported in the 2010 annual financial statements the existence of various legal disputes that arose out of inward reinsurance arrangements concluded through one of the group's external underwriting managers. One of the matters in dispute has been settled and another partially impaired, leaving only a matter that relates to the 2006 and 2007 underwriting years in arbitration. Given the complexity of the proceedings, financial exposure to the dispute in issue is difficult to quantify, though dependent on certain key outcomes, may be material. Any impact on earnings will be taken into account as and when reasonable certainty can be obtained.

The claim brought by Sanlam Private Investments Proprietary Limited ("SPI") against a subsidiary of the risk services division has been withdrawn and the matter was settled directly between SPI and Hannover Re. In turn, the group has withdrawn third party proceedings against Hannover Re and agreed to carry its own legal costs.

An amount of R4.97 million in settlement costs and accruals relating to the above matters was expensed in this reporting period. Legal fees and direct expenses relevant to these matters continue to be raised as and when incurred (this amounted to R3.33 million in the year under review). None of the matters in dispute pertain to the 2011 financial year and their effect on 2011 earnings should therefore be seen in that context.

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.

33. EARNINGS PER SHARE

Earnings per share is derived by dividing attributable earnings by the weighted average number of shares in issue. Appropriate adjustments are made in calculating diluted earnings and headline earnings per share.

Diluted earnings per share reflects the potential dilution that could occur if all of the group's outstanding share options were exercised. The number of shares outstanding is adjusted to show the potential dilution if employee share options were converted into ordinary shares.

No adjustments were made to reported earnings attributable to shareholders in the computation of diluted earnings per share.

	GROUP	
	31 August 2011 R'000	31 August 2010 R'000
33.1 Calculation of basic earnings		
The earnings used in the calculation of basic earnings per share is as follows:		
Profit for the year	**36 320**	23 589
Less: Non-controlling interest	**(13 901)**	(12 200)
Profit attributable to ordinary shareholders	**22 419**	11 389
33.2 Reconciliation between basic earnings and headline earnings		
Headline earnings is determined as follows:		
Profit attributable to ordinary equity holders of the entity	**22 419**	11 389
Net (profit) loss on revaluation of non-current assets held for sale	**(300)**	1 239
Net loss on revaluation of investment properties	**1**	38
Net loss (profit) on disposal of property, plant and equipment	**603**	(17)
Net profit on disposal/revaluation of subsidiaries and associates	**(891)**	(3 300)
Tax on the items above	**(26)**	435
Non-controlling interest on the items above (after taxation)	**(249)**	1 608
Headline earnings	**21 557**	11 392
33.3 Shares in issue		
33.3.1 Number of shares		
– Shares in issue	**256 380**	256 380
– Shares held as treasury shares	**(6 103)**	(6 103)
	250 277	250 277
33.3.2 Weighted average number of shares		
– Shares in issue	**256 380**	256 380
– Shares held as treasury shares	**(6 103)**	(6 103)
	250 277	250 277
33.3.3 Diluted weighted average number of shares		
– Shares in issue	**262 634**	260 361
– Shares held as treasury shares	**(6 103)**	(6 103)
	256 531	254 258
33.4 Earnings per share (cents)		
33.4.1 Basic earnings per share	**8.96**	4.55
33.4.2 Diluted earnings per share	**8.74**	4.48
33.4.3 Headline earnings per share	**8.61**	4.55
33.4.4 Diluted headline earnings per share	**8.40**	4.48

34. NOTES TO THE CASH FLOW STATEMENTS

34.1 The following convention applies to figures other than adjustments:

Outflows of cash are represented by amounts in brackets, while inflows are represented by amounts without brackets.

34.2 Reconciliation of profit before taxation to cash generated (utilised) by operations

	GROUP		COMPANY	
	31 August 2011 R'000	31 August 2010 R'000	**31 August 2011 R'000**	31 August 2010 R'000
Profit before taxation	**53 308**	29 595	**6 980**	7 483
Adjustments for:				
Depreciation and amortisation	**3 519**	3 152	**143**	68
Dividend income	**(1 972)**	(1 187)	**(6 800)**	(4 400)
– Received	**(1 972)**	(1 169)	**(6 800)**	(4 400)
– Accrued	**–**	(18)	**–**	–
Financial assets: Impairment and write-off	**5 949**	2 938	**–**	–
(Reversal of impairment) Impairment of associates	**(891)**	1 371	**106**	–
Profit on disposal of business/shares in subsidiaries	**–**	(4 671)	**–**	–
Finance charges	**1 300**	2 097	**101**	1
Interest income	**(11 922)**	(15 752)	**(1 058)**	(1 625)
– Received	**(11 702)**	(15 527)	**(1 058)**	(1 625)
– Accrued	**(220)**	(225)	**–**	–
Loss (Profit) on disposal of property, plant and equipment	**603**	(17)	**(9)**	–
Share-based payment reserve	**303**	363	**303**	363
Revaluation of property	**(334)**	1 178	**–**	–
(Profit) Loss on investments	**(10 858)**	(2 050)	**–**	–
Equity accounted income	**(667)**	(57)	**–**	–
Operating cash flows before working capital changes	**38 338**	16 960	**(234)**	1 890
Working capital changes	**9 864**	(2 089)	**(229)**	120
– Decrease (Increase) in trade and other receivables	**7 534**	(7 689)	**(95)**	61
– Increase (Decrease) in trade and other payables	**20 073**	(8 708)	**(134)**	59
– Decrease in policyholder liabilities	**(2 176)**	(2 711)	**–**	–
– (Increase) Decrease in insurance assets	**(87 484)**	41 202	**–**	–
– Increase (Decrease) in insurance liabilities	**71 917**	(24 183)	**–**	–
Cash generated (utilised) by operations	**48 202**	14 871	**(463)**	2 010

34.3 Taxation paid

Opening balance	**(476)**	8 021	**–**	–
Statement of comprehensive income movement	**(14 657)**	(8 057)	**–**	–
Secondary Tax on Companies	**(1 929)**	(2 171)	**–**	–
Closing balance	**852**	476	**–**	–
	(16 210)	(1 731)	**–**	–

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

	GROUP		COMPANY	
	31 August 2011 R'000	31 August 2010 R'000	**31 August 2011 R'000**	31 August 2010 R'000
34. NOTES TO THE CASH FLOW STATEMENTS (continued)				
34.4 Reconciliation of assets disposed of (acquired) in subsidiaries to cash received (paid)				
– Property, plant and equipment	**–**	638	**–**	–
– Other intangible assets	**–**	44	**–**	–
– Loans receivable	**–**	1 301	**–**	–
– Trade and other receivables	**–**	441	**–**	–
– Funds at call, bank balances and cash	**–**	2	**–**	–
– Deferred taxation	**–**	(192)	**–**	–
– Trade and other payables	**–**	(150)	**–**	–
– Minority interest	**(2 555)**	(4)	**–**	–
– Net asset value (acquired) sold	**(2 555)**	2 080	**–**	–
– Profit on sale	**–**	4 671	**–**	–
– Goodwill acquired	**(573)**	(496)	**–**	–
– (Purchase) Sale price	**(3 128)**	6 255	**–**	–

35. INVESTMENT IN SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES

35.1 The following information relates to the company's investment in associate companies:

	Nature of business	Country of incorporation	Number of shares held 2011	2010	Interest 2011 %	2010 %	Book value of investment 2011 R'000	2010 R'000	Indebtedness to/(by) group 2011 R'000	2010 R'000
Directly owned										
Maruapula Capital Proprietary Limited	Deregistered	RSA	**–**	40	**–**	40	**–**	–	**–**	49
Held through a subsidiary										
Autotrade Underwriting Managers Proprietary Limited	Underwriting manager	RSA	**30**	30	**30**	30	**180**	126	**–**	–
EVB Underwriting Managers Proprietary Limited	Underwriting manager	RSA	**25**	25	**25**	25	**62**	17	**–**	–
Fidfin Insurance Brokers Proprietary Limited	Deregistered	RSA	**–**	40	**–**	40	**–**	–	**–**	–
Health Finance Corporation Proprietary Limited	Sold	RSA	**–**	40	**–**	34	**–**	539	**–**	–
Mail Credit Management Proprietary Limited	Deregistered	RSA	**–**	40	**–**	33	**–**	48	**–**	–
Wheels Underwriting Managers Proprietary Limited	Underwriting manager	RSA	**20**	20	**20**	20	**39**	26	**–**	–
							281	756	**–**	49

Note:

– All associates of the group are unlisted companies.

35. INVESTMENT IN SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES (continued)

	GROUP		COMPANY	
	31 August 2011 R'000	31 August 2010 R'000	**31 August 2011 R'000**	31 August 2010 R'000
ASSOCIATES (continued)				
35.2 Allocated as follows:				
– Book value of investment	**281**	756	**–**	–
– Indebtedness to the group	**–**	–	**–**	49
– Investment in associates (Note 9)	**281**	756	**–**	49

35.3 The following information relates to the company's investment in jointly controlled entities:

	Nature of business	Country of incorporation	Number of shares held		Interest		Book value of investment		Indebtedness to (by) group	
			2011	2010	**2011 %**	2010 %	**2011 R'000**	2010 R'000	**2011 R'000**	2010 R'000
Held through a subsidiary										
Catalyst Insurance Consultants Proprietary Limited	Insurance administrator and consultant	RSA	**500**	–	**50**	–	**2 393**	–	**770**	–
Riverstone Insurance Brokers Proprietary Limited	Insurance broker	RSA	**50**	–	**50**	–	**162**	–	**–**	–
							2 555	–	**770**	–

Notes:

– The group's jointly controlled entities are all unlisted companies.

– The loan to Catalyst Insurance Consultants Proprietary Limited is secured, attracts interest at prime and is repayable before 31 August 2014.

	GROUP		COMPANY	
	31 August 2011 R'000	31 August 2010 R'000	**31 August 2011 R'000**	31 August 2010 R'000
35.4 Allocated as follows:				
– Book value of investment	**2 555**	–	**–**	–
– Indebtedness to the group	**770**	–	**–**	–
– Investment in jointly controlled entities (Note 10)	**3 325**	–	**–**	–

35. INVESTMENT IN SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES (continued)

35.5 The following information relates to the company's investment in subsidiary companies:

	Nature of business	Country of incorporation	Issued ordinary share capital 2011	2010	Interest 2011 %	2010 %	Shares at cost less amounts written off 2011 R'000	2010 R'000	Indebtedness to (by) Conduit Capital 2011 R'000	2010 R'000
Directly owned										
AIIM Capital Investments Limited	Dormant	Guernsey, Channel Islands	**989**	989	**100**	100	**–**	–	**–**	–
Appleton Portfolio Managers International Limited	Dormant	Guernsey, Channel Islands	**574**	574	**100**	100	**–**	–	**–**	–
Anthony Richards & Associates Proprietary Limited	Credit recovery and call centre services	RSA	**100**	100	**40**	40	**11 568**	11 568	**–**	–
Conduit Fund Managers Proprietary Limited	Asset manager	RSA	**1**	1	**100**	100	**–**	–	**461**	4 783
Conduit Management Services Proprietary Limited	Management services; equities and derivatives trading	RSA	**140 000**	140 000	**100**	100	**140**	140	**27 772**	8 439
Copper Sunset Trading 186 Proprietary Limited	Holding company	RSA	**100**	100	**100**	100	**2**	2	**121 645**	119 162
IMR (CI) Limited	Dormant	Guernsey, Channel Islands	**995**	995	**100**	100	**–**	–	**–**	–
Marble Gold 213 Proprietary Limited	Holding company	RSA	**100**	100	**100**	100	**790**	790	**193**	158
On Line Lottery Services Proprietary Limited	E-commerce agent	RSA	**150**	150	**80**	80	**585**	585	**67**	67
Held through a subsidiary										
Black Ginger 92 Proprietary Limited	Investment Company	RSA	**100**	100	**100**	100	**–**	–	**8 502**	7 726
Cherry Creek Trading 88 Proprietary Limited	Property company	RSA	**100**	100	**100**	100	**–**	–	**–**	–
Constantia Insurance Holdings Proprietary Limited	Investment company	RSA	**120**	120	**100**	100	**–**	–	**–**	–
Conduit Risk and Insurance Holdings Proprietary Limited	Holding company	RSA	**200**	200	**100**	100	**–**	–	**–**	–
Constantia Insurance Company Limited	Short-term insurer	RSA	**2 244 500**	2 244 500	**100**	100	**–**	–	**–**	–
Constantia Life & Health Assurance Company Limited	Long-term insurer	RSA	**13 772 380**	13 772 380	**100**	100	**–**	–	**–**	–
Constantia Corporate Services Proprietary Limited	In deregistration	RSA	**–**	1 000	**–**	100	**–**	–	**–**	–
Constantia Underwriting Agency Proprietary Limited	Underwriting manager	RSA	**352 000**	352 000	**100**	100	**–**	–	**–**	–
Constantia Life Limited	Long-term insurer	RSA	**696 000**	696 000	**100**	100	**–**	–	**–**	–
Goodall and Bourne Properties Proprietary Limited	Property company	RSA	**2 000**	2 000	**100**	100	**–**	–	**–**	–
Goodall and Bourne Properties (Wale Street) Proprietary Limited	Property company	RSA	**100**	100	**100**	100	**–**	–	**–**	–
Goodall and Bourne Trust Company Limited	Administrative company	RSA	**4 000**	4 000	**100**	100	**–**	–	**–**	–

35. INVESTMENT IN SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES (continued)

35.5 The following information relates to the company's investment in subsidiary companies (continued):

Nature of	Country of business	Issued ordinary incorporation	share capital		Shares at cost less Interest		Indebtedness to/ amounts written off		by Conduit Capital	
			2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
					%	%	**R'000**	R'000	**R'000**	R'000
Held through a subsidiary (continued)										
Goodall and Company Funeral Assurance Society Limited	Long-term insurer	RSA	**50 000**	50 000	**100**	100	**–**	–	**–**	–
Goodall and Company Undertakers Proprietary Limited	Dormant	RSA	**2 000**	2 000	**100**	100	**–**	–	**–**	–
IMR 11 Proprietary Limited	Inactive	RSA	**100**	100	**100**	100	**–**	–	**(1 834)**	(1 834)
IMR Share Trust	Share trust	RSA	**–**	–	**–**	–	**–**	–	**(1 599)**	(1 512)
Internetwork Property Services Proprietary Limited	Administrative company	RSA	**100**	100	**100**	100	**–**	–	**–**	–
Inventory & Risk Survey Holdings Proprietary Limited	Risk surveyor	RSA	**100**	100	**61**	61	**–**	–	**–**	–
MTR Underwriting Agency Proprietary Limited	Deregistered	RSA	**–**	100 000	**–**	100	**–**	–	**–**	–
TGI Investment Holdings Proprietary Limited	Investment company	RSA	**16 133 292**	16 133 292	**60**	60	**–**	–	**–**	–
The Oakwood Financial Services Group Proprietary Limited	Deregistered	RSA	**–**	100	**–**	100	**–**	–	**–**	–
The Peoples' Industrial Advice Centre Proprietary Limited	In deregistration	RSA	**100**	100	**100**	100	**–**	–	**–**	–
Transqua Administrative Services Proprietary Limited	Underwriting manager	RSA	**500 000**	500 000	**100**	100	**–**	–	**–**	–
Truck and General Insurance Company Limited	Underwriting manager	RSA	**1 002**	1 002	**60**	60	**–**	–	**–**	–
							13 085	13 085	**155 207**	136 989

Notes:

- All subsidiaries in the group are unlisted companies.
- The loan to Black Ginger 92 Proprietary Limited is unsecured, attracts interest at prime and is repayable before 6 April 2014.
- R0.4 million of the loan to Conduit Fund Managers Proprietary Limited is designated an equity loan, is unsecured, attracts no interest and is repayable at the election of the borrower. The remainder of the loan is unsecured, attracts interest at rates linked to prime and is repayable before 15 March 2015.
- The loan to Conduit Management Services Proprietary Limited is unsecured, attracts no interest and is repayable before 15 March 2015.
- The equity loan to Copper Sunset Trading 186 Proprietary Limited is designated an equity loan, is unsecured, attracts no interest and is repayable at the election of the borrower.
- The loan to On Line Lottery Services Proprietary Limited is designated an equity loan, is unsecured, attracts no interest and is repayable at the election of the borrower.
- The loan to Marble Gold 213 Proprietary Limited is designated an equity loan, is unsecured, attracts no interest and is repayable at the election of the borrower.
- The loan payable to IMR 11 Proprietary Limited is unsecured, attracts no interest and is repayable before 15 March 2015.
- The loan payable to the IMR Share Trust is unsecured, attracts interest at rates linked to prime and is repayable by 15 March 2015.

35. INVESTMENT IN SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES (continued)

	COMPANY	
	31 August 2011 R'000	31 August 2010 R'000
SUBSIDIARIES (continued)		
35.6 Allocated as follows:		
Shares at cost	**13 085**	13 085
Equity loans	**122 305**	123 387
Other amounts due by subsidiaries	**36 335**	16 948
Investment in subsidiaries (Note 11)	**171 725**	153 420
Loans payable	**(3 433)**	(3 346)
	168 292	150 074

36. RISK MANAGEMENT

36.1 Currency risk

Currency risk is the risk that the value of a financial instrument, in Rands, will fluctuate as a result of changes in foreign exchange rates.

The group is minimally exposed to currency risk with regards to its shareholdings in IMR (CI) Limited, AIIM Capital Investments Limited and Appleton Portfolio Managers International Limited (all dormant companies based in the United Kingdom and the Channel Islands).

The risk is not material and the group is not exposed to significant currency risk. As a result, no sensitivity analysis has been provided.

36.2 Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market interest rates.

The group has material investments and borrowings that are subject to interest rate risk. Details of these investments and borrowings are set out in Notes 12 and 21. Additional exposure to interest rate risk is in the form of cash balances held at call with banks (Note 15), which earn interest at rates that vary on a daily basis, loans receivable that earn interest at rates that are linked to the prime lending rate (Note 6), as well as the effect that interest rate fluctuations have on the value of debt securities and listed property units held by the group (Note 12).

An increase or decrease of 2% in the respective interest rates would result in the following changes in the fair values of these financial instruments:

Financial assets	**2011 2% increase R'000**	2010 2% increase R'000	**2011 2% decrease R'000**	2010 2% decrease R'000
Investments in debt securities	**(118)**	(149)	**121**	152
Cash and interest bearing loans	**4 274**	5 020	**(4 274)**	(5 020)
	4 156	4 871	**(4 153)**	(4 868)

An increase or decrease of 2% in the interest rates relating to investments in debt securities, loans receivable and cash would result in an increase in income of R4.16 million (2010: R4.87 million) or a decrease in income of R4.15 million (2010: R4.87 million) respectively.

Financial liabilities	**2011 2% increase R'000**	2010 2% increase R'000	**2011 2% decrease R'000**	2010 2% decrease R'000
Interest-bearing borrowings	**(293)**	(377)	**293**	382

36. RISK MANAGEMENT (continued)

36.2 Interest rate risk (continued)

An increase or decrease of 2% in the interest rates relating to borrowings and payables would result in an increase in expenses of R0.29 million (2010: R0.38 million) or a decrease in expenses of R0.29 million (2010: R0.38 million), respectively.

The group monitors and manages this risk through its Investment Committee and the Board's oversight.

36.3 Market risk

Market risk is the risk of adverse financial impact due to changes in fair values or future cash flows of financial instruments from fluctuations in interest rates, equity prices, property prices and foreign currency exchange rates, besides those disclosed more specifically under currency and interest rate risks.

Key areas where the group is exposed to market risk are:

- listed investments in equity and debt securities;
- unlisted investments in equity;
- investment properties and property holding subsidiaries.

The group regularly reviews and actively manages these risks through its Investment Committee.

36.4 Credit risk

Credit risk is the risk of loss in the value of financial assets due to counterparties failing to meet all or part of their obligations.

Key areas where the group is exposed to credit risk are:

- cash and cash equivalents;
- investments in debt securities;
- unlisted investments;
- amounts due from insurance policyholders and intermediaries;
- amounts due from reinsurers and reinsurers' share of insurance liabilities;
- loans receivable;
- trade and other receivables.

The group determines counterparty credit quality by reference to ratings from independent ratings agencies or, where such ratings are not available, by internal analysis. The group seeks to avoid concentration of credit risk by counterparty, business sector, product type and geographical segment.

The following tables provide information regarding the aggregated credit risk exposure for financial assets with external credit ratings as at:

	Credit rating							
	AAA R'000	AA R'000	AA– R'000	A R'000	BBB+ R'000	BBB R'000	Not rated R'000	Carrying value R'000
<u>31 August 2011</u>								
Investments in debt securities held at fair value	**–**	**–**	**2 083**	**–**	**4 299**	**–**	**8**	**6 390**
Unlisted investments held at fair value	**–**	**–**	**–**	**–**	**–**	**–**	**14 596**	**14 596**
Loans receivable	**–**	**–**	**–**	**–**	**–**	**–**	**5 351**	**5 351**
Trade and other receivables	**–**	**–**	**–**	**–**	**–**	**–**	**78 761**	**78 761**
Cash and cash equivalents	**–**	**–**	**–**	**41 709**	**131 392**	**92 898**	**3 863**	**269 862**
	–	**–**	**2 083**	**41 709**	**135 691**	**92 898**	**102 579**	**374 960**
<u>31 August 2010</u>								
Investments in debt securities held at fair value	3 755	–	2 060	–	–	–	–	5 815
Unlisted investments held at fair value	–	–	–	–	–	–	13 924	13 924
Loans receivable	–	–	–	–	–	–	6 884	6 884
Trade and other receivables	–	–	–	–	–	–	91 519	91 519
Cash and cash equivalents	44 613	153 521	64 800	–	–	–	7 321	270 255
	48 368	153 521	66 860	–	–	–	119 648	388 397

36. RISK MANAGEMENT (continued)

36.4 Credit risk (continued)

Loans and other receivables consist mainly of accounts receivable from the group's customer base. Group companies and contracted underwriting managers monitor the financial position of their customers, which include insurance clients, on an ongoing basis. Credit, other than in the insurance division, is extended in terms of an agreement and provisions are made for both specific and general bad debts.

The carrying amount of assets included on the statement of financial position represents the maximum credit exposure. At the year-end management did not consider there to be any material credit risk exposure that was not already covered by a doubtful debt allowance.

Impairment history

The following tables provide information regarding the carrying value of financial assets that have been impaired and the ageing of financial assets that have not been impaired:

	Neither past due nor impaired R'000	Financial assets that are past due but not impaired 0 to 3 months R'000	3 to 6 months R'000	6 months to 1 year R'000	Financial assets that have been impaired R'000	Impair-ment R'000	Carrying value R'000
31 August 2011							
Investments in debt securities held at fair value	**6 390**	**–**	**–**	**–**	**–**	**–**	**6 390**
Unlisted investments held at fair value	**14 596**	**–**	**–**	**–**	**–**	**–**	**14 596**
Loans receivable	**5 351**	**–**	**–**	**–**	**725**	**(725)**	**5 351**
Trade and other receivables	**78 761**	**–**	**–**	**–**	**2 883**	**(2 883)**	**78 761**
Cash and cash equivalents	**269 862**	**–**	**–**	**–**	**–**	**–**	**269 862**
	374 960	**–**	**–**	**–**	**3 608**	**(3 608)**	**374 960**
31 August 2010							
Investments in debt securities held at fair value	5 815	–	–	–	–	–	5 815
Unlisted investments held at fair value	13 924	–	–	–	–	–	13 924
Loans receivable	6 884	–	–	–	–	–	6 884
Trade and other receivables	91 229	123	128	39	1 303	(1 303)	91 519
Cash and cash equivalents	270 255	–	–	–	–	–	270 255
	388 107	123	128	39	1 303	(1 303)	388 397

36.5 Liquidity risk

Liquidity risk is defined as the risk that the group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Management monitors this risk on a daily basis through a review of available cash resources and expected and possible future commitments.

The following maturity analysis provides details on expected settlement of financial liabilities recognised at reporting date:

	Within 1 year R'000	2 to 5 years R'000	More than 5 years R'000	Total R'000
2011				
Interest-bearing borrowings	**3 175**	**3 796**	**–**	**6 971**
Trade and other payables	**122 341**	**–**	**–**	**122 341**
	125 516	**3 796**	**–**	**129 312**
2010				
Interest-bearing borrowings	6 235	9 360	3 301	18 896
Trade and other payables	102 268	–	–	102 268
	108 503	9 360	3 301	121 164

36. RISK MANAGEMENT (continued)

36.6 Insurance risk

The insurance division has a risk management function and a portfolio management function that manage and continuously monitor and report the risks relating to the group's insurance operations to the division's Risk and Compliance Committee and to management.

36.6.1 Types of insurance policies

The group writes both short-term and long-term insurance business. The long-term business consists mainly of funeral cover, comprising both individual business and group schemes. Several lines of short-term business are written, providing cover to individuals and insuring business risks. The main short-term lines of business are as follows:

Guarantee:

The insurer assumes obligations in the event that a specified party fails to discharge certain specified obligations, financial or otherwise.

Liabiliity:

The insurer assumes obligations for liabilities incurred by the insured which are not more specifically defined in the contract.

Motor:

The insurer assumes obligations for damage to or theft of the insured vehicle and for damage caused by the vehicle to third party property or other legal liability arising from the use or ownership of the vehicle. This class of business encompasses light vehicles used for both personal and commercial purposes as well as heavy commercial vehicles.

Accident and Health:

The insurer assumes obligations linked to the occurrence of certain health events and on death or disability of the insured resulting from the occurrence of certain personal accidents.

Property:

The insurer assumes obligations arising from damage to or loss of property of the insured or other liability arising from the ownership of the property.

36.6.2 Concentration of insurance risk

The group limits its exposure to any one risk through a reinsurance strategy combining both proportional and non-proportional elements.

The insurance division has no specific concentration of insurance risk by policy type or geographic area, except for liabilities that would arise in the event of a natural disaster. The group mitigates such risk through reinsurance catastrophe cover.

Using gross earned premium as an indicator, the table below illustrates the division's distribution of risks underwritten across the classes of business:

Gross premium earned per class of business	**2011 R'000**	2010 R'000
Short-term		
– Property	**229 294**	180 291
– Motor	**202 197**	193 609
– Accident/Health	**194 242**	186 002
– Guarantee	**15 854**	15 765
– Miscellaneous (including legal expenses, retrenchment cover)	**139 740**	80 566
Long-term	**30 080**	27 401
	811 407	683 634

36.6.3 Management of insurance risk

The acceptance of insurance risk is the core activity of the insurance division. As a result the risk management approach is to ensure that risks are within acceptable limits rather than totally nullified. The principal risk is that the frequency or severity of claims are greater than expected or that premiums have not been correctly rated for the level of risk adopted.

36. RISK MANAGEMENT (continued)

36.6 Insurance risk (continued)

36.6.3 Management of insurance risk (continued)

The underwriting results of each underwriting manager or scheme and of each risk class are monitored on a regular basis by the portfolio management function and management and corrective measures are actioned where applicable. This can include the review of underwriting manager procedures for the acceptance of new business, rating procedures and claims administration, the re-rating of existing business, where applicable, or the cancellation of contracts with underwriting managers or policyholders when justified. There are clearly defined limits within which business may be written.

The group has a programme for the regular internal audit of underwriting activities to identify potential risk areas proactively.

Underwriting risk is further mitigated by a clear reinsurance policy that incorporates both proportional and non-proportional reinsurance programs which are reviewed and monitored by management by individual lines of business. As part of the group's risk management regime, it annually reviews its reinsurance program to ensure that an appropriate level of risk is retained in the group.

The group's short-term insurance risks are spread across various geographical areas and amongst various lines of business, both personal and commercial, including guarantee, liability, motor, accident and health, and property cover. In respect of long-term policies, a reputable actuary is utilised to ensure that adequate premiums are being levied and that the Capital Adequacy Reserve is well-covered by assets.

36.6.4 Key insurance risks

<u>Reinsurance credit risk</u>

There is a risk that a reinsurer does not perform in accordance with the reinsurance contract. The risk is limited as risk premiums are paid quarterly to reinsurers and claims can be offset against risk premiums.

The risk is further mitigated by the choice of reinsurers. The group currently deals with the following reputable reinsurers:

- African Reinsurance Corporation (SA) Limited;
- Hannover Reinsurance Africa Limited;
- Munich Reinsurance Company of Africa Limited; and
- SCOR Africa Limited.

<u>Claims risk</u>

Claims risk is the risk that the group may pay claims not legitimately incurred. The legitimacy of claims is verified by internal, financial and operating controls that are designed to contain and monitor claims, including reviews of individual claims by the claims centre and claims forum, where required. Claims costs are further mitigated by the activities of salvages and recoveries and claims procurement department.

<u>Lapse risk</u>

Lapse risk relates to the risk of financial loss due to negative lapse experience, particularly as it impacts the actuarially assessed policyholder liabilities. Lapse experience is monitored to ensure that negative experience is timeously identified and corrective action taken.

<u>Expense risk</u>

Expense risk is the risk of loss due to actual expense experience being worse than that assumed in premium rates and actuarially calculated policy liabilities. Expenses are continuously monitored and managed through the group's budgeting and financial reporting processes.

<u>Pricing and Underwriting risk</u>

Pricing and Underwriting risks are the risks that inappropriate business is accepted or that business is not correctly priced relative to the level of risk assumed. These risks are mitigated by an ongoing review of underwriting activities, claims experience and financial performance, as well as periodic reviews of product rating by the group's actuarial resource.

36. RISK MANAGEMENT (continued)

36.7 Capital risk management

The group's objectives when managing capital are:

- to safeguard the group's ability as a going concern in order to provide returns for shareholder and benefits for other stakeholders;
- to maintain an optimal capital structure that balances the required returns on shareholders' capital with the risks associated with the entity's business.

The capital structure of the group consists of invested share capital, retained earnings, non-controlling shareholders' interest and debt that include the borrowings disclosed in note 21 as disclosed on the group's statement of financial position.

In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, raise additional capital from shareholders, sell assets to reduce debt or review the quantum of risk carried by the group by passing on risk to reinsurers through proportional reinsurance structures.

Consistent with others in the industry, the group monitors capital in its insurance businesses on the basis of solvency and the capital adequacy ratio. The group targets a solvency ratio on the international basis of in excess of 45% for its short-term insurance business and a CAR ratio of 1.5 for its long-term insurance businesses over the medium to long term.

The solvency ratio is calculated as the short-term insurer's net assets divided by net written premium, while the CAR ratio is calculated as the long-term insurer's net assets divided by its Capital Adequacy Requirement as calculated on the Financial Soundness Valuation basis disclosed in the Actuary's Report.

Constantia Insurance Company Limited's solvency on the international basis is 58.5% (2010: 49.5%), while Constantia Life and Health Assurance Company Limited and Constantia Life Limited's CAR ratios are 1.74 and 1.70, respectively (2010: 1.72 and 1.40). Growth in net premium volumes would result in the solvency ratio decreasing.

The group's insurance businesses are required by law to maintain a minimum level of solvency and a prescribed spread of assets in terms of the Long- and Short term Insurance Acts, respectively, and submits returns on a quarterly and annual basis to the Financial Services Board. Solvency for this purpose is calculated in terms of the Act.

The current regulatory framework is presently under review and a new risk-based approach to determining the capital to be held by the group, named Solvency Assessment and Management (SAM) is expected to be implemented by 2014.

37. DIRECTORS' INTEREST IN SHARES AND SHARE OPTIONS

37.1 Beneficial interest in shares

	Direct	Indirect	Total
31 August 2011			
– Berkowitz, R S	350 000	–	**350 000**
– Campbell, S M	48 000	2 523 000	**2 571 000**
– Druian, J D	24 934 041	2 587 734	**27 521 775**
– Louw, L E	–	2 000 000	**2 000 000**
– Shane, S D	20 599 477	3 078 587	**23 678 064**
– Steffens, G Z	–	–	**–**
– Toet, G	41 236	–	**41 236**
	45 972 754	10 189 321	**56 162 075**

There were no movements in the above shareholdings between the year-end and the date of this report.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

37. DIRECTORS' INTEREST IN SHARES AND SHARE OPTIONS (continued)

37.1 Beneficial interest in shares (continued)

	Direct	Indirect	Total
31 August 2010			
– Berkowitz, R S	350 000	–	350 000
– Campbell, S M	48 000	2 523 000	2 571 000
– Druian, J D	24 934 041	2 587 734	27 521 775
– Louw, L E	–	2 000 000	2 000 000
– Prosser, H L	6 049 500	–	6 049 500
– Shane, S D	20 599 477	3 078 587	23 678 064
– Steffens, G Z	–	–	–
– Toet, G	41 236	–	41 236
	52 022 254	10 189 321	62 211 575

37.2 Interest in share options

	Direct	Total
31 August 2011		
– Berkowitz, R S	–	**–**
– Campbell, S M	–	**–**
– Druian, J D	–	**–**
– Louw, L E	2 000 000	**2 000 000**
– Shane, S D	–	**–**
– Steffens, G Z	–	**–**
– Toet, G	2 000 000	**2 000 000**
	4 000 000	**4 000 000**
31 August 2010		
– Berkowitz, R S	–	–
– Campbell, S M	–	–
– Druian, J D	–	–
– Louw, L E	2 000 000	2 000 000
– Prosser, H L	4 000 000	4 000 000
– Shane, S D	–	–
– Steffens, G Z	–	–
– Toet, G	2 000 000	2 000 000
	8 000 000	8 000 000

38. RELATED PARTY TRANSACTIONS

The company and its subsidiaries, in the ordinary course of business, entered into various transactions with related parties, as detailed below:

38.1 Shareholders

The principal shareholders of the company are detailed in the section dealing with shareholder information. There were no dealings with the company's principal shareholders, other than those who are also directors of the company. These dealings are disclosed in note 38.3.

38.2 Companies within the group

38.2.1 Subsidiaries

Details of investments in and loans to/from subsidiary companies are disclosed in notes 35.5 and 35.6. Additional information about the impact that these balances have on the group and the company's annual financial statements are disclosed in note 11. Details of trading transactions with subsidiary companies and outstanding balances are reflected in note 38.4.1.

38.2.2 Jointly controlled entities

Details of investments in jointly controlled entities are disclosed in notes 35.3 and 35.4.

Details of trading transactions with jointly controlled entities are reflected in notes 10 and 38.4.2.

38. RELATED PARTY TRANSACTIONS (continued)

38.2 Companies within the group (continued)

38.2.3 Associates

Details of investments in associate companies are disclosed in notes 35.1 and 35.2. Loans to associates are interest free and have no fixed repayment terms, unless disclosed otherwise.

Details of trading transactions with associate companies are reflected in notes 9 and 38.4.3.

38.2.4 Investments

Details of investments other than investments in subsidiary and associate companies and jointly controlled entities are disclosed in note 12. In terms of the provisions of the Companies Act, No. 71 of 2008, a complete register of listed and unlisted investments is available for inspection at the group's registered office.

38.3 Directors and key management

38.3.1 Dealings in capacity as a director of the company

The directors' report and the notes to the annual financial statements disclose details relating to directors' emoluments (note 29), shareholdings (note 37) and share options in the company (notes 19 and 37).

38.3.2 Dealings in capacities, other than as a director of the company

During the year ended 31 August 2011 the group has had no dealings with directors, other than in their capacity as directors.

Further details of transactions with directors' companies and key management are disclosed in note 38.4.4.

	GROUP		COMPANY	
	31 August 2011 R'000	31 August 2010 R'000	**31 August 2011 R'000**	31 August 2010 R'000
38.4 Trading transactions and outstanding balances other than loan balances				
38.4.1 Subsidiaries				
Anthony Richards & Associates Proprietary Limited				
– Dividend received	–	–	**6 800**	4 400
Black Ginger 92 Proprietary Limited				
– Interest received	–	–	**737**	748
Conduit Fund Managers Proprietary Limited				
– Interest received	–	–	**32**	148
– Management and administration fees paid	–	–	**(12)**	(24)
– Balance due to	–	–	**(1)**	(1)
Conduit Management Services Proprietary Limited				
– Management and administration fees received	–	–	**1 260**	3 778
IMR Share Trust				
– Interest paid	–	–	**(99)**	–
38.4.2 Jointly controlled entities				
Catalyst Insurance Consultants Proprietary Limited				
– Interest received	**5**	–	**–**	–

	GROUP		COMPANY	
	31 August 2011 R'000	31 August 2010 R'000	**31 August 2011 R'000**	31 August 2010 R'000
38. RELATED PARTY TRANSACTIONS (continued)				
38.4 Trading transactions and outstanding balances other than loan balances (continued)				
38.4.3 Associates				
Maruapula Capital Proprietary Limited				
– Interest received	**8**	15	**8**	15
– Management and administration fees received	**26**	–	**26**	–
38.4.4 Directors, directors' companies and key management				
Stanley D Shane				
– Staff recruitment fees paid to Fluxmans Consulting, a company of which he is a director	**–**	(98)	**–**	–
Key management				
– Salaries paid to key management (short-term employee benefits)	**(5 594)**	(6 883)	**–**	–

SHAREHOLDER INFORMATION

as at 31 August 2011

SHAREHOLDER SPREAD

	Number of shareholders	%	Number of shares	%
1 – 1 000 shares	411	58.54	128 912	0.05
1 001 – 10 000 shares	122	17.38	502 914	0.20
10 001 – 100 000 shares	77	10.97	3 146 774	1.23
100 001 – 1 000 000 shares	45	6.41	17 049 129	6.65
1 000 001 shares and over	47	6.70	235 552 089	91.87
	702	**100.00**	**256 379 818**	**100.00**

DISTRIBUTION OF SHAREHOLDERS

	Number of shareholders	%	Number of shares	%
Close Corporations	12	1.71	7 565 650	2.95
Individuals	559	79.64	80 715 304	31.48
Nominees and Trusts	50	7.13	16 488 872	6.43
Other persons and Corporations	38	5.41	50 068 699	19.53
Private companies	33	4.70	86 616 610	33.78
Public companies	9	1.27	13 274 313	5.19
Share Trust	1	0.14	1 650 370	0.64
	702	**100.00**	**256 379 818**	**100.00**

NON-PUBLIC/PUBLIC SHAREHOLDERS

	Number of shareholders	%	Number of shares	%
Non-public shareholders	27	3.84	78 379 508	30.57
– Directors' and associates' holdings	24	3.42	72 276 287	28.19
– Own holdings	2	0.28	4 452 851	1.74
– Share Trust	1	0.14	1 650 370	0.64
Public shareholders	675	96.16	178 000 310	69.43
	702	**100.00**	**256 379 818**	**100.00**

BENEFICIAL SHAREHOLDERS HOLDING 3% OR MORE

	Number of shares	%
Capricorn Capital Partners Holdings	27 826 976	10.85
Druian, J D	27 521 775	10.73
Shane, S D	23 678 064	9.24
Morning Tide Investments 82 Proprietary Limited	13 000 000	5.07
RE:CM Institutional Fund	12 819 000	5.00
First National Investors Proprietary Limited	12 181 818	4.75
Druian, W A	11 450 934	4.47
Ellerine Bros Proprietary Limited	10 000 000	3.90
	138 478 567	**54.01**

DIRECTORATE, ADMINISTRATION AND CORPORATE INFORMATION

COUNTRY OF INCORPORATION AND DOMICILE

Republic of South Africa

NATURE OF BUSINESS

Listed investment holding company

DIRECTORS

Reginald S Berkowitz (74) – LLB
Independent Chairman and non-executive director

Jason D Druian (39)
Chief Executive Officer

Scott M Campbell** (43) – BBS; Dip Bus Studies
Independent non-executive director

Lourens E Louw (41) – B Comm
Financial Director

Stanley D Shane (40) – B Com
Member – SA Institute of Stockbrokers
Non-executive director

Günter Z Steffens* (74)
Member – The Guild of International Bankers,
London Brooks, London
Independent non-executive director

Gavin Toet (37)
Executive director

* German
** New Zealander

ADMINISTRATION

Registered address

Unit 7 Tulbagh
360 Oak Avenue
Randburg, 2194

Postal address

PO Box 97, Melrose Arch, 2076

Tel: (+27 11) 686 4200
Fax: (+27 11) 886 0206

Registration number

1998/017351/06

Level of assurance

These annual financial statements have been audited

Preparer

The annual financial statements were internally compiled by:

L E Louw
Financial Director

CORPORATE INFORMATION

Bankers

FirstRand Bank
ABSA Bank
Investec Bank
Nedbank
Standard Bank

Company Secretary

Probity Business Services Proprietary Limited
(Registration number 2000/002046/07)

Third Floor, The Mall Offices
11 Cradock Avenue, Rosebank, 2196

PO Box 85392, Emmarentia, 2029

Transfer Secretaries

Computershare Investor Services
Proprietary Limited
(Registration number 2004/003647/07)

Ground Floor, 70 Marshall Street
Johannesburg, 2001

PO Box 61051, Marshalltown, 2107

Sponsors

Merchantec Proprietary Limited
(Registration number 2008/027362/07)

2nd Floor, North Block, Hyde Park Office Tower
Corner 6th Road and Jan Smuts Avenue
Hyde Park, 2196

PO Box 41480, Craighall, 2024

Independent auditors

Grant Thornton
Chartered Accountants (SA)

137 Daisy Street, corner Grayston Drive
Sandton, 2196

Private Bag X28, Benmore, 2010

Corporate advisor and legal advisor

Java Capital Proprietary Limited
(Registration number 2002/031862/07)

2 Arnold Road, Rosebank, 2196

PO Box 2087, Parklands, 2121

Alpha code

CND

ISIN

ZAE000073128

CONDUIT CAPITAL

CONDUIT CAPITAL LIMITED

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

NOTICE OF ANNUAL GENERAL MEETING

If you are in any doubt as to what action you should take in respect of the following ordinary and special resolutions, please consult your Central Securities Depository Participant ("CSDP"), broker, banker, attorney, accountant or other professional advisor immediately.

Notice is hereby given that the Annual General Meeting ("Annual General Meeting") of shareholders of Conduit Capital will be held at 08:00 on Thursday, 19 April 2012 at Tulbagh, 360 Oak Avenue, Randburg, 2194, for the purpose of conducting the business as set out below.

The board of directors of the company ("the Board") has determined that, in terms of section 62(3)(a), as read with section 59 of the Companies Act, 2008 (Act 71 of 2008), the record date for the purposes of determining which shareholders of the company are entitled to participate in and vote at the Annual General Meeting is Friday, 13 April 2012. Accordingly, the last day to trade Conduit Capital shares in order to be recorded in the Register to be entitled to vote will be Thursday, 5 April 2012.

ANNUAL FINANCIAL STATEMENTS

To receive, consider and adopt the annual financial statements of the company and the group for the financial year ended 31 August 2011, including the reports of the auditors, directors and the Audit Committee.

RESOLUTIONS

To consider, and if deemed fit, to pass, with or without modification, the following resolutions:

1. ORDINARY RESOLUTION NUMBER 1

To re-elect Mr Scott M Campbell who, in terms of Article 68 of the company's Memorandum of Incorporation, retires by rotation at this Annual General Meeting but, being eligible to do so, offers himself for re-election.

The occupation and relevant business experience of Scott M Campbell is set out below:

Name: *Scott MacGibbon Campbell*
Age: *43*
Role: *Independent non-executive director*

In 1989 Scott commenced his career in New Zealand with AMP Group. He joined Appleton in 1996 and was appointed Managing Director of Appleton International in 1997. He relocated the operation to London in 2000 and successfully developed the business as CEO whilst simultaneously acting as Chief Investment Officer. He resigned from Appleton in April 2002 to establish an institutional offshore fund management company.

2. ORDINARY RESOLUTION NUMBER 2

To re-elect Mr Lourens E Louw who, in terms of Article 68 of the company's Memorandum of Incorporation, retires by rotation at this Annual General Meeting but, being eligible to do so, offers himself for re-election.

The occupation and relevant business experience of Lourens E Louw is set out below:

Name: *Lourens Erasmus Louw*
Age: *41*
Role: *Financial director*

Lourens studied at the University of Stellenbosch, after which he moved to Johannesburg and qualified as a member of the SA Institute of Stockbrokers. In 1996 Lourens was appointed Financial Director and Compliance Officer of stock broking firm Irish & Menell Rosenberg Proprietary Limited and its successors in the Appleton Group. He remained with Appleton until June 2003 when he joined Conduit Capital. Lourens became the Financial Director of Conduit Capital in October 2004.

3. **ORDINARY RESOLUTION NUMBER 3**

To re-elect Mr Günter Z Steffens *OBE* who, in terms of Article 68 of the company's Memorandum of Incorporation, retires by rotation at this Annual General Meeting but, being eligible to do so, offers himself for re-election.

The occupation and relevant business experience of Günter Z Steffens *OBE* is set out below:

Name: *Günter Zeno Steffens OBE*
Age: *74*
Role: *Independent non-executive director and Audit Committee Chairman*

Günter is a director of a number of listed companies, both in South Africa and abroad. Over the last 38 years Günter gained extensive experience in the financial services industry, most notably with Dresdner Bank AG. During this time he established and managed Dresdner Bank AG in London and later represented the bank in the capacity of Geographic Head for Southern Africa.

4. **ORDINARY RESOLUTION NUMBER 4**

To appoint Mr Günter Z Steffens as a member and Chairman of Conduit Capital's Audit Committee.

The occupation and relevant business experience of Günter Z Steffens OBE is set out in paragraph 3 above:

5. **ORDINARY RESOLUTION NUMBER 5**

To appoint Mr Reginald S Berkowitz as a member of Conduit Capital's Audit Committee.

The occupation and relevant business experience of Reginald S Berkowitz is set out below:

Name: *Reginald Selwyn Berkowitz*
Age: *74*
Role: *Independent non-executive director and Chairman of the Board*

Reggie studied for his Natal Law Certificate at the University of Natal and won the Connor Memorial Prize as top student in the final exam in 1956. He was admitted as an attorney and a Notary Public and Conveyancer to the Natal Supreme Court in 1959. Reggie established the law practice Berkowitz Kirkel Cohen Wartski Greenberg in 1965. In 1992 he joined Investec and became Group Legal Advisor. He retired in 2003 and was retained as a consultant until May 2005. He is currently a Non-Executive Director of numerous public and private companies. In addition, he is the Chairman and a trustee of the Beare Foundation and a former member of the Securities Regulation Panel.

6. **ORDINARY RESOLUTION NUMBER 6**

To appoint Mr Scott M Campbell as a member of Conduit Capital's Audit Committee.

The occupation and relevant business experience of Scott M Campbell is set out in paragraph 1 above:

7. **ORDINARY RESOLUTION NUMBER 7**

To confirm the re-appointment of Grant Thornton as independent auditors of the company with Ms Serena Ho being the individual registered auditor who will undertake the audit of the company for the ensuing financial year and to authorise the directors to determine the auditors' remuneration.

As special business, to consider and, if deemed fit, to pass, with or without modification, the following resolutions:

8. **SPECIAL RESOLUTION NUMBER 1**

Non-executive Directors' remuneration

"Resolved that:

- in terms of the provisions of sections 66(9) of the Companies Act, 2008 (Act 71 of 2008), the annual remuneration payable to the non-executive directors of Conduit Capital Limited ("the company") for their services as directors of the company for the financial year ending 31 August 2012, be and is hereby approved as follows:

Position	Name	Proposed fee in ZAR for the year ending 31 August 2012*
Chairman of the Board	R S Berkowitz	411 950
Chairman of the Audit and Risk Committees	G Z Steffens	294 250
Non-executive Director	S M Campbell	188 320
Non-executive Director	S D Shane	300 000

* Note: The above fees include fees for acting as chairman or members of applicable sub-committees, as well as directors of group subsidiary or associated companies (in the case of S D Shane).

- an annual increase, to be approved by the board of directors (but not exceeding 10% of the fees payable to the non-executive directors for their services as directors), be hereby approved for a period of two years from the date of passing this resolution or until its renewal, whichever is the earlier."

Reason for and effect of special resolution number 1

The reason for and effect of special resolution number 1 is:

- to approve the remuneration of the non-executive directors of the company for their services as directors for the ensuing financial year; and
- to approve an annual increase not exceeding 10% in the subsequent year.

9. ORDINARY RESOLUTION NUMBER 8

Approval of remuneration policy

"**Resolved that** the remuneration policy of the directors of Conduit Capital Limited ("the company"), as set out below, be and is hereby approved as a non-binding advisory vote of shareholders of the company in terms of the King III Report on Corporate Governance."

Remuneration policy

The Remuneration Committee has a clearly defined mandate from the Board aimed at:

- ensuring that the group's chairman, directors and senior executives are fairly rewarded for their individual contribution to the group's overall performance;
- ensuring that the group's remuneration strategies and packages, including the remuneration schemes, are related to performance, are suitably competitive and give due regard to the interests of the shareholders and the financial and commercial health of the group.

10. SPECIAL RESOLUTION NUMBER 2

General approval to acquire shares

"**Resolved**, by way of a general approval that Conduit Capital Limited ("the company") and/or any of its subsidiaries from time to time be and are hereby authorised to acquire ordinary shares in the company in terms of sections 46 and 48 of the Companies Act, 2008 (Act 71 of 2008), the Memorandum of Incorporation of the company and its subsidiaries and the Listings Requirements of JSE Limited ("the JSE"), as amended from time to time.

The JSE Listings Requirements currently provide, *inter alia*, that:

- the acquisition of the ordinary shares must be effected through the order book operated by the JSE trading system and done without any prior understanding or arrangement between the company and the counter-party;
- this general authority shall only be valid until the earlier of the company's next Annual General Meeting or the expiry of a period of 15 (fifteen) months from the date of passing of this special resolution;
- in determining the price at which the company's ordinary shares are acquired in terms of this general authority, the maximum premium at which such ordinary shares may be acquired will be 10% (ten percent) of the weighted average of the market value at which such ordinary shares are traded on the JSE, as determined over the 5 (five) business days immediately preceding the date on which the transaction is effected;
- at any point in time, the company may only appoint one agent to effect any acquisition/s on its behalf;
- the acquisitions of ordinary shares in the aggregate in any one financial year may not exceed 20% (twenty percent) of the company's issued ordinary share capital;
- the company may only effect the repurchase once a resolution has been passed by the board of directors of the company ("the Board") confirming that the Board has authorised the repurchase, that the company has passed the solvency and liquidity test ("the test") and that since the test was done there have been no material changes to the financial position of the group;
- the company or its subsidiaries may not acquire ordinary shares during a prohibited period as defined in paragraph 3.67 of the JSE Listings Requirements;
- an announcement will be published once the company has cumulatively repurchased 3% (three percent) of the number of the ordinary shares in issue at the time this general authority is granted ("initial number"), and for each 3% (three percent) in aggregate of the initial number acquired thereafter."

Reason for and effect of special resolution number 2

The reason for and effect of special resolution number 2 is to obtain an authority for, and to authorise, the company and the company's subsidiaries, by way of a general authority, to acquire the company's issued ordinary shares.

It is the intention of the directors of the company to use such authority should prevailing circumstances (including tax dispensations and market conditions) in their opinion warrant it.

10.1 Other disclosure in terms of Section 11.26 of the JSE Listings Requirements

The JSE Listings Requirements require the following disclosure, which are contained in the annual report of which this notice forms part:

- Directors and management – page 20;
- Major shareholders of the company – page 79;
- Directors' interests in securities – page 75; and
- Share capital of the company – pages 53 and 54.

10.2 Litigation statement

The directors, whose names appear on page 20 of the annual report of which this notice forms part, are not aware of any legal or arbitration proceedings (other than as disclosed in the annual report), including proceedings that are pending or threatened, that may have or have had in the recent past (being at least the previous twelve months) a material effect on the group's financial position.

10.3 Material change

There have been no material changes in the affairs or financial position of the company and its subsidiaries since the company's financial year-end and the date of this notice.

10.4 Directors' responsibility statement

The directors, whose names are given on page 20 of the annual report of which this notice forms part, collectively and individually, accept full responsibility for the accuracy of the information pertaining to special resolution number 2 and certify that, to the best of their knowledge and belief, there are no facts in relation to special resolution number 2 that have been omitted which would make any statement in relation to special resolution number 2 false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that special resolution number 2, together with this notice, contains all information required by law and the JSE Listings Requirements in relation to special resolution number 2.

10.5 Adequacy of working capital

At the time that the contemplated repurchase is to take place, the directors of the company will ensure that, after considering the effect of the maximum repurchase and for a period of twelve months thereafter:

- the company and its subsidiaries will be able to pay their debts as they become due in the ordinary course of business;
- the consolidated assets of the company and its subsidiaries, fairly valued in accordance with International Financial Reporting Standards, will be in excess of the consolidated liabilities of the company and its subsidiaries;
- the issued share capital and reserves of the company and its subsidiaries will be adequate for the purpose of the ordinary business of the company and its subsidiaries;
- the working capital available to the company and its subsidiaries will be sufficient for the group's requirements.

The company may not enter the market to proceed with the repurchase until its Sponsor, Merchantec Proprietary Limited, has discharged of all of its responsibilities in terms of the JSE Listings Requirements insofar as they apply to working capital statements for the purposes of undertaking an acquisition of its issued ordinary shares.

11. SPECIAL RESOLUTION NUMBER 3

Loans or other financial assistance to subsidiaries and other related or inter-related companies

"**Resolved that**, as a special resolution, in terms of section 45 of the Companies Act, 2008 (Act 71 of 2008) ("Companies Act"), the shareholders of Conduit Capital Limited ("the company") hereby approve of the company providing, at any time and from time to time during the period of two years commencing on the date of this special resolution number 3, any direct or indirect financial assistance (which includes lending money, guaranteeing a loan or other obligation, and securing any debt or obligation) as contemplated in section 45 of the Companies Act to any present or future subsidiaries and any other related or inter-related company or corporation, provided that:

(a) the board of directors of the company ("the Board"), from time to time, determines: (i) the specific recipient or general category of potential recipients of such financial assistance; (ii) the form, nature and extent of such financial assistance and (iii) the terms and conditions under which such financial assistance is provided; and

(b) the Board may not authorise the company to provide any financial assistance pursuant to this special resolution number 3 unless the Board meets all those requirements of section 45 of the Companies Act which it is required to meet in order to authorise the company to provide such financial assistance."

Reason for and effect of special resolution number 3

The reason for and effect of special resolution number 3 is to grant the Board the authority to authorise the company to provide financial assistance as contemplated in section 45 of the Companies Act to a present or future subsidiary and any other related or inter-related company or corporation.

Notice given to shareholders of the company in terms of section 45(5) of the Companies Act of a resolution adopted by the Board authorising the company to provide such direct or indirect financial assistance in respect of special resolution number 3:

(a) by the time that this notice of annual general meeting is delivered to shareholders of the company, the Board will have adopted a resolution ("Section 45 Board Resolution") authorising the company to provide, at any time and from time to time during the period of two years commencing on the date on which special resolution number 3 is adopted, any direct or indirect financial assistance as contemplated in section 45 of the Companies Act (which includes lending money, guaranteeing a loan or other obligation, and securing any debt or obligation) to a subsidiary or a related or inter-related company or corporation;

(b) the Section 45 Board Resolution will be effective only if and to the extent that special resolution number 3 is adopted by the shareholders of the company, and the provision of any such direct or indirect financial assistance by the company, pursuant to such resolution, will always be subject to the Board being satisfied that: (i) immediately after providing such financial assistance, the company will satisfy the solvency and liquidity test as referred to in section 45(3)(b)(i) of the Companies Act and (ii) the terms under which such financial assistance is to be given are fair and reasonable to the company as referred to in section 45(3)(b)(ii) of the Companies Act; and

(c) in as much as the Section 45 Board Resolution contemplates that such financial assistance will in the aggregate exceed one-tenth of one percent of the company's net worth at the date of adoption of such resolution, the company hereby provides notice of the Section 45 Board Resolution to shareholders of the company. Such notice will also be provided to any trade union representing any employees of the company.

12. ORDINARY RESOLUTION NUMBER 9

Signature of documents

"**Resolved that** each director of Conduit Capital Limited be and is hereby individually authorised to sign all such documents and do all such things as may be necessary for or incidental to the implementation of those resolutions to be proposed at the annual general meeting convened to consider the resolutions which are passed, in the case of ordinary resolutions, or are passed and registered by the Companies and Intellectual Property Commission, in the case of special resolutions."

13. Other business

To transact such other business as may be transacted at the annual general meeting of the company.

Voting and proxies

Special resolutions to be adopted at this annual general meeting require approval from 75% of the shares represented in person or by proxy at the annual general meeting. Ordinary resolutions to be adopted require approval from a simple majority, which is more than 50% of the shares represented in person or by proxy at the annual general meeting.

A shareholder entitled to attend and vote at the annual general meeting is entitled to appoint a proxy or proxies to attend and act in his/her stead. A proxy need not be a member of the company. For the convenience of registered members of the company, a form of proxy is attached hereto.

The attached form of proxy is only to be completed by those ordinary shareholders who:

- hold ordinary shares in certificated form; or
- are recorded on the sub-register in "own name" dematerialised form.

Ordinary shareholders who have dematerialised their ordinary shares through a CSDP or broker without "own name" registration and who wish to attend the annual general meeting, must instruct their CSDP or broker to provide them with the relevant Letter of Representation to attend the annual general meeting in person or by proxy and vote. If they do not wish to attend in person or by proxy, they must provide the CSDP or broker with their voting instructions in terms of the relevant custody agreement entered into between them and the CSDP or broker.

Forms of proxy should be forwarded to reach the transfer secretaries, Computershare Investor Services Proprietary Limited, at least 48 hours, excluding Saturdays, Sundays and gazetted South African public holidays, before the time of the annual general meeting.

Kindly note that annual general meeting participants, which include proxies, are required to provide reasonably satisfactory identification before being entitled to attend or participate in a shareholders' meeting. Forms of identification include: valid identity documents, driver's licenses and passports.

By order of the Board

Probity Business Services (Proprietary) Limited
Company Secretary

15 November 2011
Randburg

sappi
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CONDUIT CAPITAL

CONDUIT CAPITAL LIMITED

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

FORM OF PROXY

For use only by ordinary shareholders who:

- hold ordinary shares in certificated form ("certificated ordinary shareholders"); or
- have dematerialised their ordinary shares ("dematerialised ordinary shareholders") and are registered with "own-name" registration,

at the Annual General Meeting of shareholders of the Company to be held at 08:00 on Thursday, 19 April 2012 at Tulbagh, 360 Oak Avenue, Randburg, 2194 and any adjournment thereof.

Dematerialised ordinary shareholders holding ordinary shares, other than with "own-name" registration who wish to attend the Annual General Meeting, must inform their Central Securities Depository Participant ("CSDP") or broker of their intention to attend the Annual General Meeting and request their CSDP or broker to issue them with the relevant Letter of Representation to attend the Annual General Meeting in person or by proxy and vote. If they do not wish to attend the Annual General Meeting in person or by proxy, they must provide their CSDP or broker with their voting instructions in terms of the relevant custody agreement entered into between them and the CSDP or broker. **These ordinary shareholders must *not* use this form of proxy**.

Name of beneficial shareholder

Name of registered shareholder

Address

Telephone work ( ) Telephone home ( )

being the holder/custodian of ______ ordinary shares in the company, hereby appoint (see note):

1. or failing him/her,

2. or failing him/her,

3. the Chairperson of the Annual General Meeting,

as my/our proxy to attend and act for me/us on my/our behalf at the Annual General Meeting of the company convened for purpose of considering and, if deemed fit, passing, with or without modification, the ordinary and special resolutions to be proposed thereat ("the resolutions") and at each postponement or adjournment thereof and to vote for and/or against the resolutions, and/or abstain from voting, in respect of the ordinary shares in the issued share capital of the company registered in my/our name/s in accordance with the following instructions:

	Number of ordinary shares		
	For	**Against**	**Abstain**
1. **Ordinary resolution number 1** To approve the re-election as director of Scott M Campbell who retires by rotation			
2. **Ordinary resolution number 2** To approve the re-election as director of Lourens E Louw who retires by rotation			
3. **Ordinary resolution number 3** To approve the re-election as director of Günter Z Steffens who retires by rotation			
4. **Ordinary resolution number 4** To approve the appointment of Günter Z Steffens as member and Chairman of the Audit Committee			
5. **Ordinary resolution number 5** To approve the appointment of Reginald S. Berkowitz as member of the Audit Committee			
6. **Ordinary resolution number 6** To approve the appointment of Scott M Campbell as member of the Audit Committee			
7. **Ordinary resolution number 7** To confirm the re-appointment of Grant Thornton as auditors of the company together with Ms Serena Ho for the ensuing financial year			
8. **Special resolution number 1** Approval of the non-executive directors' remuneration			
9. **Ordinary resolution number 8** Approval of the remuneration policy			
10. **Special resolution number 2** General approval to acquire shares			
11. **Special resolution number 3** Loans or other financial assistance to subsidiaries and other related or inter-related companies			
12. **Ordinary resolution number 9** Signature of documents			

Please indicate instructions to proxy in the space provided above by the insertion therein of the relevant number of votes exercisable.

A member entitled to attend and vote at the Annual General Meeting may appoint one or more proxies to attend and act in his stead. A proxy so appointed need not be a member of the company.

Signed at on 2011/2012

Signature

Assisted by (if applicable)

Notes:

1. The form of proxy must only be completed by shareholders who hold shares in certificated form or who are recorded on the sub-register in electronic form in "own name".
2. All other beneficial owners who have dematerialised their shares through a CSDP or broker and wish to attend the Annual General Meeting must provide the CSDP or broker with their voting instructions in terms of the relevant custody agreement entered into between them and the CSDP or broker.
3. A shareholder entitled to attend and vote at the Annual General Meeting may insert the name of a proxy or the names of two alternate proxies (none of whom need be a shareholder of the company) of the shareholder's choice in the space provided, with or without deleting "the Chairperson of the Annual General Meeting". The person whose name stands first on this form of proxy and who is present at the Annual General Meeting will be entitled to act as proxy to the exclusion of those proxy(ies) whose names follow. Should this space be left blank, the proxy will be exercised by the Chairperson of the Annual General Meeting.
4. A shareholder is entitled to one vote on a show of hands and, on a poll, one vote in respect of each ordinary share held. A shareholder's instructions to the proxy must be indicated by the insertion of the relevant number of votes exercisable by that shareholder in the appropriate space provided. If an "X" has been inserted in one of the blocks to a particular resolution, it will indicate the voting of all the shares held by the shareholder concerned. Failure to comply with this will be deemed to authorise the proxy to vote or to abstain from voting at the Annual General Meeting as he/she deems fit in respect of all the shareholder's votes exercisable thereat. A shareholder or the proxy is not obliged to use all the votes exercisable by the shareholders or by the proxy, but the total of the votes cast and in respect of which abstention is recorded may not exceed the total of the votes exercisable by the shareholder or the proxy.
5. A vote given in terms of an instrument of proxy shall be valid in relation to the Annual General Meeting, notwithstanding the death, insanity or other legal disability of the person granting it, or the revocation of the proxy, or the transfer of the ordinary shares in respect of which the proxy is given, unless notice as to any of the aforementioned matters shall have been received by the transfer secretaries not less than forty-eight hours before the commencement of the Annual General Meeting.
6. If a shareholder does not indicate on this form of proxy that his/her proxy is to vote in favour of or against any resolution or to abstain from voting, or gives contradictory instructions, or should any further resolution(s) or any amendment(s) which may properly be put before the Annual General Meeting be proposed, such proxy shall be entitled to vote as he/she thinks fit.
7. The Chairperson of the Annual General Meeting may reject or accept any form of proxy which is completed and/or received, other than in compliance with these notes.
8. A shareholder's authorisation to the proxy including the Chairperson of the Annual General Meeting, to vote on such shareholder's behalf, shall be deemed to include the authority to vote on procedural matters at the Annual General Meeting.
9. The completion and lodging of this form of proxy will not preclude the relevant shareholder from attending the Annual General Meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof.
10. Documentary evidence establishing the authority of a person signing the form of proxy in a representative capacity must be attached to this form of proxy, unless previously recorded by the company's transfer secretaries or waived by the Chairperson of the Annual General Meeting.
11. A minor or any other person under legal incapacity must be assisted by his/her parent or guardian, as applicable, unless the relevant documents establishing his/her capacity are produced or have been registered by the transfer secretaries of the company.
12. Where there are joint holders of ordinary shares:
    - any one holder may sign the form of proxy;
    - the vote(s) of the senior ordinary shareholders (for that purpose seniority will be determined by the order in which the names of ordinary shareholders appear in the company's register of ordinary shareholders) who tenders a vote (whether in person or by proxy) will be accepted to the exclusion of the vote(s) of the other joint shareholder(s).
13. **Forms of proxy should be lodged with or mailed to Computershare Investor Services Proprietary Limited:**

Hand deliveries to:	**Postal deliveries to:**
Computershare Investor Services Proprietary Limited Ground Floor, 70 Marshall Street Johannesburg, 2001	Computershare Investor Services Proprietary Limited PO Box 61051, Marshalltown, 2107

    to be received by no later than 08:00 on Tuesday, 17 April 2012 (or 48 hours before any adjournment of the Annual General Meeting which date, if necessary, will be released on SENS).
14. A deletion of any printed matter and the completion of any blank space need not be signed or initialled. Any alteration or correction must be signed and not merely initialled.

CONDUIT CAPITAL

360 Oak Avenue, Randburg. PO Box 97, Melrose Arch 2076.
tel.(011) 686 4200. fax.(011) 789 3709