Conduit Capital Limited
Integrated Annual Report 2012

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CHIEF EXECUTIVE OFFICER'S REVIEW

REVIEW OF OPERATIONS

Corporate and Investment Services

The Corporate and Investment Services division comprises the Group's head office activities and investments that are considered ancillary to core operations. Significant movements in the year relate to our 26% interest in Amalgamated Electronics Corporation Limited ("Amecor"), which is accounted for on a mark-to-market basis. In the first half of the year we benefitted from a 51 cent movement in the share price equating to after-tax earnings of R8.8 million or 3.5 cents per share. By contrast, a downward movement of 65 cents in the second half of the year negatively impacted after-tax earnings by R10.9 million or 4.3 cents a share. Volatility aside, and after taking into account an 8 cent dividend, the investment had only a marginal impact on overall Group results. Post year-end the Amecor share price has recovered to trade above R2 off the back of recently published positive results. Accounting rules dictate that our treatment of the asset will remain unchanged.

Conduit Insurance and Risk Services

The business of insurance is rather intriguing. On one hand the benefit of receiving premiums in advance and only paying claims later, has the effect of creating what the industry calls an 'insurance float'. Simplistically put, this float is really just an amount of 'free' capital that 'floats' around our investment portfolio (strictly monitored by the Financial Services Board ("FSB") of course) and generally increases along with our premium income. The money we make from this insurance float, alongside the investment of our assets, which have no direct corresponding liability, is what makes up our investment income. The other side of the insurance coin is the core of our business and the actual underwriting of risk. It is here where, along with other insurers and a few other industries, we only truly know our final cost of sale down the line once a claim materialises. Even with all the historical and predictive analysis money can buy, it is by no means a precise science. This brings me to my point:

At Constantia we will not compromise on quality for market share. We insist on allocating capital to portfolios that make us money and do so time and again. In rare instances where we get it wrong in a given year, it is not out of greed or as a result of chasing premium. We know that no amount of 'free' (responsibly invested) insurance float will deliver the returns necessary to make up for ill-discipline in underwriting. Whilst it is always good to see top line growth, we are far more focused on the quality of that premium and its ability to deliver bottom line profits.

Commentary contained in the Group's February interim report provided shareholders with some insight into recent insurance regulations, which would impact the allocation of capital within our Group. In October 2011 (effective January 2012) the FSB introduced Interim Measures in the lead up to the implementation of Solvency Assessment and Management ("SAM") regulations in 2015. This risk based capital approach - which follows European standards - has effectively doubled the statutory capital requirements for short-term insurers and heavily penalises all asset classes other than cash or premium debtors, provided they are current or outstanding for less than 60 days. Whilst this may seem quite alarming at first, it strongly supports our conservative investment strategy and continued focus of underwriting profitable business. The Regulations do not of course end there and there is indeed a cost to ensure compliance with the governance, reporting and financial aspects of SAM in the months and years to come.

The Group's balance sheet is robust and we intend to keep it that way. To illustrate the position, as at 31 August 2012 Constantia's statutory capital exceeded its minimum Capital Adequacy Requirement or CAR - a new capital measurement for short-term insurers - by more than 40%. In addition, we maintained our Global Credit Rating of A- and improved our international solvency margin to 53% as at year-end (29 Feb 2012: 44%). As our business develops and the regulatory environment changes, so will we continue to refine our capital model.

In term of numbers the Insurance and Risk Services division produced very satisfying results. Operating profit climbed to R33.8 million (31 August 2011: R6.2 million) with profit before tax topping R47.0 million (31 August 2011: R20.3 million).

Our ultimate objective is to obtain and preserve a delicate balance between regulatory requirements, credit rating maintenance, shareholder expectations and, of course, our own return targets. We are getting there and I have an exceptional team to thank for it. They are truly living up to our ethos of 'Insurance made Personal'.

Conduit Direct

In good times, when credit is abundant, consumers tend to over-extend themselves on the false expectation that it will remain in plentiful supply. Unfortunately this is rarely the case and before long they find that they have spread themselves and their repayment to creditors rather thin, initiating a self-fulfilling prophecy that rears its ugly head the moment leaner times arrive. Here credit is scarce and good credit records even more so. The debtor's conduct in earlier times has come home to roost and a debt spiral begins. Ironically, we do not thrive at this, or the other extreme of the credit cycle. Our 'sweet spot' is somewhere in the middle; it is at the point when credit advances are moderate and payments are consistent. It is at a time where the back of the debt spiral has been broken and relaxed repayment terms permit the consumer a steady and continual upkeep of payments to creditors.

Over the years our business has skilfully navigated its way through many a credit cycle and we have seen the best and worst of both extremes. Yet, with each passing year our staff numbers grow (approximately 1 250 at last count), our skill base expands and our knowledge of an ever-changing credit landscape improves. Though we have become a vital link in an important supply chain, we operate in a highly competitive industry. We are all too aware of our need to stay relevant to our customers by keeping their infrastructure cost base low, their credit recovery efficient and, most importantly, helping to maintain more of their customers in a credit worthy state.

The Direct division's operating profit of R43.8 million reflects its expertise and standing in the industry, bettering the prior year's performance by 30.1%.

Bridging the Gap between Net Asset Value ("NAV") and Embedded Value

It appears to be fairly common that an investment holding company's NAV serves as a proxy for its share price. To prove the point, one need look no further than our own share price and how closely it tracks our NAV. Arguably, this would have been a reasonable basis for valuing Conduit in the past. Today, such a methodology would, in our minds, significantly undervalue the combined worth of our various business units. For now, we shall limit our explanation to a few observations in relation to the Insurance and Risk Services division and the Direct unit.

The Insurance and Risk segment is comprised of businesses that bear risk and those that don't. The businesses that do - the insurance licenses - have a considerable amount of capital on the balance sheet in the form of cash and a modest spread of other asset classes. At year-end this number stood at R117.8 million. For valuation purposes, it would be reasonable to place a pure R1 for R1 value on this capital (Part 1). Then there is the float and the value of the 'free' interest that we earn on the 'free' capital. This we estimate would be worth no less than R28.2 million, even on the most conservative of discounted cash flow calculations (Part 2). The next component is the underwriting activity and the value of the underlying book. Though the ability to write and retain premium is a function of and certainly has a direct correlation with capital, the profitability of it is not. In this case the value is more subjective and by looking at the operating profit line we consider our estimate of R90.6 million to be rational (Part 3). Finally there is the pure value of our interests in non-risk businesses, to which we have merely attributed a modest value equivalent to our share of any cash surplus to working capital requirements within these entities (Part 4). The aggregation of parts 1, 2, 3 and 4 reveal a value of R255.4 million.

The explanation for the Direct division is far easier. It is held on our balance sheet at R19.7 million and has remained unadjusted since 2006. This year it produced profits before tax of R44.6 million. Incidentally, our share of dividends this year alone amounted to R16.8 million. Using a similar discounted cash flow model to the one applied in the Insurance and risk division calculation, our valuation of R99.3 million to us seems reasonable.

So, if we add up the parts and add to that the cash and investments elsewhere in the Group, we arrive at a conservative total embedded value of R372.8 million, translating into 146.3 cents a share. We shall let you decide if this represents fair value. In future reports we intend to articulate our view in much greater detail.

Conclusion

With Group turnover breaching the R1 billion mark (R1.07 billion), operating profit sharply up and headline earnings rising by 49.2% to R32.2 million or 12.7 cents a share, there is certainly room for optimism.

Investors will note a change of tone in our report. This year it is far more revealing of our psyche as a business and how we see our operations in a practical and hopefully understandable way. Going forward, we will expand this thinking and provide shareholders with greater insight into our activities in a manner and form that cuts through the jargon and enables existing and prospective investors to make informed decisions about their current or future investment in Conduit Capital Limited.

Jason D Druian
Chief Executive Officer

Johannesburg
21 November 2012

SUSTAINABILITY REPORT

MANAGEMENT'S APPROACH TO SUSTAINABILITY AND INTEGRATED REPORTING

The Directors and Executive Management of the Conduit Group are proud to present the second Integrated Annual Report of Conduit Capital ("Conduit", "the Company", or "the Conduit Group"), prepared in accordance with the JSE's requirements of Integrated Reporting and the King III Code on Corporate Governance ("King III") and including all other legal requirements that Conduit must adhere to.

The report forms a holistic representation of Conduit's performance in terms whereof the operational, financial and sustainability (environmental, social and governance) issues are discussed in relation to the key drivers of the business.

We believe this Report is a further move towards compliance with best international practice, providing stakeholders with a balanced view of our activities during the year ended 31 August 2012.

REPORTING FRAMEWORK FOR 2012

The Board of Conduit recognise that the Annual Report is the most suitable vehicle to describe our evolving business and the quality of decisions that have led to our financial results. For sake of consistency, we have elected to follow a similar reporting framework.

Conduit remains an Investment Holding Company, which primarily operates through three internal divisions namely:

- **Corporate and Investment Services** that, other than head office activities, houses the Conduit Group's interest in Amalgamated Electronics Corporation Limited ("Amecor"),
- **Insurance and Risk Services**, which houses the Conduit Group's insurance interests; and
- **Direct**, which represents Conduit's interest in Anthony Richards and Associates Proprietary Limited ("ARA"), a credit recovery call centre.

To contextualise, Amecor is an investment for Conduit – further information is summarised in our Chief Executive Officer's review - and as such non-core to our operations. There is limited interaction between Executives with no strategic or day-to-day operational involvement. We have therefore elected to explain how the Executive of Conduit has applied its mind to considering all material aspects while developing the Group's core business during the year under review.

In *Table 1* below we detail the two 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 • 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. • There is however, a move toward critical elements of risk management and social & ethics being reported and monitored at a Conduit level on an umbrella basis.	• ARA, treated as a subsidiary, is further elaborated on in this report
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 the 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 Integrated Annual Report were 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 operation (per *Table 2* below).

STAKEHOLDER ANALYSIS AND ENGAGEMENT

We recognise the importance of balancing our main objective to maximise profitable growth and overall shareholder returns having regard to long-term social, economic and environmental factors. In doing so we identify any material issues which could have an impact on the Group's sustainability.

We are accountable to our staff, 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 and or conference calls. • 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 • Ability to recover outstanding debt	• Monthly review meetings • Monthly reports and statistics • Ad hoc inspections by ARA clients

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 including Global Credit rating • 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 • UMA Conference mainly for strategic alignment and knowledge sharing • Workshops detailing expectations in regard to risk management. • Compliance and legislation updates
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, including Global Credit Rating • 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 & 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 & 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 • External Auditors • Ancillary operational service providers	Service providers	• Ability to pay • Screening criteria prior to appointments & 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

The Executive of Conduit fulfils both strategic and operational roles in the Company, as well as Constantia. Conduit operates from a head office in Randburg and shares premises with Constantia. As our staff complement is small (Conduit: **12 employees**), the structure is designed to be flexible and maintain the depth of skills in the subsidiaries. ARA is based in Cape Town and services a wide range of clients who operate nationally.

As financial services organisations Conduit, Constantia and ARA's direct activities do not pose any significant threat to **the environment**. The Group is however mindful of the effects on the environment and will endeavour to, where appropriate, implement measures to mitigate any direct impact on the environment. **Health and safety** issues are of low risk to our operations and none of these issues has been raised as material by any of our stakeholders.

Our people are our greatest asset. What sets Constantia apart from others insurers is a committed group who takes care of the details and lives Constantia's ethos of "Insurance made personal". ARA enjoys the same level of commitment from its people whom have been integral in formulating their own culture and values relevant to their operating environment.

In keeping with the continued theme of stakeholder engagement, we will use this opportunity to elaborate on some of the non-financial aspects within Constantia and ARA. As it remains the area where we maintain management control and influence, the bulk of our reporting will focus on Constantia.

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 (one of the licences is being sold and the other is in run-off), 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 on Commercial and Personal Lines, Legal Expenses, Guarantee, Heavy Commercial Vehicles, Cell Phones, Autobody Warranties, Emergency Medical Evacuation, Credit Life and certain ancillary 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, which may include 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 including 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; CLAH caters mainly for Group Scheme business.

With a total staff complement of **103 Employees,** the above-mentioned insurance companies, together with their supporting companies, are collectively referred to as the **Constantia Insurance Group.**

Developing resilience within Constantia

Our growth has been mainly organic (leveraging existing UMA arrangements), via distribution channels targeting areas and lines within the insurance markets. A conservative investment policy has been instituted, with the greater bulk of assets being held in cash and appropriately spread across banking institutions in the Republic.

Ongoing portfolio maintenance implemented in underperforming portfolios/books (of insurance business) have started to bear fruit as CICL's disciplined approach, particularly in the underwriting and claims administration functions, has seen an improvement in underwriting quality and efficiencies.

We continue to enhance our:

- IT systems,
- skills base; and
- in-house capabilities

and where the need arises we make use of outsourced professionals.

These measures coupled with a very tightly controlled expense structure in a small, but appropriate Head Office has created a solid platform for future growth and resilience.

Our business partners

There is nothing standard about Insurance. CICL continues to work with Underwriting Managers who specialise in a specific field of insurance, ensuring our products remain bespoke and innovative. Each UMA has performed profitably and we believe that together we have built a solid platform for future growth. The current and future regulatory environment will place greater emphasis on CICL and each UMA working in close association to meet the demands of setting up greater risk management and governance structures, ensuring and maintaining compliance within the new regulatory frameworks.

Compliance and 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 compliance requirements under the new legislation relevant to the insurance sector include:

1. Companies Act

   Preparations are underway to amend the existing Memorandum of Incorporation in order to reflect the changes required by the Companies Act of South Africa. An umbrella Social and Ethics Committee has been established. The first meeting has been held and the terms of reference approved. A gap analysis is being performed, listing the various Social and Ethics related activities. The results of the assessment will be compared to the five areas of responsibility resulting in the formulation of an action plan to address the outstanding matters in respect of each of the areas.

2. Binder Regulations

   The primary focus of compliance is the conversion of the existing UMA agreements to conform to the new requirements.

3. Directive 156 in respect of premium collection and Directive 159 in respect of outsourcing

   Compliance with Directive 156 is receiving attention, where a comprehensive monitoring program will be introduced. The process of converting all existing service level agreements for “material” outsourced activities, in line with Directive 159, is on track for completing within the required deadline.

4. Treating Customers Fairly (TCF)

   A TCF working committee of the Constantia Group has been established to review the second TCF self-assessment. The operations of the Constantia Group Head Office will initially be evaluated (against the 6 core principles of TCF), and thereafter rolled out to the UMAs.

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 were 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. Those employees who were required to write exams have written and passed.

6. 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.

7. 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.

SAM: An Opportunity to Integrate

In the previous integrated report we reported quite extensively on the new SAM. In summary, 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 FSB, or develop their own internal capital model by 2015;
2. Risk Management and Governance; and
3. Reporting and Disclosure requirements.

Initial overall implementation was set for 2014; this deadline has been extended to 2015. The SAM Committee with the assistance of internal resources as well as external consulting actuaries is responsible for oversight and implementation of the various SAM initiatives and milestones.

The implication of the capital requirements (Pillar 1) have been integrated into CICL's business model, where an alignment of the business structure within the constraints of the capital requirements has been taking place.

An exercise has also been undertaken whereby the governance policies (Pillar 2) required under SAM were identified. A process has been set in place to further develop these policies for ultimate approval by the Board within the required time frame.

The primary focus of the reporting requirements (Pillar 3) is essentially expanded financial reporting under the Pillar 1 requirements, something which is presently being assessed internally. SAM will help to ensure a sustainable insurance industry that has resilience to withstand shocks and meet policyholder obligations.

Reinsurance

Our reinsurance arrangements for 2013 have been appropriately concluded with effect from 1 September 2012.

Our reinsurance arrangements are, in the main, on the proportional side with Africa Re and the excess of loss treaties, both with Africa Re and Hannover Re. For the performance bond treaties (construction type and solvency guarantees), Hannover Re, Munich Re, Africa Re and SCOR Africa Limited are the four participants. We enjoy excellent support from our reinsurers in respect of our overall treaty programme and we are confident that our structures meet the requirements of our insurer.

Goodall & Bourne

CLL, operating under the brand of Goodall & Bourne, is a small, boutique funeral cover insurance company in Cape Town. It has approximately 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 local Cape Town communities.

While our traditional commercial and personal lines offerings preserve our clients' assets, Goodall & Bourne offers something entirely different. Our policyholders believe that a person's funeral is the opportunity to "send them off with dignity".

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 has been in business for 80 years and many of our policyholders have been contributing to their funeral policies monthly for 20 – 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 6 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: We place greater emphasis on underwriting risk prior to acceptance (without discriminating) and educating the policyholder so they fully understand all terms and conditions to avoid disappointment later. Accordingly, our claims rejections rates are limited 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. Our challenges and opportunities going forward include:
  - Although our brand is strong within the Coloured community and our policy numbers have been stable, these have however stagnated over the last few years. The growth opportunity lies in attracting more group scheme business and also business from within the African community. We will need to position ourselves accordingly through promotions and relationship building in the townships outside of Cape Town.
  - We have and will continue to invest in our overall insurance management and administration system.
  - Initiatives are being explored to refine our premium collection mechanism.

Deepening our understanding of the supply chain

Our "getting to know" programme referred to last year, has delivered positive results and given us great insight to what is important to our staff and stakeholders. Naturally, a process such as this requires on-going initiatives to ensure that we remain relevant.

Whilst the "getting to know" programme will always remain at the forefront in defining cultural and service delivery strategies, we will simultaneously focus our attention on the following initiatives throughout our supply chain:

- A personalised approach - to reward and inspire growth;
- A personal view on insurance; and
- Growing value through committed partnerships.

Identifying new opportunities for the Constantia Group

Numerous opportunities via different distribution channels will be a focus for the Constantia Group in the short to medium-term.

Overview: Anthony Richards and Associates

ARA, a level 4 B-BBEE contributor, has been in existence for over a decade and continues to be 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, risk management and fair labour practices are critical for the following reasons:

- Training and quality assurance: ARA employs over 1,250 people and assumes the recovery of outstanding debts on behalf of large credit providers 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 banking sector, clothing retailers and healthcare providers, 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.
- Staff retention: All our call centre employees are female, the average age being 25 years and are highly sought after. 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 many of our employees, this is their first or second job, our evaluation process is very strict. We run an assessment centre prior to placing any of our new candidates on a project. As there is a large churn of staff in the Call Centre industry, our retention strategy is one of investing in their ability to earn commission through good performance as well as enhancing further employment benefits.
- We believe that it is still relevant that we contribute and provide an important social service in two ways: 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.

- We provide an important opportunity for young women to begin their careers and establish their financial independence. Many of our candidates choose to join 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 (which are constantly updated and refined) to ensure consistency in the standards of internal management across the companies within the Conduit Group. Policies include (but are not limited to) matters relating to:

- our code of ethics;
- conditions of employment;
- remuneration and retention;
- health and safety;
- training and development;
- recruitment;
- labour relations; and
- general internal operating procedures and internal controls.

After a comprehensive induction, all staff are required to become familiar with and abide by their contents.

Corporate Social Investment (CSI) projects are supported by the Conduit Group and during 2012 we have contributed to the following initiatives:

- Conduit, in association with Constantia, combined to support certain Rotary Club initiatives in 2012; and
- ARA in 2012 have again 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 with respect to the diverse discipline within our Group. Looking forward, the combination of our agility, our people, simplified business systems and the appropriate allocation of capital will ensure we remain profitable, sustainable and adapt to the ever-changing financial services environment.

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 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 judgement and estimates.

The directors of the Company 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 eight 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 within 15 business days (plus 7 calender days where a document is sent by registered post) 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 can be categorised as follows:

- Reginald Berkowitz — Independent non-executive director and Chairman
- Jason Druian — Executive director - Chief Executive Officer
- Richard Bruyns — Independent non-executive director
- Scott Campbell # — Independent non-executive director
- Lourens Louw — Financial director
- Robert Shaw — Executive director
- Günter Steffens ## — Independent non-executive director
- Gavin Toet — Executive director

 # New Zealander *## German*

Mr Stanley D Shane has resigned as a non-executive director with effect from 26 March 2012.

Mr Robert L Shaw was appointed as an executive director on 2 July 2012 and Mr Richard Bruyns was appointed as an independent non-executive director on 4 October 2012.

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

- Reginald Berkowitz — Independent non-executive director and Chairman
- Richard Bruyns — Independent non-executive director
- Robert Shaw — Executive director
- Gavin Toet — Executive director

An abridged CV of each Director standing for re-election will be distributed together with the Notice of AGM.

The Board is aware that during the most of the year under review independent non-executive directors represented a minority on the Board. The Board's independence was however and will in future continue to be maintained by:

- keeping separate the roles of the Chairman and the Chief Executive Officer;
- 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.

The Board does not conduct regular appraisals of its members and committees. Consideration is being given to implement this going forward.

Not all directors are shareholders of the company. Details of directors' shareholdings are reflected on page 78 of the Integrated Annual Report.

The Board has appointed the following committees to assist in the performance of its duties:

- Audit Committee
- Investment Committee
- Remuneration Committee
- Risk Management Committee
- Social and Ethics Committee

Attendance at Board meetings

Three formal Board meetings were held since publication of the previous annual report. The Chairman and other non-executive directors also meet regularly with the Executive of Conduit on an informal basis in order to keep abreast of developments within the Group. The attendance of formal Board meetings is set out below:

Name	19 Apr 2012	24 Aug 2012	15 Nov 2012
Berkowitz, R S	P	P	P
Bruyns, S R	-	-	P
Campbell, S M	P	A	P
Druian, J D	P	P	P
Louw, L E	P	P	P
Shaw, R L	-	P	P
Steffens, G Z	P	P	P
Toet, G	P	P	P
Number of Board members	6	7	8
Number present	6	6	8

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 Committee meets three times per year with the Executive of Conduit and the auditors to review accounting, auditing and financial reporting matters in order to ensure that an effective control environment is maintained in the Group. The Committee also monitors proposed changes in accounting policies, reviews the internal audit functions 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 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. A report by the Audit Committee has been provided on page 19 of the Annual Report.

Attendance at Audit Committee meetings

Name	19 Apr 2012	24 Aug 2012	15 Nov 2012
Steffens, G Z	P	P	P
Berkowitz, R S	P	P	P
Campbell, S M	P	A	P
Bruyns, S R	-	-	*
Druian, J D	*	*	*
Louw, L E	*	*	*
Shaw, R L	-	*	*
Toet, G	*	*	*
Number of Committee members	3	3	3
Number present	3	2	3

Key: *P Present/Participated*
A Apology/Absent
** Not a committee member, but attended by invitation*
- Not a director at the time

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; and
- the assets of the Group are safeguarded and appropriately insured.

Internal Audit

Given that all operations take place at subsidiary level, no formal internal audit function has been established at Group level. Although currently still a work in progress, a process is currently under way to formalise the internal audit functions at the various operating subsidiaries.

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 it by ensuring that the appropriate infrastructure, controls, systems and ethics are applied throughout the Group and managed within predetermined procedures and constraints.

The Risk Management Committee comprises the Chairman of the Audit Committee, the Financial Director, an Executive Director and the Financial Manager. With most of the risk management activities taking place at operating subsidiary level, the Committee met once during the past year and all members were present. The Committee concluded that the risk management processes in the Group were effective for the financial year under review.

REMUNERATION COMMITTEE

The Group's remuneration policies and philosophy is determined by the Remuneration Committee. The 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 Integrated 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 and other directors attend Remuneration Committee meetings by invitation. The Committee met twice during the year. Details of directors' remuneration have been provided on pages 60 and 61 of the Annual Report.

Attendance at Remuneration Committee meetings

Name	24 Aug 2012	15 Nov 2012
Berkowitz, R S	P	P
Steffens, G Z	P	P
Campbell, S M	A	P
Bruyns, S R	-	*
Druian, J D	*	*
Louw, L E	*	*
Shaw, R L	-	*
Toet, G	*	*
Number of Committee members	3	3
Number present	2	3

Key: *P* *Present/Participated*
A *Apology/Absent*
* *Not a committee member, but attended by invitation*
\- *Not a director at the time*

SOCIAL AND ETHICS COMMITTEE

The Social and Ethics Committee assesses the Group's various social and ethics related activities against the five areas of responsibility as outlined in its Terms of Reference and the Companies Act, identifies developmental areas for each of the areas of responsibility and then enable the formulation of an action plan to address these matters in respect of each of the areas. The Committee met once during the past year and all members were present.

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 2012

The directors are required by the Companies Act of South Africa 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 it 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, based on their enquiries and the information and explanations given by management, that 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 2013 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 21 to 81, which have been prepared on the going concern basis, were approved by the Board on 21 November 2012 and were signed on its behalf by:

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

Johannesburg
21 November 2012

COMPANY SECRETARY'S CERTIFICATE

Pursuant to our duties in term of Section 88 (2) (e) of the Companies Act of South Africa 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 Companies Act, and that all such returns are true, correct and up to date.

Probity Business Services Proprietary Limited
Company Secretary

Johannesburg
21 November 2012

REPORT OF THE AUDIT COMMITTEE

This report is issued to the shareholders of the Company pursuant to the Audit Committee's duty to report in terms of section 94(7)(f) of the Companies Act of South Africa.

Role and mandate of the Audit Committee

The Audit Committee is a committee of the Board and, in addition to having specific statutory responsibilities in terms of the Companies Act, it assists the Board 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 Company. Its duties and terms of reference are set out in a formal charter, approved by the Board.

Composition of the Audit Committee and access thereto

As at 31 August 2012, the Audit Committee comprised three independent non-executive directors, namely Mr G Z Steffens (Chairman), Mr R S Berkowitz and Mr S M Campbell. The group financial director, other directors, senior financial executives and representatives from the external auditors attended the meetings by invitation only.

The external auditors enjoy unrestricted access to the Audit Committee and its Chairman and during the year 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 2012, August 2012 and November 2012.

Statutory responsibilities

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

1. ensured that the appointment of the external auditors complied with all applicable legislation;
2. satisfied itself of the independence of Grant Thornton;
3. agreed the fees to be paid to the external auditors and reviewed the other terms of their engagement;
4. determined the nature and extent of non-audit work to be performed by Grant Thornton and pre-approved any non-audit engagements;
5. made itself available to deal with any complaints relating to the accounting practices or the content or audit of the financial statements of the company or the internal financial controls of the Company or any related matters (no such matters were, however, referred to the Committee); and
6. nominated Grant Thornton for appointment as the Company's external auditors for the 2013 financial year.

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

G Z Steffens
Audit Committee Chairman

Johannesburg
21 November 2012

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF CONDUIT CAPITAL LIMITED

We have audited the consolidated and separate financial statements of Conduit Capital Limited set out on pages 24 to 81, which comprise the statements of financial position as at 31 August 2012 and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The Company's directors are responsible for the preparation and fair presentation of these consolidated and separate 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 consolidated and separate financial statements that are free from material misstatements, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated and separate 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 consolidated and separate 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, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Conduit Capital Limited as at 31 August 2012, 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.

Other reports required by the Companies Act

As part of our audit of the consolidated and separate financial statements for the year ended 31 August 2012, we have read the Director's Report, Audit Committee's Report and Company Secretary's Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited consolidated and separate financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited consolidated and separate financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

Grant Thornton

GRANT THORNTON
Chartered Accountants (SA)
Registered Auditors

Per S Ho
Partner
Chartered Accountant (SA)
Registered Auditor

21 November 2012
Grant Thornton Office Park, 137 Daisy Street, Sandown, Johannesburg, 2196

DIRECTORS' REPORT

The directors have pleasure in presenting their report for the year ended 31 August 2012.

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 (2011: 500 million).

There were no changes to the issued share capital during the year. Treasury shares decreased by 4.5 million to 1.6 million (2011: 6.1 million).

Please refer to notes 17 and 33.3 of the annual financial statements for further details.

SHARE PREMIUM

The Group's share premium account amounted to R173.37 million (2011: R196.65 million).

Please refer to note 18 of the annual financial statements for further details.

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

During the year the Group acquired property, plant and equipment, software and other intangible assets to the value of approximately R4.1 million (2011: R3.5 million).

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

1. Assets held for sale with a book value of approximately R4.75 million were sold for a net consideration of R5.1 million; and
2. Trade debtors and loans of R4.55 million were impaired and written off through profit and loss (2011: R5.95 million impaired). No previous period impairments were reversed through profit and loss (2011: Nil).

INTEREST IN SUBSIDIARIES

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

	2012 R'000	2011 R'000
Profits	**44,755**	27,017
Losses	**(12,092)**	(2,849)

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	
Bruyns, S Richard		*	4 October 2012	
Campbell, Scott M ++		#*R	9 April 2000	
Druian, Jason D	(Chief Executive Officer)		24 May 2005	
Louw, Lourens E	(Financial Director)		25 August 2004	
Shane, Stanley D		**	21 January 1999	26 March 2012
Shaw, Robert L			2 July 2012	
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

Mr Stanley D Shane has resigned as a non-executive director with effect from 26 March 2012.

Mr Robert L Shaw was appointed as an executive director on 2 July 2012 and Mr S Richard Bruyns was appointed as an independent non-executive director on 4 October 2012.

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 P O Box 85392, Emmarentia, 2029.

DIRECTORS' SHAREHOLDING

As at 31 August 2012 certain directors beneficially owned 34.48 million (2011: 56.16 million) ordinary shares in Conduit Capital. The directors held rights to a further 2 million (2011: 4 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 and what is disclosed in note 38, 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 2012 and 31 August 2011 the Company's borrowings totalled as follows:

	2012 R'000	2011 R'000
Borrowings from other Group companies	**4,186**	3,433

DIVIDENDS

The Board has not recommended any dividend payment to ordinary shareholders for the 2012 financial year (2011: Nil).

AUDIT COMMITTEE

The Audit Committee's report appears on page 19.

SPECIAL RESOLUTIONS

- A special resolution in terms whereof the annual remuneration payable to the non-executive directors for their services as directors for the financial year ending 31 August 2012, together with an annual increase not exceeding 10% for two years from the date of passing the resolution, was approved by shareholders at the Company's Annual General Meeting that was held on 19 April 2012.
- 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 Listings Requirements of JSE Limited and subject to certain terms and conditions, was approved by shareholders at the Company's Annual General Meeting that was held on 19 April 2012.
- A special resolution that authorised the Company to provide any direct and indirect financial assistance 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, but subject to the provisions of the Companies Act and subject to certain terms and conditions, was approved by shareholders at the Company's Annual General Meeting that was held on 19 April 2012.

STATEMENTS OF FINANCIAL POSITION

	Notes	GROUP 31 August 2012 R'000	GROUP 31 August 2011 R'000	COMPANY 31 August 2012 R'000	COMPANY 31 August 2011 R'000
ASSETS					
Non-current assets		**149,345**	143,629	**160,861**	171,891
• Property, plant and equipment	4	**14,601**	14,457	**124**	133
• Intangible assets	5	**46,457**	46,089	**29**	33
• Loans receivable	6	**4,073**	5,351	**-**	-
• Deferred taxation	7	**9,965**	7,190	**-**	-
• Investment properties	8	**3,851**	3,442	**-**	-
• Investment in associates	9	**311**	281	**-**	-
• Investment in jointly controlled entities	10	**3,756**	3,325	**-**	-
• Investment in subsidiaries	11	**-**	-	**160,708**	171,725
• Investments held at fair value	12	**66,331**	63,494	**-**	-
Current assets		**752,472**	669,503	**2,361**	2,402
• Insurance assets	13	**357,402**	316,026	**-**	-
• Loans receivable	6	**11,172**	-	**-**	-
• Investments held at fair value	12	**-**	4,592	**-**	-
• Trade and other receivables	14	**113,513**	78,761	**247**	200
• Taxation		**413**	262	**-**	-
• Cash and cash equivalents	15	**269,972**	269,862	**2,114**	2,202
Non-current assets held for sale	16	**-**	4,750	**-**	-
Total assets		**901,817**	817,882	**163,222**	174,293
EQUITY AND LIABILITIES					
Capital and reserves		**288,297**	282,858	**158,607**	170,476
• Ordinary share capital	17	**2,548**	2,503	**2,564**	2,564
• Share premium	18	**173,369**	196,652	**198,279**	223,477
• Retained earnings (Accumulated losses)		**97,694**	65,538	**(42,418)**	(56,165)
• Share-based payment reserve	19	**182**	600	**182**	600
Equity attributable to equity holders of the parent		**273,793**	265,293	**158,607**	170,476
Non-controlling interest		**14,504**	17,565	**-**	-
Non-current liabilities		**30,840**	28,629	**-**	-
• Policyholder liabilities under insurance contracts	20	**19,052**	19,661	**-**	-
• Interest-bearing borrowings	21	**3,753**	3,796	**-**	-
• Deferred taxation	7	**8,035**	5,172	**-**	-
Current liabilities		**582,680**	506,395	**4,615**	3,817
• Insurance liabilities	13	**422,561**	379,765	**-**	-
• Loans payable	35.6	**-**	-	**4,186**	3,433
• Trade and other payables	22	**152,626**	122,341	**429**	384
• Current portion of interest-bearing borrowings	21	**-**	3,175	**-**	-
• Taxation		**7,493**	1,114	**-**	-
Total equity and liabilities		**901,817**	817,882	**163,222**	174,293
Net asset value per share (cents)		**107.5**	106.0		
Tangible net asset value per share (cents)		**89.2**	87.6		

STATEMENTS OF COMPREHENSIVE INCOME

	Notes	GROUP 31 August 2012 R'000	GROUP 31 August 2011 R'000	COMPANY 31 August 2012 R'000	COMPANY 31 August 2011 R'000
Gross revenue	23	**1,071,936**	920,517	**1,260**	1,353
Net insurance revenue	24	**290,784**	274,764	**-**	-
Other operating revenue	23.2	**143,817**	109,110	**1,260**	1,353
Net revenue		**434,601**	383,874	**1,260**	1,353
Operating expenses		**(369,870)**	(356,046)	**(5,159)**	(2,246)
• Direct expenses: Insurance and risk services	25	**(215,333)**	(219,375)	**-**	-
• Administration and other expenses		**(67,116)**	(58,720)	**(3,629)**	(987)
• Depreciation and amortisation		**(3,514)**	(3,519)	**(50)**	(143)
• Employee costs		**(83,907)**	(74,432)	**(1,480)**	(1,116)
Operating profit (loss)		**64,731**	27,828	**(3,899)**	(893)
Equity accounted income	9 & 10	**723**	667	**-**	-
Investment income	26	**14,116**	24,923	**17,738**	7,858
Other income		**528**	1,190	**-**	116
Finance charges	27	**(427)**	(1,300)	**(92)**	(101)
Profit before taxation	28	**79,671**	53,308	**13,747**	6,980
Taxation	31	**(30,418)**	(16,988)	**-**	-
Profit for the year		**49,253**	36,320	**13,747**	6,980
Other comprehensive income		**-**	-	**-**	-
Total comprehensive income		**49,253**	36,320	**13,747**	6,980
Attributable to:					
Equity holders of the parent		**32,156**	22,419		
Non-controlling interest		**17,097**	13,901		
Profit for the year		**49,253**	36,320		
EARNINGS PER SHARE (CENTS)					
• **Basic**	33.4.1	**12.7**	9.0		
• **Diluted**	33.4.2	**12.6**	8.7		

STATEMENT 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 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
Total comprehensive income for the year	-	-	32,156	-	17,097	49,253
Equity options issued to executives	-	-	-	22	-	22
Equity options exercised	45	2,195	-	(440)	-	1,800
Loans advanced by non-controlling shareholders	-	-	-	-	5,101	5,101
Capital distribution	-	(25,478)	-	-	-	(25,478)
Dividends paid	-	-	-	-	(25,259)	(25,259)
Balance at 31 August 2012	2,548	173,369	97,694	182	14,504	288,297

STATEMENT 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 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
Total comprehensive income for the year	-	-	13,747	-	13,747
Equity options issued to executives	-	-	-	22	22
Equity options exercised	-	440	-	(440)	-
Capital distribution	-	(25,638)	-	-	(25,638)
Balance at 31 August 2012	2,564	198,279	(42,418)	182	158,607

STATEMENTS OF CASH FLOWS

	Notes	GROUP 31 August 2012 R'000	GROUP 31 August 2011 R'000	COMPANY 31 August 2012 R'000	COMPANY 31 August 2011 R'000
Cash flows from operating activities		**30,629**	34,166	**16,268**	7,294
• Cash generated (utilised) by operations	34.2	**65,940**	48,202	**(1,378)**	(463)
• Interest received	26	**11,352**	11,702	**938**	1,058
• Finance charges	27	**(427)**	(1,300)	**(92)**	(101)
• Dividends received	26	**3,125**	1,972	**16,800**	6,800
• Dividends paid		**(25,259)**	(10,200)	**-**	-
• Taxation paid	34.3	**(24,102)**	(16,210)	**-**	-
Cash flows from investing activities		**2,372**	(22,866)	**(37)**	(7)
• Acquisition of subsidiaries	34.4	**-**	(3,128)	**-**	-
• Acquisition of jointly controlled entities	10	**-**	(2,433)	**-**	-
• Dividends received from jointly controlled entities	10	**50**	-	**-**	-
• Disposal of associates	9	**62**	1,478	**-**	-
• Dividends received from associates	9	**167**	230	**-**	-
• Acquisition of property, plant and equipment	4	**(3,099)**	(2,900)	**(36)**	(12)
• Disposal of property, plant and equipment		**10**	40	**-**	9
• Acquisition of investment properties	8	**(3)**	(5)	**-**	-
• Disposal of property held for sale	16.2	**5,100**	10,600	**-**	-
• Acquisition of other intangible assets	5	**(1,026)**	(567)	**(1)**	(4)
• Disposal of other intangible assets	5.2	**-**	34	**-**	-
• Acquisition of financial investments	12.1.1	**(15,306)**	(37,712)	**-**	-
• Disposal of financial investments	12.1	**16,417**	11,497	**-**	-
Cash flows from financing activities		**(32,891)**	(11,684)	**(16,319)**	(18,275)
• Proceeds from exercise of share options		**1,800**	-	**-**	-
• Capital distribution	18	**(25,478)**	-	**(25,638)**	-
• Movement in loans by minorities		**5,101**	-	**-**	-
• Movement in interest bearing borrowings		**(3,218)**	(11,925)	**-**	-
• Movement in loans payable to third parties		**-**	-	**753**	87
• Movement in loans receivable from third parties		**(11,079)**	808	**-**	-
• Movement in loans to associates	9	**-**	203	**-**	(57)
• Movement in loans to jointly controlled entities	10	**(17)**	(770)	**-**	-
• Movement in loans to subsidiaries		**-**	-	**8,566**	(18,305)
Net increase (decrease) in cash and cash equivalents		**110**	(384)	**(88)**	(10,988)
Cash and cash equivalents at the beginning of the year		**269,862**	270,246	**2,202**	13,190
Cash and cash equivalents at the end of the year	15	**269,972**	269,862	**2,114**	2,202

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 2012						
Gross revenue	6,184	938,062	132,838	(5,148)	-	1,071,936
• External customers	1,036	938,062	132,838	-	-	1,071,936
• Other operating segments	5,148	-	-	(5,148)	-	-
Net insurance revenue	-	290,784	-	-	-	290,784
Other operating revenue	6,184	9,943	132,838	(5,148)	-	143,817
Net revenue	6,184	300,727	132,838	(5,148)	-	434,601
Operating expenses	(19,090)	(266,905)	(89,023)	5,148	-	(369,870)
• Direct expenses: Insurance and risk services	-	(215,333)	-	-	-	(215,333)
• Administration and other expenses	(5,294)	(29,548)	(37,422)	5,148	-	(67,116)
• Depreciation and amortisation	(131)	(1,204)	(2,179)	-	-	(3,514)
• Employee costs	(13,665)	(20,820)	(49,422)	-	-	(83,907)
Operating profit (loss)	(12,906)	33,822	43,815	-	-	64,731
Equity accounted income	-	723	-	-	-	723
Investment income	17,831	12,569	516	-	(16,800)	14,116
Other income (expenses)	(34)	312	250	-	-	528
Finance charges	(11)	(416)	-	-	-	(427)
Profit before taxation	4,880	47,010	44,581	-	(16,800)	79,671
Taxation	35	(14,066)	(16,387)	-	-	(30,418)
Profit for the year	4,915	32,944	28,194	-	(16,800)	49,253
Non-controlling interest	(11)	(170)	(16,916)	-	-	(17,097)
Profit attributable to ordinary shareholders	4,904	32,774	11,278	-	(16,800)	32,156
Headline adjustments	24	(33)	16	-	-	7
Headline earnings	4,928	32,741	11,294	-	(16,800)	32,163
AS AT 31 AUGUST 2012						
Total assets Note A	169,084	819,335	47,545	(131,784)	(2,363)	901,817
Total liabilities	(9,711)	(706,720)	(28,870)	131,781	-	(613,520)
Inter-segment funding	(127,302)	112,334	14,968	-	-	-
Non-controlling interest	(180)	(413)	(13,914)	3	-	(14,504)
Capital employed	31,891	224,536	19,729	-	(2,363)	273,793
Note A:						
Total assets include the following:						
• *Investment in associates*	*-*	*311*	*-*	*-*	*-*	*311*
• *Investment in jointly controlled entities*	*-*	*3,756*	*-*	*-*	*-*	*3,756*
• *Additions to property, plant and equipment*	*36*	*1,123*	*1,940*	*-*	*-*	*3,099*
• *Additions to intangible assets*	*1*	*333*	*692*	*-*	*-*	*1,026*
• *Additions to investment property*	*-*	*3*	*-*	*-*	*-*	*3*

	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 B	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-segment 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 B:						
Total assets include the following:						
• Investment in associates	*-*	*281*	*-*	*-*	*-*	*281*
• Investment in jointly controlled entities	*-*	*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*

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 Companies Act of South Africa. 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 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 (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 & 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.

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 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 in 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 no 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.

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 cash flows and that cash flows associated with the assets comprise only payments of principal 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 cash flows and that cash flows associated with the assets comprise only payments of principal 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.

14.2.2 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. INSURANCE CONTRACTS (continued)

14.2 Recognition and measurement of insurance contracts (continued)

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.

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. INSURANCE CONTRACTS (continued)

14.2 Recognition and measurement of insurance contracts (continued)

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 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.

14.2.8 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.

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. 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.

20. 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.

20. IMPAIRMENT OF ASSETS (continued)

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.

21. TAXATION

Tax expenses and income

Current tax and deferred tax are charged against profit or loss and are 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.

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 to the extent that it is probable that future taxable profit will be available against which the unused tax losses 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.

22. 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 and the foreign 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.

23. STANDARDS AND INTERPRETATIONS EARLY ADOPTED

The Group has chosen to early adopt the following standards and interpretations:

23.1 IAS 12: Income Taxes

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.

Adoption of this amendment is not material to the Group, hence no retrospective adjustment has been made.

23.2 IFRS 11: Joint Arrangements

IFRS 11 supercedes IAS 32: Interests in Joint Ventures. It replaces IAS 31's three categories of "jointly controlled entities", jointly controlled operations" and "jointly controlled assets" with two new categories - "joint operations" and "joint ventures". The option of using proportionate consolidation for joint ventures that was previously included in IAS 31 has been eliminated and equity accounting is now required for all joint ventures. Adoption of this amendment has no impact on the Group.

23.3 IFRS 12: Disclosure of Interests in Other Entities

IFRS 12 combines the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities within a comprehensive disclosure standard. It aims to provide more transparency on "borderline" consolidation decisions and enhances disclosures about unconsolidated structured entities in which an investor or sponsor has involvement. Adoption of this amendment has no impact on the Group.

23.4 IFRS 13: Fair Value Measurement

This new IFRS specifies how an entity should measure and disclose fair value information. IFRS 13 has been developed to:

- establish a single source of guidance for all fair value measurements;
- clarify the definition of fair value and related guidance; and
- enhance disclosures about fair value measurements - the new disclosures increase transparency about fair value measurements, including the valuation techniques and inputs used to measure fair value.

Adoption of this amendment has no impact on the Group.

23. CHANGES IN ACCOUNTING POLICY (continued)

23.5 IAS 27 (Revised): Separate Financial Statements

Consequential changes have been made to IAS 27 as a result of the publication of the new IFRS 10, 11 and 12. IAS 27 will now solely address separate financial statements, the requirements for which are substantially unchanged. Adoption of this amendment has no impact on the Group.

23.6 IAS 28 (Revised): Investments in Associates and Joint Ventures

Changes were made to IAS 28 as a result of the publication of IFRS 11. In general however the Standard continues to prescribe the mechanics of equity accounting. Adoption of this amendment has no impact on the Group.

24. 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.

24.1 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 cash flows of the Group. This first phase was early adopted by the group in the 2010 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. The classification categories for financial liabilities remain unchanged and financial liabilities shall not be reclassified. Future phases will address, inter alia, hedge accounting and impairments to financial instruments, but have not yet been released as a final standard.

24.2 IFRS 10: Consolidated Financial Statements

The statement becomes effective 1 Jan 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.

24.3 Amendments to IAS 1: Presentation of Financial Statements

The amendments became 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.

24.4 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

GROUP	2012 Financial assets at amortised cost R'000	2012 Fair value through profit and loss R'000	2011 Financial assets at amortised cost R'000	2011 Fair value through profit and loss R'000
NON-CURRENT				
Loans receivable	**4,073**	**-**	5,351	-
Investments	**-**	**66,331**	-	63,494
• Listed investments	**-**	**54,493**	-	51,861
• Unlisted investments	**-**	**11,838**	-	11,633
CURRENT				
Loans receivable	**11,172**	**-**	-	-
Investments	**-**	**-**	-	4,592
• Listed investments	**-**	**-**	-	1,629
• Unlisted investments	**-**	**-**	-	2,963
Trade and other receivables	**113,513**	**-**	78,761	-
Cash and cash equivalents	**269,972**	**-**	269,862	-
	398,730	**66,331**	353,974	68,086

1.2 Liabilities

GROUP	2012 Financial liabilities at amortised cost R'000	2011 Financial liabilities at amortised cost R'000
NON-CURRENT		
Interest-bearing borrowings	**3,753**	3,796
CURRENT		
Trade and other payables	**152,626**	122,341
Current portion of interest-bearing borrowings	**-**	3,175
	156,379	129,312

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:

GROUP	Assets Level 1 R'000	 Level 2 R'000	 Level 3 R'000	 Total R'000
2012				
Listed investments	**54,493**	**-**	**-**	**54,493**
Unlisted investments	**8,299**	**3,539**	**-**	**11,838**
	62,792	**3,539**	**-**	**66,331**
2011				
Listed investments	53,490	-	-	53,490
Unlisted investments	10,659	2,963	974	14,596
	64,149	2,963	974	68,086

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:

	2012 R'000	2011 R'000
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS		
Opening balance	**974**	947
(Losses) profits recognised in profit and loss	**(974)**	27
Closing balance	**-**	974

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

COMPANY	**2012 Financial assets at amortised cost R'000**	2011 Financial assets at amortised cost R'000
CURRENT		
Trade and other receivables	**247**	200
Cash and cash equivalents	**2,114**	2,202
	2,361	2,402

2.2 Liabilities

COMPANY	**2012 Financial liabilities at amortised cost R'000**	2011 Financial liabilities at amortised cost R'000
CURRENT		
Loans payable	**4,186**	3,433
Trade and other payables	**429**	384
	4,615	3,817

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 2012				
Interest received	**11,352**	**-**	**-**	**11,352**
Finance charges	**-**	**-**	**(427)**	**(427)**
Dividend income	**-**	**3,125**	**-**	**3,125**
Realised fair value adjustment of financial assets	**-**	**5,473**	**-**	**5,473**
Unrealised fair value adjustment of financial assets	**-**	**(6,040)**	**-**	**(6,040)**
Amounts written off	**(4,550)**	**-**	**-**	**(4,550)**
	6,802	**2,558**	**(427)**	**8,933**
3.1.2 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. 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 2012				
Interest received	938	-	-	938
Finance charges	-	-	(92)	(92)
Dividend income	-	16,800	-	16,800
Impairment losses	(2,451)	-	-	(2,451)
	(1,513)	16,800	(92)	15,195
3.2.2 2011				
Interest received	1,058	-	-	1,058
Finance charges	-	-	(101)	(101)
Dividend income	-	6,800	-	6,800
	1,058	6,800	(101)	7,757

4. PROPERTY, PLANT AND EQUIPMENT

4.1 Group

	2012 Cost R'000	2012 Accumulated depreciation R'000	2012 Net carrying value R'000	2011 Cost R'000	2011 Accumulated depreciation R'000	2011 Net carrying value R'000
• Owner occupied properties (note A)	**6,351**	**-**	**6,351**	6,351	-	6,351
• Leasehold improvements	**1,203**	**(1,030)**	**173**	1,203	(844)	359
• Computer hardware	**7,365**	**(5,498)**	**1,867**	6,945	(4,464)	2,481
• Office equipment	**6,021**	**(3,368)**	**2,653**	4,351	(2,665)	1,686
• Furniture and fittings	**7,422**	**(4,029)**	**3,393**	6,572	(3,196)	3,376
• Motor vehicles	**342**	**(178)**	**164**	342	(138)	204
	28,704	**(14,103)**	**14,601**	25,764	(11,307)	14,457

	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
2012							
Movement for the year							
• Opening carrying value	**6,351**	**359**	**2,481**	**1,686**	**3,376**	**204**	**14,457**
• Additions	**-**	**-**	**536**	**1,706**	**857**	**-**	**3,099**
• Disposals	**-**	**-**	**(13)**	**(11)**	**(55)**	**-**	**(79)**
• Depreciation	**-**	**(186)**	**(1,137)**	**(728)**	**(785)**	**(40)**	**(2,876)**
	6,351	**173**	**1,867**	**2,653**	**3,393**	**164**	**14,601**

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

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
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

4.2 Company

	2012 Cost R'000	**2012 Accumu-lated depre-ciation R'000**	**2012 Net carrying value R'000**	2011 Cost R'000	2011 Accumu-lated depre-ciation R'000	2011 Net carrying value R'000
• Leasehold improvements	**67**	**(67)**	**-**	67	(67)	-
• Computer hardware	**205**	**(161)**	**44**	195	(143)	52
• Office equipment	**81**	**(51)**	**30**	55	(48)	7
• Furniture and fittings	**248**	**(198)**	**50**	248	(174)	74
	601	**(477)**	**124**	565	(432)	133

	Leasehold improve-ments R'000	Computer hardware R'000	Office equipment R'000	Furniture and fittings R'000	Total R'000
2012					
Movement for the year					
• Opening carrying value	**-**	**52**	**7**	**74**	**133**
• Additions	**-**	**10**	**26**	**-**	**36**
• Depreciation	**-**	**(18)**	**(3)**	**(24)**	**(45)**
	-	**44**	**30**	**50**	**124**
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

	GROUP		COMPANY	
	31 August 2012 R'000	31 August 2011 R'000	**31 August 2012 R'000**	31 August 2011 R'000
5. INTANGIBLE ASSETS				
• Goodwill (note 5.1)	**44,887**	44,887	**-**	-
• Computer software (note 5.2)	**1,544**	1,192	**29**	33
• Broker relationships and other (note 5.3)	**26**	10	**-**	-
	46,457	46,089	**29**	33
5.1 Goodwill				
5.1.1 Net carrying value				
• Cost	**67,128**	67,128	**-**	-
• Impairment	**(22,241)**	(22,241)	**-**	-
• 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	**7,330**	6,402	**162**	161
Amortisation	**(5,786)**	(5,210)	**(133)**	(128)
Net carrying value	**1,544**	1,192	**29**	33
5.2.2 Movement for the year				
At beginning of year	**1,192**	1,380	**33**	53
Additions	**1,010**	567	**1**	4
Disposals	**(20)**	(34)	**-**	-
Reclassification to property, plant and equipment	**-**	(1)	**-**	-
Amortisation	**(638)**	(720)	**(5)**	(24)
	1,544	1,192	**29**	33

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

	GROUP		COMPANY	
5.3 Broker relationships and other				
5.3.1 Net carrying value				
Cost	**10**	10	**-**	-
Additions	**16**	-	**-**	-
Net carrying value	**26**	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 20% in order to take account of future prospects in each unit over a five-year period;
- extrapolates cash flows beyond the fifth year by using growth rates ranging between 4% and 5.5%; and
- discounts cash flows at after tax rates ranging between 19.5% and 20.0%.

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 amortisiation 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 2012 R'000	31 August 2011 R'000	**31 August 2012 R'000**	31 August 2011 R'000
6. LOANS RECEIVABLE					
Non-current:	Unsecured	**4,073**	5,351	**-**	-
Current:	Unsecured	**11,172**	-	**-**	-
		15,245	5,351	**-**	-
NON-CURRENT					
Unsecured loans		**5,884**	6,076	**-**	-
Less: Impairment		**(1,811)**	(725)	**-**	-
		4,073	5,351	**-**	-
CURRENT					
Unsecured loans		**11,271**	-	**-**	-
Less: Impairment		**(99)**	-	**-**	-
		11,172	-	**-**	-

Unsecured loans' repayment and interest terms are as follows:

- R1.50 million carries interest at prime and is repayable by 31 August 2017;
- R2.57 million carries interest at prime and is repayable by 15 March 2015;
- R7.07 million carries interest at call rates and there is no fixed repayment term; and
- The remainder is interest free and there is no fixed repayment term.

	GROUP 31 August 2012 R'000	GROUP 31 August 2011 R'000	COMPANY 31 August 2012 R'000	COMPANY 31 August 2011 R'000
7. DEFERRED TAX				
Balance at beginning of year	**2,018**	2,420	**-**	-
Charge against the statement of comprehensive income	**(88)**	(402)	**-**	-
Balance at end of year	**1,930**	2,018	**-**	-
Relating to:	**1,930**	2,018	**-**	-
Provisions and accruals	**(276)**	(1,280)	**-**	-
Accelerated capital allowances	**(667)**	(774)	**-**	-
Fair valuing of long term loans	**(1,618)**	203	**-**	-
Unrealised gains on investment properties	**-**	(1,505)	**-**	-
Unrealised gains on investments	**(3,527)**	(3,346)	**-**	-
Estimated tax losses	**8,018**	8,720	**-**	-
Comprising:	**1,930**	2,018	**-**	-
Deferred tax assets	**9,965**	7,190	**-**	-
Deferred tax liabilities	**(8,035)**	(5,172)	**-**	-
8. INVESTMENT PROPERTIES				
8.1 Net carrying value				
Cost	**2,009**	2,006	**-**	-
Fair value adjustment	**1,842**	1,436	**-**	-
Net carrying value	**3,851**	3,442	**-**	-
8.2 Movement for the year				
At beginning of year	**3,442**	3,403	**-**	-
Additions	**3**	5	**-**	-
Fair value adjustment (note 26)	**406**	34	**-**	-
	3,851	3,442	**-**	-

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

	GROUP		COMPANY	
	31 August 2012 R'000	31 August 2011 R'000	**31 August 2012 R'000**	31 August 2011 R'000
9. INVESTMENT IN ASSOCIATES				
At beginning of year	**281**	756	**-**	49
Disposals	**(62)**	(1,478)	**-**	-
Attributable portion of earnings	**259**	545	**-**	-
Loans	**-**	(203)	**-**	57
Dividend received	**(167)**	(230)	**-**	-
Reversal of impairment (impairment)	**-**	891	**-**	(106)
Balance at end of year	**311**	281	**-**	-

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

Associates' summary information

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

	Assets R'000	Liabilities R'000	Revenue R'000	Profit R'000
2012				
Various, as listed in note 35.1	11,303	(10,658)	20,660	1,196
2011				
Various, as listed in note 35.1	12,876	(10,784)	21,033	2,084

	GROUP		COMPANY	
	31 August 2012 R'000	31 August 2011 R'000	**31 August 2012 R'000**	31 August 2011 R'000
10. INVESTMENT IN JOINTLY CONTROLLED ENTITIES				
At beginning of year	**3,325**	-	**-**	-
Acquisitions	**-**	2,433	**-**	-
Loans	**17**	770	**-**	-
Dividend received	**(50)**	-	**-**	-
Attributable portion of earnings	**464**	122	**-**	-
Balance at end of year	**3,756**	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
2012				
Various, as listed in note 35.3	2,659	(1,073)	12,866	928
2011				
Various, as listed in note 35.3	689	(113)	6,103	243

	GROUP		COMPANY	
	31 August 2012 R'000	31 August 2011 R'000	**31 August 2012 R'000**	31 August 2011 R'000
11. INVESTMENT IN SUBSIDIARIES				
Unlisted shares at cost, less amounts written off	**-**	-	**13,085**	13,085
Equity loans	**-**	-	**100,151**	122,305
Other amounts due by subsidiaries	**-**	-	**47,472**	36,335
Net carrying value (refer notes 35.5 and 35.6)	**-**	-	**160,708**	171,725
Directors' valuation	**-**	-	**419,231**	298,404

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.

12. INVESTMENTS HELD AT FAIR VALUE THROUGH PROFIT AND LOSS

12.1 Long-term investments

	GROUP 2012	GROUP 2011	COMPANY 2012	COMPANY 2011
Listed investments (note 12.1.1)	**54,493**	51,861	**-**	-
• Listed equities	**47,837**	45,471	**-**	-
• Bonds	**6,656**	6,390	**-**	-
Unlisted investments (note 12.1.2)	**11,838**	11,633	**-**	-
	66,331	63,494	**-**	-

12.1.1 Listed equities and bonds at valuation

	GROUP 2012	GROUP 2011	COMPANY 2012	COMPANY 2011
Opening net book value	**51,861**	15,754	**-**	-
Additions	**15,306**	37,712	**-**	-
Disposals	**(13,071)**	(11,497)	**-**	-
Reallocation	**1,700**	-	**-**	-
Fair value adjustment (note 26)	**(1,303)**	9,892	**-**	-
Closing net book value	**54,493**	51,861	**-**	-

12.1.2 Unlisted investments at valuation

	GROUP 2012	GROUP 2011	COMPANY 2012	COMPANY 2011
Opening net book value	**11,633**	11,181	**-**	-
Reallocation	**3,398**	-	**-**	-
Disposals	**(3,346)**	-	**-**	-
Fair value adjustment (note 26)	**153**	452	**-**	-
Closing net book value	**11,838**	11,633	**-**	-
Directors' valuation at net book value	**11,838**	11,633	**-**	-

12.2 Short-term investments

	GROUP 2012	GROUP 2011	COMPANY 2012	COMPANY 2011
• Listed investments (note 12.2.1)	**-**	1,629	**-**	-
• Unlisted investments (note 12.2.2)	**-**	2,963	**-**	-
	-	4,592	**-**	-

12.2.1 Listed equities at valuation

	GROUP 2012	GROUP 2011	COMPANY 2012	COMPANY 2011
Opening net book value	**1,629**	1,115	**-**	-
Reallocation	**(1,700)**	-	**-**	-
Fair value adjustment (note 26)	**71**	514	**-**	-
Closing net book value	**-**	1,629	**-**	-

	GROUP		COMPANY	
	31 August 2012 R'000	31 August 2011 R'000	**31 August 2012 R'000**	31 August 2011 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	**2,963**	2,743	**-**	-
Reallocation	**(3,398)**	-	**-**	-
Fair value adjustment (note 26)	**435**	-	**-**	-
Accrued interest (note 26)	**-**	220	**-**	-
Closing net book value	**-**	2,963	**-**	-

13. INSURANCE ASSETS AND LIABILITIES

13.1 Gross insurance liabilities

Claims reported but not paid	**(105,962)**	(120,688)	**-**	-
Claims incurred but not reported	**(36,698)**	(31,460)	**-**	-
Unearned premiums, net of deferred acquisition costs	**(279,901)**	(227,617)	**-**	-
• Unearned premiums	**(417,062)**	(341,756)	**-**	-
• Deferred acquisition costs	**137,161**	114,139	**-**	-
Total insurance liabilities	**(422,561)**	(379,765)	**-**	-

13.2 Recoverable from reinsurers

Claims reported but not paid	**64,164**	74,593	**-**	-
Claims incurred but not reported	**22,652**	19,577	**-**	-
Unearned premiums, net of deferred reinsurance commission revenue	**270,586**	221,856	**-**	-
• Unearned premiums	**407,352**	335,218	**-**	-
• Deferred reinsurance commission revenue	**(136,766)**	(113,362)	**-**	-
Reinsurers' share of insurance liabilities	**357,402**	316,026	**-**	-

13.3 Net insurance liabilities

Claims reported but not paid	**(41,798)**	(46,095)	**-**	-
Claims incurred but not reported	**(14,046)**	(11,883)	**-**	-
Unearned premiums	**(9,315)**	(5,761)	**-**	-
Total net insurance liabilities	**(65,159)**	(63,739)	**-**	-

13.4 Incurred But Not Reported ("IBNR") provision

The directors have estimated that the statutory IBNR provision calculated in terms of the provisions of 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 5.2% for the 2012 financial year (2011: 4.8%).

Had the IBNR provision been calculated at statutory rates, the net provision would have been R4.10 million (2011: R5.28 million) greater than the net R14.05 million currently provided for (2011: R11.88 million).

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 provisions 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 provisioning is sufficient when compared to the best estimate of what these provisions 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 provisioning merely translates into a corresponding move in the commission payable. The average value across the division, determined as a result of this exercise, approximates 5.2% 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 statutory rates.

	GROUP		COMPANY	
	31 August 2012 R'000	31 August 2011 R'000	**31 August 2012 R'000**	31 August 2011 R'000
14. TRADE AND OTHER RECEIVABLES				
Deposits and prepaid expenses	**1,948**	2,023	**93**	85
Insurance receivables	**83,629**	52,580	**-**	-
Trade receivables	**21,640**	20,158	**154**	75
Loans - Secured	**74**	263	**-**	-
Loans - Unsecured	**-**	33	**-**	-
Other receivables - Unsecured	**8,967**	6,587	**-**	40
Less: Impairment	**(2,745)**	(2,883)	**-**	-
	113,513	78,761	**247**	200
Secured loans relating to a loan made by the IMR Share Trust to a director of the company and secured by shares	**74**	263	**-**	-
Value of security relating to the above loan	**2,460**	1,400	**-**	-

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 31 August 2012 R'000	GROUP 31 August 2011 R'000	COMPANY 31 August 2012 R'000	COMPANY 31 August 2011 R'000
Cash	**72**	120	**-**	-
Call accounts	**220,870**	234,628	**2,015**	2,164
Margin deposits	**1,440**	-	**-**	-
Current accounts - Local	**30,918**	35,114	**99**	38
Current accounts - Foreign	**16,672**	-	**-**	-
	269,972	269,862	**2,114**	2,202

Balances on call include amounts held on call at banks, as well as South African Futures exchange margins and amounts held on call at stockbrokers.

	GROUP		COMPANY	
	31 August 2012 R'000	31 August 2011 R'000	**31 August 2012 R'000**	31 August 2011 R'000
16. NON-CURRENT ASSETS HELD FOR SALE: PROPERTY				
16.1 Net carrying value				
Cost	**-**	1,782	**-**	-
Fair value adjustment	**-**	2,968	**-**	-
Net carrying value	**-**	4,750	**-**	-
16.2 Movement for the year				
At beginning of year	**4,750**	15,050	**-**	-
Disposals	**(5,100)**	(10,600)	**-**	-
Fair value adjustment (note 26)	**350**	300	**-**	-
	-	4,750	**-**	-
17. ORDINARY SHARE CAPITAL				
Authorised				
500,000,000 ordinary shares of 1c each (2011: 500,000,000)	**5,000**	5,000	**5,000**	5,000
ISSUED				
256,379,818 ordinary shares of 1c each (2011: 256,379,818)	**2,564**	2,564	**2,564**	2,564
Treasury shares:				
• 9,760 ordinary shares of 1c each held by Conduit Management Services Proprietary Limited (2011: 3,509,760)	**-**	(35)	**-**	-
• 650,370 ordinary shares of 1c each held by the IMR Share Trust (2011: 1,650,370)	**(7)**	(17)	**-**	-
• 943,091 ordinary shares of 1c each held by Marble Gold 213 Proprietary Limited (2011: 943,091)	**(9)**	(9)	**-**	-
	2,548	2,503	**2,564**	2,564

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.

Number of shares (net of treasury shares held):	**254,776,597**	250,276,597	**256,379,818**	256,379,818

Shares under option

As at the reporting date, 2,000,000 shares in the Company were under option in terms of the Group Senior Executive Option Scheme (2011: 7,500,000) (also see note 19). There were no contracts in place for the sale of shares (2011: Nil).

	GROUP 2012	GROUP 2011	COMPANY 2012	COMPANY 2011
18. SHARE PREMIUM				
Reconciliation of movement in share premium:				
Opening balance	**196,652**	196,652	**223,477**	223,477
Exercise of share options	**2,195**	-	**440**	-
Capital distribution	**(25,478)**	-	**(25,638)**	-
	173,369	196,652	**198,279**	223,477

19. SHARE-BASED PAYMENT RESERVE

Four million and five hundred thousand share options that were issued during prior financial years were exercised during the financial year ended on 31 August 2012. Directors benefitted as follows as a result of the exercise of share options:

	Number of shares	Strike price (cents/ share)	Market value (cents/ share)	Benefit (Rands)
2012				
Louw, L E	1,000,000	40	72	320,000
Toet, G	1,000,000	40	72	320,000
	2,000,000			640,000

No new share options were awarded to executive directors and staff during 2011/2012. The conditions attached to share options not exercised at year-end were as follows:

Two 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;
- The vesting period was 30 November 2011 and any options not exercised one year thereafter will lapse;
- Options can 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.

The following share options remained outstanding on the reporting date:

	Date awarded	Last day of exercise	Exercise price (cents)	Number of underlying shares
2012	**20 Nov 2009**	**30 Nov 2012**	**40.00**	**2,000,000**
2011	20 Nov 2009	30 Nov 2011	40.00	2,500,000
	20 Nov 2009	30 Nov 2012	40.00	2,000,000
	2 Mar 2010	28 Feb 2013	40.00	2,000,000

The fair value of share options granted during 2009/10 and that remained outstanding as at the reporting date was R0.18 million. All of this has been accounted for at the financial reporting date 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 2012 R'000	31 August 2011 R'000	**31 August 2012 R'000**	31 August 2011 R'000
20. POLICYHOLDER LIABILITIES UNDER INSURANCE CONTRACTS				
Opening balance	**19,661**	21,837	**-**	-
Transfer to statement of comprehensive income	**(609)**	(2,176)	**-**	-
	19,052	19,661	**-**	-

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.

20.1 Analysis of policyholder liabilities

	Group 2012	Group 2011	Company 2012	Company 2011
Individual funeral cover	**17,953**	17,731	**-**	-
Group funeral cover	**1,099**	1,930	**-**	-
	19,052	19,661	**-**	-

20.2 Maturity analysis of policyholder liabilities

Policyholder liabilities are expected to become payable as follows:

	Group 2012	Group 2011	Company 2012	Company 2011
• Up to one year	**2,202**	2,632	**-**	-
• One year to five years	**3,080**	536	**-**	-
• More than five years	**13,770**	16,493	**-**	-
	19,052	19,661	**-**	-

20.3 Key assumptions

For the group funeral business an IBNR provision 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.

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

- Inflation rate 4.08% (2011: 5.13%)
- Interest rate 5.58% (2011: 6.63%)
- Withdrawal assumptions were based on experience in the portfolio and in the market
- Mortality rates were based on SA85/90 Heavy (2011: 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 R19.05 million by the statutory actuary as at 31 August 2012 (2011: R19.66 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	19,052	0.00
Mortality (and other claims)	10% increase	19,467	2.18
Expenses	10% increase	21,829	14.58
Investment returns	1% reduction	21,390	12.27
Withdrawals	10% increase	18,770	(1.48)
Inflation	1% increase	20,693	8.61

	GROUP		COMPANY	
	31 August 2012 R'000	31 August 2011 R'000	**31 August 2012 R'000**	31 August 2011 R'000
21. INTEREST BEARING BORROWINGS				
Non-current				
• Unsecured	**3,753**	3,796	**-**	-
Current				
• Secured	**-**	3,175	**-**	-
	3,753	6,971	**-**	-
21.1 Non-current borrowings				
Secured				
Cumulative preference shares	**-**	3,175	**-**	-
Less: Current portion of obligation	**-**	(3,175)	**-**	-
	-	-	**-**	-
Unsecured				
Cumulative preference shares (Note A)	**2,650**	2,735	**-**	-
• Face value	**2,750**	2,750	**-**	-
• Fair value adjustment	**(100)**	(15)	**-**	-
Other	**1,103**	1,061	**-**	-
	3,753	3,796	**-**	-
21.2 Current portion of borrowings				
Secured				
Cumulative preference shares (Note A)	**-**	3,175	**-**	-

The Group's authorised preference share capital consists of 25,400 cumulative redeemable shares of one cent each (2011: 25,400) and 7,750 cumulative redeemable shares of R1,000 each (2011: 7,750).

The Group's issued preference share capital consists of nil cumulative redeemable shares of one cent each (2011: 3,175) and 2,750 cumulative redeemable shares of R1,000 each (2011: 2,750).

Note A:

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.

	GROUP		COMPANY	
22. TRADE AND OTHER PAYABLES				
Accruals	**13,207**	25,943	**263**	282
Insurance payables	**47,681**	48,489	**-**	-
Trade payables	**91,644**	47,739	**166**	102
Dividends payable - Preference shares	**94**	170	**-**	-
	152,626	122,341	**429**	384

	GROUP 31 August 2012 R'000	GROUP 31 August 2011 R'000	COMPANY 31 August 2012 R'000	COMPANY 31 August 2011 R'000
23. REVENUE				
23.1 Insurance revenue				
Gross insurance premiums	**928,119**	811,407	**-**	-
• Local	**877,501**	808,513	**-**	-
• Foreign	**50,618**	2,894	**-**	-
23.2 Other revenue (local)	**143,817**	109,110	**1,260**	1,353
Advisory, consulting and management fees received from group companies	**-**	-	**1,260**	1,260
Advisory, consulting, management and other fees, fees received from third parties	**17,131**	7,526	**-**	-
Commissions	**126,333**	101,227	**-**	93
Rental income	**353**	357	**-**	-
	1,071,936	920,517	**1,260**	1,353
24. NET INSURANCE REVENUE				
Gross premiums written	**928,119**	811,407	**-**	-
Reinsurance premiums paid	**(633,930)**	(536,895)	**-**	-
Unearned premium reserve movements	**(3,405)**	252	**-**	-
	290,784	274,764	**-**	-
25. DIRECT EXPENSES - INSURANCE AND RISK SERVICES				
Gross claims paid, change in provision for outstanding claims and IBNR	**(323,109)**	(277,567)	**-**	-
Reinsurers' share of claims paid and change in provision for outstanding claims	**151,762**	113,007	**-**	-
Net claims paid	**(171,347)**	(164,560)	**-**	-
Net expenses for the acquisition of insurance contracts, including commissions and profit commissions	**(44,595)**	(56,991)	**-**	-
Transfer from policyholder liabilities	**609**	2,176	**-**	-
	(215,333)	(219,375)	**-**	-
26. INVESTMENT INCOME				
Interest income	**11,352**	11,922	**938**	1,058
• Received	**11,352**	11,702	**938**	1,058
• Accrued (note 12.2.2)	**-**	220	**-**	-
Investment income (listed shares and bonds)	**1,893**	12,378	**-**	-
• Dividend income	**3,125**	1,972	**-**	-
• Fair value adjustment (unrealised)	**(7,167)**	9,859	**-**	-
• Fair value adjustment (realised)	**5,935**	547	**-**	-
Balance c/f	**13,245**	24,300	**938**	1,058

		GROUP		COMPANY	
		31 August 2012 R'000	31 August 2011 R'000	**31 August 2012 R'000**	31 August 2011 R'000
26.	**INVESTMENT INCOME (continued)**				
	Balance b/f	**13,245**	24,300	**938**	1,058
	Investment income (unlisted shares and bonds)	**588**	452	**16,800**	6,800
	• Dividend income (subsidiaries)	**-**	-	**16,800**	6,800
	• Fair value adjustment	**588**	452	**-**	-
	Investment losses (other)	**283**	171	**-**	-
	• Derivatives (losses) profits	**77**	(163)	**-**	-
	• Fair value adjustment (Investment properties & properties held for sale)	**756**	334	**-**	-
	• Management and other fees	**(550)**	-	**-**	-
		14,116	24,923	**17,738**	7,858
27.	**FINANCE CHARGES**				
	Interest paid	**(336)**	(674)	**(92)**	(101)
	• Property finance	**-**	(350)	**-**	-
	• Other	**(336)**	(324)	**(92)**	(101)
	Preference dividends paid	**(176)**	(551)	**-**	-
	Fair value adjustment (low interest loans and preference shares)	**85**	(75)	**-**	-
		(427)	(1,300)	**(92)**	(101)
28.	**PROFIT BEFORE TAXATION**				
	The profit before taxation incudes:				
	INCOME				
	Profit on disposal and revaluation of associates	**-**	891	**-**	-
	Profit on disposal of property, plant and equipment	**-**	30	**-**	9
	Foreign exchange profits	**312**	-	**-**	-
	EXPENSES				
	Auditors' remuneration	**(2,394)**	(2,530)	**(377)**	(271)
	• Current year	**(1,889)**	(1,996)	**(253)**	(271)
	• Prior year underprovision	**(156)**	(275)	**-**	-
	• Other services	**(349)**	(259)	**(124)**	-
	Consulting fees paid	**(2,238)**	(1,710)	**(16)**	(14)
	Depreciation and amortisation	**(3,514)**	(3,519)	**(50)**	(143)
	Direct operating expenses in respect of investment properties	**(400)**	(442)	**-**	-
	Financial assets impaired and written off	**(4,550)**	(5,949)	**(2,451)**	-
	Fines and penalties	**(20)**	(6)	**-**	-
	Impairment of associates	**-**	-	**-**	(106)

	GROUP 31 August 2012 R'000	GROUP 31 August 2011 R'000	COMPANY 31 August 2012 R'000	COMPANY 31 August 2011 R'000
28. PROFIT BEFORE TAXATION (continued)				
EXPENSES (continued)				
Legal fees	**(4,384)**	(3,204)	**(30)**	9
Loss on disposal of property, plant and equipment	**(89)**	(633)	**-**	-
Management fees paid to third parties	**(297)**	(558)	**(5)**	(12)
Operating lease charges	**(8,162)**	(7,515)	**-**	-
• Equipment	**(1,344)**	(1,567)	**-**	-
• Premises	**(6,818)**	(5,948)	**-**	-
Secretarial fees	**(303)**	(296)	**(71)**	(73)
Staff costs	**(73,365)**	(64,343)	**-**	(17)
• Salaries and wages (excluding directors emoluments)	**(71,983)**	(62,552)	**-**	-
• Share options	**-**	(17)	**-**	(17)
• Provident fund (defined contribution plan)	**(1,382)**	(1,774)	**-**	-

29. DIRECTORS' EMOLUMENTS

	Directors' fees R'000	Basic salary R'000	Bonuses[c] R'000	Cost of share options R'000	Other benefits R'000	Total R'000
29.1 2012						
Paid for by Company:						
NON-EXECUTIVE						
Berkowitz, R S	412	-	300	-	-	712
Campbell, S M	188	-	-	-	-	188
Shane, S D [a]	264	-	-	-	-	264
Steffens, G Z	294	-	-	-	-	294
EXECUTIVE						
Louw, L E	-	-	-	11	-	11
Toet, G	-	-	-	11	-	11
	1,158	-	300	22	-	1,480
Paid for by subsidiaries:						
EXECUTIVE						
Druian, J D	-	2,722	1,900	-	30	4,652
Louw, L E	-	1,559	500	-	71	2,130
Shaw, R L [b]	-	150	-	-	-	150
Toet, G	-	1,546	500	-	84	2,130
	-	5,977	2,900	-	185	9,062
	1,158	5,977	3,200	22	185	10,542

[a] *Mr Stanley D Shane resigned as a non-executive director of the Group on 26 March 2012. The whole of his fee was paid to Rino Personnel Proprietary Limited, his employer during the period.*

[b] *Mr Robert L Shaw was appointed as an executive director of the Group on 2 July 2012. In accordance with disclosure requirements the above remuneration relates only to the portion of the financial year during which Mr. Shaw served as a director of Conduit Capital. The balance of his remuneration is included in amounts paid to key management in note 38.4.*

[c] *Bonuses provided for in 2011 on a non-specific basis and subsequently allocated and paid to specific individuals in 2012.*

29. DIRECTORS' EMOLUMENTS (continued)

29.2 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
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	1,491	-	-	-	-	1,491
EXECUTIVE						
Druian, J D	-	2,475	-	-	27	2,502
Louw, L E	-	1,416	-	-	65	1,481
Prosser, H L	-	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

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 restraint of trade 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. The existing executive service agreements are in some respects outdated and are in the process of being updated to reflect operational and labour law best practice. It is expected that these changes will provide the Group and the Executive with enhanced protection.

30. RETIREMENT BENEFITS

5.8% 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 R1.38 million (2011: R1.77 million). The umbrella fund and its participants are registered in terms of and regulated by the Pension Funds Act.

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

	GROUP		COMPANY	
	31 August 2012 R'000	31 August 2011 R'000	**31 August 2012 R'000**	31 August 2011 R'000

31. TAXATION

31.1 Taxation

South African normal taxation	**(26,130)**	(14,657)	**-**	-
• Current year	**(25,785)**	(14,424)	**-**	-
• Prior period underprovision	**(345)**	(233)	**-**	-
Deferred tax	**(88)**	(402)	**-**	-
Secondary tax on companies	**(4,200)**	(1,929)	**-**	-
Taxation per statement of comprehensive income	**(30,418)**	(16,988)	**-**	-

31.2 Taxation reconciliation

Profit before tax	**79,671**	53,308	**13,747**	6,980
Standard South African normal taxation	**(22,308)**	(14,926)	**(3,849)**	(1,954)
Non-taxable income	**3,394**	3,237	**4,704**	1,904
Non-deductible expenses	**(2,748)**	(3,370)	**(701)**	(59)
Prior period underprovision	**(345)**	(1,496)	**-**	-
Deferred tax asset not raised in companies with losses	**(2,408)**	(1,684)	**(154)**	(29)
Utilisation of previously unrecognised tax losses	**396**	1,696	**-**	110
Capital gains tax rate differential	**(2,199)**	1,484	**-**	28
Secondary tax on companies	**(4,200)**	(1,929)	**-**	-
Taxation per statement of comprehensive income	**(30,418)**	(16,988)	**-**	-

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 R9.46 million (2011: R8.93 million).

	GROUP		COMPANY	
	31 August 2012 R'000	31 August 2011 R'000	**31 August 2012 R'000**	31 August 2011 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 31 August 2012 R'000	GROUP 31 August 2011 R'000	COMPANY 31 August 2012 R'000	COMPANY 31 August 2011 R'000
Equipment leases	**3**	109	**-**	-
• Within one year	**3**	106	**-**	-
• In second to fifth years	**-**	3	**-**	-
Property leases	**2,138**	5,753	**-**	-
• Within one year	**2,138**	3,955	**-**	-
• In second to fifth years	**-**	1,798	**-**	-
	2,141	5,862	**-**	-

Operating lease payments largely represent rentals payable for office properties and 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:

- Government Employees Pension Fund for office rent **R540,724**
- 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 As previously reported, a dispute relating to inward reinsurance arrangements concluded in 2006 and 2007 through one of the Group's external underwriting managers is the subject of arbitration proceedings. The matter is complex and financial exposure to the dispute in issue is difficult to quantify, though dependent on certain key outcomes, may be material.

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. 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 2012 R'000	31 August 2011 R'000

33. EARNINGS PER SHARE (continued)

33.1 Calculation of basic earnings

The earnings used in the calculation of basic earnings per share is as follows:

	2012	2011
Profit for the year	**49,253**	36,320
Less: Non-controlling interest	**(17,097)**	(13,901)
Profit attributable to ordinary shareholders	**32,156**	22,419

33.2 Reconciliation between basic earnings and headline earnings

Headline earnings is determined as follows:

	2012	2011
Profit attributable to ordinary equity holders of the entity	**32,156**	22,419
Net profit on revaluation of non-current assets held for sale	**-**	(300)
Net (profit) loss on revaluation of investment properties	**(41)**	1
Net loss on disposal of property, plant and equipment	**89**	603
Net profit on disposal/revaluation of subsidiaries and associates	**-**	(891)
Tax on the items above	**(17)**	(26)
Non-controlling interest on the items above (after taxation)	**(24)**	(249)
Headline earnings	**32,163**	21,557

33.3 Shares in issue

	2012	2011
33.3.1 Number of shares		
• Shares in issue	**256,380**	256,380
• Shares held as treasury shares	**(1,603)**	(6,103)
	254,777	250,277
33.3.2 Weighted average number of shares		
• Shares in issue	**256,380**	256,380
• Shares held as treasury shares	**(2,199)**	(6,103)
	254,181	250,277
33.3.3 Diluted weighted average number of shares		
• Shares in issue	**258,380**	262,634
• Shares held as treasury shares	**(2,199)**	(6,103)
	256,181	256,531

33.4 Earnings per share (cents)

	2012	2011
33.4.1 Basic earnings per share	**12.7**	9.0
33.4.2 Diluted earnings per share	**12.6**	8.7
33.4.3 Headline earnings per share	**12.7**	8.6
33.4.4 Diluted headline earnings per share	**12.6**	8.4

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 2012 R'000	31 August 2011 R'000	**31 August 2012 R'000**	31 August 2011 R'000
Profit before taxation	**79,671**	53,308	**13,747**	6,980
Adjustments for:				
Depreciation and amortisation	**3,514**	3,519	**50**	143
Dividend income	**(3,125)**	(1,972)	**(16,800)**	(6,800)
Financial assets: Impairment and write-off	**4,550**	5,949	**2,451**	-
(Reversal of impairment) Impairment of associates	**-**	(891)	**-**	106
Finance charges	**427**	1,300	**92**	101
Interest income	**(11,352)**	(11,922)	**(938)**	(1,058)
• Received	**(11,352)**	(11,702)	**(938)**	(1,058)
• Accrued	**-**	(220)	**-**	-
Loss (Profit) on disposal of property, plant and equipment	**69**	603	**-**	(9)
Loss on disposal of intangibles	**20**	-	**-**	-
Share based payment reserve	**22**	303	**22**	303
Revaluation of property	**(756)**	(334)	**-**	-
Losses (Profits) on investments	**644**	(10,858)	**-**	-
Equity accounted income	**(723)**	(667)	**-**	-
Operating cash flows before working capital changes	**72,961**	38,338	**(1,376)**	(234)
Working capital changes	**(7,021)**	9,864	**(2)**	(229)
• (Increase) Decrease in trade and other receivables	**(38,117)**	7,534	**(47)**	(95)
• Increase (Decrease) in trade and other payables	**30,285**	20,073	**45**	(134)
• Decrease in policyholder liabilities	**(609)**	(2,176)	**-**	-
• Increase in insurance assets	**(41,376)**	(87,484)	**-**	-
• Increase in insurance liabilities	**42,796**	71,917	**-**	-
Cash generated (utilised) by operations	**65,940**	48,202	**(1,378)**	(463)

34.3 Taxation paid

Opening balance	**(852)**	(476)	**-**	-
Statement of comprehensive income movement	**(26,130)**	(14,657)	**-**	-
Secondary tax on companies	**(4,200)**	(1,929)	**-**	-
Closing balance	**7,080**	852	**-**	-
	(24,102)	(16,210)	**-**	-

	GROUP		COMPANY	
	31 August 2012 R'000	31 August 2011 R'000	**31 August 2012 R'000**	31 August 2011 R'000
34. NOTES TO THE CASH FLOW STATEMENTS (continued)				
34.4 Reconciliation of assets acquired in subsidiaries to cash paid				
• Minority interest	**-**	(2,555)	**-**	-
• Net asset value acquired	**-**	(2,555)	**-**	-
• Goodwill acquired	**-**	(573)	**-**	-
• Purchase price	**-**	(3,128)	**-**	-

35. INVESTMENT IN SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES

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

	Nature of business	Country of incorporation	Number of shares held		Interest		Book value of investment		Indebtedness to (by) Group	
			2012	2011	**2012 %**	2011 %	**2012 R'000**	2011 R'000	**2012 R'000**	2011 R'000
Held through a subsidiary										
Autotrade Underwriting Managers Proprietary Limited	Underwriting manager	RSA	**30**	30	**30**	30	**238**	180	**-**	-
EVB Underwriting Managers Proprietary Limited	Underwriting manager	RSA	**-**	25	**-**	25	**-**	62	**-**	-
Wheels Underwriting Managers Proprietary Limited	Underwriting manager	RSA	**20**	20	**20**	20	**73**	39	**-**	-
							311	281	**-**	-

Notes:
- All associates of the Group are unlisted companies.

	GROUP		COMPANY	
	31 August 2012 R'000	31 August 2011 R'000	**31 August 2012 R'000**	31 August 2011 R'000
35.2 Allocated as follows:				
• Book value of investment (note 9)	**311**	281	**-**	-

35. INVESTMENT IN SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES

35.3 The following information relates to the Group'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	
			2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
					%	%	**R'000**	R'000	**R'000**	R'000
Held through a subsidiary										
Catalyst Insurance Consultants Proprietary Limited	Insurance administrator and consultant	RSA	**500**	500	**50**	50	**2,710**	2,393	**787**	770
Riverstone Insurance Brokers Proprietary Limited	Insurance broker	RSA	**50**	50	**50**	50	**259**	162	**-**	-
							2,969	2,555	**787**	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 2012 R'000	31 August 2011 R'000	**31 August 2012 R'000**	31 August 2011 R'000
35.4 Allocated as follows:				
• Book value of investment	**2,969**	2,555	**-**	-
• Indebtedness to the Group	**787**	770	**-**	-
• Investment in joint ventures (note 10)	**3,756**	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		Interest		Shares at cost less amounts written off		Indebtedness to (by) Conduit Capital	
			2012	2011	2012	2011	2012	2011	2012	2011
					%	%	R'000	R'000	R'000	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	**3,400**	-
Conduit Fund Managers Proprietary Limited	Asset manager	RSA	**1**	1	**100**	100	**-**	-	**400**	461
Conduit Management Services Proprietary Limited	Management services; equities and derivatives trading	RSA	**140,000**	140,000	**100**	100	**140**	140	**34,728**	27,772
Copper Sunset Trading 186 Proprietary Limited	Holding company	RSA	**100**	100	**100**	100	**2**	2	**99,542**	121,645
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	**142**	193
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	**-**	-	**9,344**	8,502
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	**-**	-	**-**	-

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 business	Country of incorporation	Issued ordinary share capital		Interest		Shares at cost less amounts written off		Indebtedness to (by) Conduit Capital	
			2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
					%	%	**R'000**	R'000	**R'000**	R'000
Held through a subsidiary (continued)										
Constantia Life & Health Assurance Company Limited	Long-term insurer	RSA	**13,772,380**	13,772,380	**100**	100	**-**	-	**-**	-
Hurriclaim Proprietary Limited (formerly Constantia Underwriting Agency)	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	**200**	200	**100**	100	**-**	-	**-**	-
Goodall and Company Funeral Assurance Society Limited	Long-term insurer	RSA	**5,000,000**	5,000,000	**100**	100	**-**	-	**-**	-
Goodall and Company Undertakers Proprietary Limited	Dormant	RSA	**2,000**	2,000	**100**	100	**-**	-	**-**	-
IMR 11 Proprietary Limited	In deregistration	RSA	**100**	100	**100**	100	**-**	-	**(1,834)**	(1,834)
IMR Share Trust	Share trust	RSA	**-**	-	**-**	-	**-**	-	**(2,352)**	(1,599)
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	**-**	-	**-**	-
TGI Investment Holdings Proprietary Limited	Investment company	RSA	**9,680,036**	9,680,036	**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	**100**	100	**-**	-	**-**	-
							13,085	13,085	**143,437**	155,207

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):

Notes:

- *All subsidiaries in the Group are unlisted companies.*
- *The loan to Anthony Richards and Associates Proprietary Limited is unsecured, attracts no interest and is repayable before 28 February 2013.*
- *The loan to Black Ginger 92 Proprietary Limited is unsecured, attracts interest at prime and is repayable before 6 April 2014.*
- *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 loan to Conduit Management Services Proprietary Limited is unsecured, attracts no interest and is repayable before 15 March 2015.*
- *The 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.*

	COMPANY	
	31 August 2012 R'000	31 August 2011 R'000
35.6 Allocated as follows:		
• Shares at cost	13,085	13,085
• Equity loans	100,151	125,905
• Other amounts due by subsidiaries	47,472	32,735
• Investment in subsidiaries (note 11)	160,708	171,725
• Loans payable	(4,186)	(3,433)
	156,522	168,292

36. RISK MANAGEMENT

36.1 Currency risk

Currency risk is the risk that the value of a financial instrument denominated in a foreign currency will fluctuate against the South African Rand ("ZAR") as a result of changes in foreign exchange rates.

The Group is exposed to currency risk with regards to its reinsurance operations in Africa. Premium income from these operations, which contributed approximately 5.5% to the Group's gross premium income for the 2012 financial year, was earned in US Dollar ("USD") and fluctuations in the ZAR/USD exchange rate may influence underwriting results and asset values (as it relates to USD denominated assets) to a material extent. There is also limited currency risk exposure in terms of the Group's 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).

36. RISK MANAGEMENT (continued)

36.1 Currency risk (continued)

The Group has mitigated its currency exposure by entering into forward exchange contracts in terms whereof USD are sold at a fixed rate at a date in the future. Assets exposed to currency risks are regularly assessed and adjustments are made to forward cover positions in order to ensure that adequate forward cover is maintained at all times.

At 31 August 2012, if the Rand had depreciated 10% against the US dollar with no forward exchange contracts in place and all other variables held constant, post-tax profit for the year would have been R1.35 million higher. Conversely, if the Rand had appreciated 10% against the US dollar with no forward exchange contracts in place and all other variables held constant, post-tax profit would have been R1.35 million lower.

With the forward cover in place, a 10% adjustment against the US dollar and all other variables held constant, the post-tax profit for the year would have increased by R0.32 million and reduced by R0.32 million respectively.

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 some 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 (see 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	**2012 2% increase R'000**	2011 2% increase R'000	**2012 2% decrease R'000**	2011 2% decrease R'000
Investments in debt securities	**(122)**	(118)	**124**	121
Cash and interest bearing loans	**3,969**	4,274	**(3,969)**	(4,274)
	3,847	4,156	**(3,845)**	(4,153)

An increase or decrease of 2% in the interest rates relating to investments in debt securities, listed property units, loans receivable and cash would result in an increase in income of R3.85 million (2011: R4.16 million) or a decrease in income of R3.85 million (2011: R4.15 million) respectively.

Financial liabilities	**2012 2% increase R'000**	2011 2% increase R'000	**2012 2% decrease R'000**	2011 2% decrease R'000
Interest bearing borrowings	**(54)**	(293)	**49**	293

An increase or decrease of 2% in the interest rates relating to borrowings and payables would result in an increase in expenses of R0.05 million (2011: R0.29 million) or a decrease in expenses of R0.05 million (2011: R0.29 million) respectively.

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

36. RISK MANAGEMENT (continued)

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; and
- 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; and
- 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				
	A- R'000	BBB+ R'000	BBB R'000	Not rated R'000	Carrying value R'000
31 August 2012					
Investments in debt securities held at fair value	**-**	**6,656**	**-**	**-**	**6,656**
Unlisted investments held at fair value	**-**	**-**	**-**	**11,838**	**11,838**
Loans receivable	**-**	**-**	**-**	**15,245**	**15,245**
Trade and other receivables	**-**	**-**	**-**	**113,513**	**113,513**
Cash and cash equivalents	**43,801**	**135,326**	**84,388**	**6,457**	**269,972**
	43,801	**141,982**	**84,388**	**147,053**	**417,224**

36. RISK MANAGEMENT (continued)

36.4 Credit risk (continued)

	Credit rating AA- R'000	A- R'000	BBB+ R'000	BBB R'000	Not rated R'000	Carrying value R'000
31 August 2011						
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

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: 0-3 months R'000	3-6 months R'000	6 months to 1 year R'000	Greater than 1 year R'000	Financial assets that have been impaired R'000	Impairment R'000	Carrying value R'000
31 August 2012								
Investments in debt securities held at fair value	6,656	-	-	-	-	-	-	6,656
Unlisted investments held at fair value	11,838	-	-	-	-	-	-	11,838
Loans receivable	15,245	-	-	-	-	1,910	(1,910)	15,245
Trade and other receivables	89,595	6,878	1,521	11,226	4,293	2,745	(2,745)	113,513
Cash and cash equivalents	269,972	-	-	-	-	-	-	269,972
	393,306	6,878	1,521	11,226	4,293	4,655	(4,655)	417,224

36. RISK MANAGEMENT (continued)

36.4 Credit risk (continued

	Neither past due nor impaired R'000	Financial assets that are past due but not impaired 0-3 months R'000	3-6 months R'000	6 months to 1 year R'000	Greater than 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

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
2012				
Interest-bearing borrowings	**-**	**1,103**	**2,650**	**3,753**
Trade and other payables	**152,626**	**-**	**-**	**152,626**
	152,626	**1,103**	**2,650**	**156,379**
2011				
Interest-bearing borrowings	3,175	3,796	-	6,971
Trade and other payables	122,341	-	-	122,341
	125,516	3,796	-	129,312

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	**2012 R'000**	2011 R'000
Short term		
• Property	**255,244**	229,294
• Motor	**216,206**	202,197
• Accident/Health	**265,252**	194,242
• Guarantee	**18,510**	15,854
• Miscellaneous (including legal expenses, retrenchment cover)	**154,321**	139,740
Long term	**18,586**	30,080
	928,119	811,407

36. RISK MANAGEMENT (continued)

36.6 Insurance risk (continued)

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.

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

Reinsurance credit risk

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 mitigated by the choice of reinsurers. The Group currently deals with the following reputable reinsurers:

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

Claims risk

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.

Lapse risk

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.

36. RISK MANAGEMENT (continued)

36.6 Insurance risk (continued)

36.6.4 Key insurance risks (continued)

Expense risk

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.

Pricing and Underwriting risk

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.

36.7 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; and
- 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 CAR. Over the medium to long term the Group targets:

- an international solvency ratio of in excess of 45% and a CAR in excess of 1.2 for its short-term insurance business; and
- a CAR of 1.5 for its long-term insurance businesses.

The solvency ratio is calculated as the short-term insurer's net assets divided by net written premium, while the CAR is calculated as the insurer's statutory net assets divided by its capital adequacy requirement as calculated:

- on the Financial Soundness Valuation basis disclosed in the Actuary's Report for the long-term insurance business; and
- in terms of the SAM Interim Requirements for the short-term insurance business.

Constantia Insurance Company Limited's solvency on the international basis at year-end was 52.9% (2011: 58.5%), while its CAR at year-end was 1.43 overall and 1.35 on its domestic business. Constantia Life and Health Limited and Constantia Life Limited's CARs were 1.78 and 1.81 respectively (2011: 1.74 and 1.70).

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 FSB. 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 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 2012			
• 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	**1,000,000**	**2,000,000**	**3,000,000**
• Shaw, R L	**-**	**-**	**-**
• Steffens, G Z	**-**	**-**	**-**
• Toet, G	**1,041,236**	**-**	**1,041,236**
	27,373,277	**7,110,734**	**34,484,011**

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

	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

37.2 Interest in share options

	Direct	Total
31 August 2012		
• Berkowitz, R S	**-**	**-**
• Campbell, S M	**-**	**-**
• Druian, J D	**-**	**-**
• Louw, L E	**1,000,000**	**1,000,000**
• Shaw, R L	**-**	**-**
• Steffens, G Z	**-**	**-**
• Toet, G	**1,000,000**	**1,000,000**
	2,000,000	**2,000,000**
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

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.

38.2.3 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 Companies within the Group

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, 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 Companies controlled by a director

- Anslow Management Consultants Proprietary Limited; and
- Shavian Investment Holdings Proprietary Limited

are both controlled by Mr Robert L Shaw, who became a director of a major subsidiary on 1 November 2012 and a director of Conduit Capital Limited on 2 July 2012.

38.3.3 Dealings in capacities other than as a director of the Company

During the year ended 31 August 2012 the Group has had no dealings with directors other than in their capacity as directors or as disclosed below.

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

38. RELATED PARTY TRANSACTIONS (continued)

38.4 Trading transactions and outstanding balances other than loan balances

	GROUP		COMPANY	
	31 August 2012 R'000	31 August 2011 R'000	**31 August 2012 R'000**	31 August 2011 R'000
38.4.1 Subsidiaries				
Anthony Richards & Associates Proprietary Limited				
• Dividend received			**16,800**	6,800
Black Ginger 92 Proprietary Limited				
• Interest received			**797**	737
Conduit Fund Managers Proprietary Limited				
• Interest received			**-**	32
• Management and administration fees paid			**(5)**	(12)
• Balance due to			**-**	(1)
Conduit Management Services Proprietary Limited				
• Management and administration fees received			**1,260**	1,260
IMR Share Trust				
• Interest paid			**(82)**	(99)
38.4.2 Jointly controlled entities				
Catalyst Insurance Consultants Proprietary Limited				
• Interest received	**73**	5	**-**	-
• Directors fees received	**96**	-	**-**	-
• Interest paid	**(10)**	-	**(10)**	-
Riverstone Insurance Brokers Proprietary Limited				
• Dividend received	**50**	-	**-**	-
38.4.3 Associates				
Maruapula Capital Proprietary Limited				
• Interest received	**-**	8	**-**	8
• Management and administration fees received	**-**	26	**-**	26
38.4.4 Directors, directors' companies and key management				
Anslow Management Consultants Proprietary Limited				
• Management fees paid	**(300)**	-	**-**	-
• Rental paid	**(402)**	-	**-**	-

	GROUP		COMPANY	
	31 August 2012 R'000	31 August 2011 R'000	**31 August 2012 R'000**	31 August 2011 R'000
38. RELATED PARTY TRANSACTIONS (continued)				
38.4 Trading transactions and outstanding balances other than loan balances (continued)				
Shavian Investment Holdings Proprietary Limited				
• Rental paid	**(979)**	-	**-**	-
• Balance due to	**(63)**	-	**-**	-
Newbridge Reinsurance Proprietary Limited				
• Office expenses	**(4)**	-	**-**	-
Freshfields Insurance Brokers Proprietary Limited				
• Office expenses	**(2)**	-	**-**	-
Key management				
• Salaries and bonuses paid to key management (short-term employee benefits)	**(3,789)**	(5,594)	**-**	-

SHAREHOLDER INFORMATION
as at 31 August 2012

SHAREHOLDER SPREAD

	Number of shareholders	%	Number of shares	%
1 - 1,000 shares	399	48.72	127,257	0.05
1,001 - 10,000 shares	164	20.02	763,920	0.30
10,001 - 100,000 shares	145	17.70	5,565,061	2.17
100,001 - 1,000,000 shares	63	7.69	24,483,850	9.55
1,000,001 shares and over	48	5.87	225,439,730	87.93
	819	**100.00**	**256,379,818**	**100.00**

DISTRIBUTION OF SHAREHOLDERS

	Number of shareholders	%	Number of shares	%
Close corporations	14	1.71	6,573,650	2.56
Individuals	654	79.85	79,604,927	31.05
Nominees and trusts	66	8.06	16,122,908	6.29
Other persons and corporations	44	5.37	56,378,882	21.99
Private companies	30	3.66	81,071,209	31.62
Public companies	10	1.22	15,977,872	6.23
Share trust	1	0.13	650,370	0.26
	819	**100.00**	**256,379,818**	**100.00**

PUBLIC/NON-PUBLIC SHAREHOLDERS

	Number of shareholdings	%	Number of shares	%
Non-public shareholders	17	2.07	47,696,210	18.60
Directors and associates' holdings	14	1.71	46,092,989	17.98
Own holdings	2	0.24	952,851	0.37
Share trust	1	0.12	650,370	0.25
Public shareholders	802	97.93	208,683,608	81.40
	819	**100.00**	**256,379,818**	**100.00**

BENEFICIAL SHAREHOLDERS HOLDING 3% OR MORE

	Number of shares	%
Mr Jason Dean Druian	27,521,775	10.73
Mr Stanley David Shane	22,455,014	8.76
Capricorn Capital Partners Holdings	17,818,804	6.95
Morning Tide Investments 82 (Pty) Ltd	13,000,000	5.07
First National Investors (Pty) Ltd	12,181,818	4.75
SBSA ITF RE:CM Institutional	11,724,528	4.57
Mr Wayne Anthony Druian	11,450,934	4.47
Ellerine Bros (Pty) Ltd	10,000,000	3.90
	126,152,873	49.20

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 (75) - LLB
Independent chairman and non-executive director

Jason D Druian (40)
Chief executive officer

Richard Bruyns (59) - CA (SA); PDM (Harvard)
Independent non-executive director

Scott M Campbell** (44) - BBS; Dip Bus Studies
Independent non-executive director

Lourens E Louw (42) - B Comm
Financial Director

Robert L Shaw (62)
Executive director

Günter Z Steffens* (75)
Member - The Guild of International Bankers, London Brooks, London
Independent non-executive director

Gavin Toet (38)
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:

Lourens 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 Capital
(Registration number: 2008/027362/07)
2nd Floor, North Block, Hyde Park Office Tower
Cnr 6th Road & 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

www.conduitcapital.co.za