

# FOORD COMPASS LIMITED

2010 ANNUAL REPORT





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# FOORD COMPASS LIMITED

2010 ANNUAL REPORT

## VISION



THE FOORD COMPASS VISION IS TO BE THE PRE-EMINENT INVESTMENT FUND.

### INVESTMENT OBJECTIVE

The company's long-term investment objective is to deliver a total portfolio return of 10% per annum above the annual change in the South African Consumer Price Index on a rolling five-year basis, thereby providing sustainable real returns to debenture holders and shareholders.

### RISK MANAGEMENT AND INVESTMENT STYLE

Management of investment risk and an emphasis on long-term investment are key to achieving the investment objective. This is principally accomplished through appropriate and well-researched market, asset class and sector diversification. The company seeks to avoid negative returns over any one year period.

### INVESTMENT UNIVERSE

To achieve the investment objective while managing investment risk, the company may invest in any asset class in any investment market in any currency. Securities may be listed or unlisted, while exposures may be both long and short. Financial gearing may also be utilised when appropriate.

### INCOME DISTRIBUTIONS AND CAPITAL

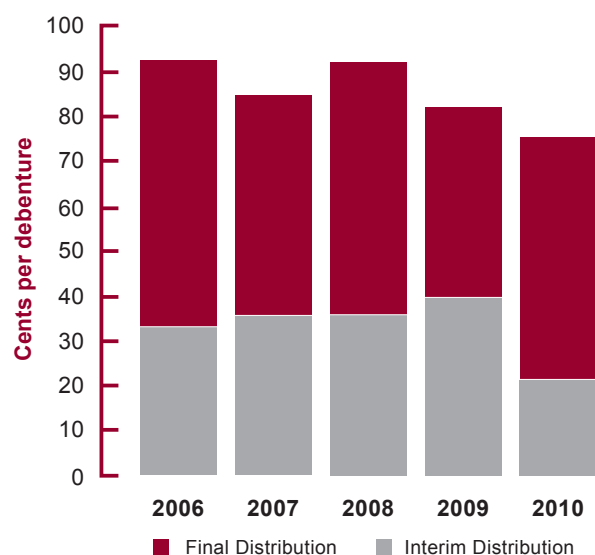
The company pays interest annually to debenture holders amounting in aggregate to ninety percent of the annual distributable income. Their proportionate share of non-distributable capital profits also accrues to the carrying value of the debentures.

## FIVE YEAR REVIEW

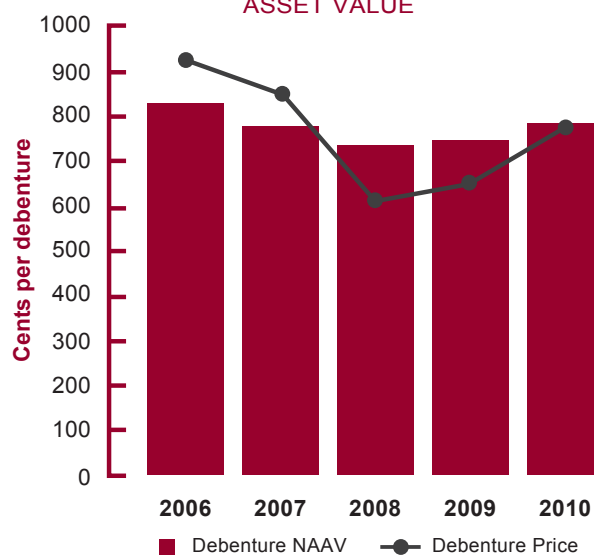
### HIGHLIGHTS

- Five year return to debenture holders 13.2% per annum
- 2010 income yield of 10.5% on opening NAAV
- Net attributable asset value 787c per debenture

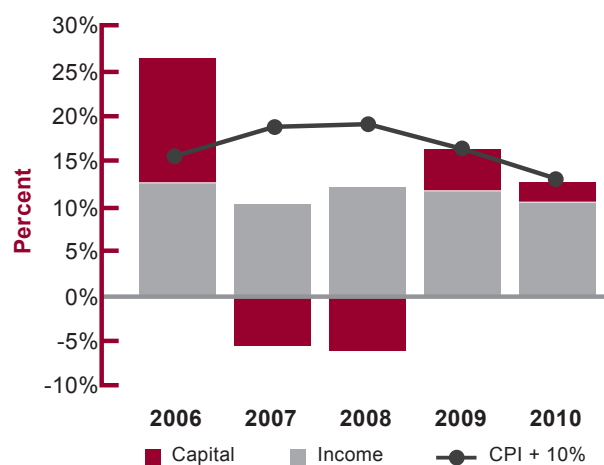
### ANNUAL INTEREST DISTRIBUTION



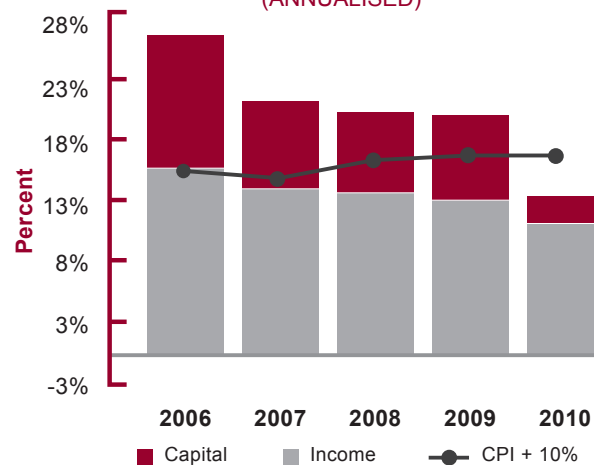
### DEBENTURE NET ATTRIBUTABLE ASSET VALUE



### ANNUAL DEBENTURE RETURNS \*



### ROLLING FIVE YEAR DEBENTURE RETURNS \* (ANNUALISED)



\* Calculated with reference to opening net attributable asset values per debenture

### KEY FINANCIAL INFORMATION

	5 year CAGR*	2010	2009	2008	2007	2006
Annual debenture return (%)	13.2%	<b>13.4%</b>	16.2%	6.3%	4.6%	26.9%
Investment objective (CPI + 10% pa) (%)	16.8%	<b>13.5%</b>	16.3%	19.5%	19.0%	15.8%
Net distributable profit (Rm)	27.8%	<b>122.2</b>	132.5	144.1	96.9	78.4
Interest per debenture (weighted) (cents)	-1.7%	<b>75.2</b>	83.6	93.8	85.6	93.4
Earnings per debenture (weighted) (cents)	-17.9%	<b>95.8</b>	112.2	45.7	7.0	191.0
Debenture interest distribution (Rm)	27.8%	<b>110.0</b>	119.3	129.8	87.2	70.6
Carrying value of debentures (Rm)	32.1%	<b>1 081.6</b>	1 037.5	950.7	998.7	584.5
NAAV per debenture (cum-interest) (cents)	1.4%	<b>787.3</b>	757.1	742.9	776.6	834.3
Number of debentures in issue (millions)	30.2%	<b>147.5</b>	145.5	138.7	136.2	75.5

\* Compound annual growth rate



## INVESTMENT RESULTS

I take pleasure in presenting to our investors and other stakeholders my report on the results of the company for the year ended 31 December 2010.

The year turned out to be another positive one for investment markets, in all asset classes and across most geographies, following on from an even stronger performance in 2009. Emerging markets led the way for developed markets as interest rates remained at record low levels. Bond yields trended down and there were some limited gains from property. Commodities, generally, enjoyed another year of strong price growth. There were significant relative currency moves, as countries jostled to boost their economic growth through competitive pricing of exports.

Just as the equity markets correctly anticipated the great recession, they have collectively, again, been correct in forecasting the economic recovery that has prevailed since then. We can see that now.

Although 2010 was a positive year as a whole, there were significant risks to be managed, especially as the first six months of 2010 had seen negative returns from equities globally.

Within this macro-environment, the investment portfolio was well managed to produce a gross return of 16.5%, which exceeded the investment objective (CPI + 10% p.a.) of 13.5%, adding to the excess achieved in 2009. After taking into account operating expenses, capital gains tax and their 90% share of income and capital, this translated into a net return for debenture holders of 13.4% for the year. The rolling 5-year return to debenture holders has declined to 13.2% p.a. which is below the objective of 16.8% p.a. for the first time since inception.

It is worthwhile noting that, although not matching the CPI + 10% p.a. objective, debenture holders have enjoyed returns that have beaten inflation on a sustainable basis. The capital value of debentures has also been preserved in absolute terms. Returns from inception in 2002 at 19% per annum have exceeded the objective return of 15.8% p.a.

Returns to debenture holders are tabulated below (in % per annum to 31 December 2010):

	1 year	3 years	5 years	From Inception (9 years)
<b>Returns to debentures*</b>	<b>13.4%</b>	<b>11.9%</b>	<b>13.2%</b>	<b>19.0%</b>
Income yield	10.5%	11.8%	11.9%	13.5%
Capital return	2.9%	0.1%	1.3%	5.5%
<b>CPI + 10% p.a.</b>	<b>13.5%</b>	<b>16.4%</b>	<b>16.8%</b>	<b>15.8%</b>

\* Calculated with reference to opening net attributable asset values per debenture

The dominant component of the return to debenture holders continues to be the income component, which is distributed to investors, while the capital return has been subdued by the longer term weak performance of equity markets in general, but especially over the last 3 years due to the financial crisis.

## FINANCIAL RESULTS

Net distributable profit for the year amounted to R122.2 million, a decline of 8% from R132.5 million in 2009. The second half of the year saw net distributable profit rise 33% to R88.2 million against a first half decline of 49% to R34.0 million.

Investment income for the year declined 24% due to lower dividends and interest received. Dividend payouts were generally lower in 2010 than 2009 and interest rates in South Africa declined more than one-fifth over the year. Realised trading profits increased 89% to R43.8 million for the year, all of which came from the second half as the equity markets improved enabling the manager to realise profits.

There was a significant increase in capital profits realised to R26.5 million (2009: R8.3 million), while mark-to-market revaluation of investments was R15.5 million (2009: R43.1 million) at year end.

The net result achieved for the year is that the weighted average interest per debenture was 75.2 cents (2009: 83.6 cents) and the interest distribution for the second six months was 53.8 cents (2009: 44.0 cents), an increase of 22%.

The net attributable asset value per debenture, after the final distribution, has increased 3% to 733.4 cents (2009: 713.0 cents).

### INVESTMENT OBJECTIVE AND RISK MANAGEMENT

Management of the company's investment portfolio is delegated to Foord Asset Management (Pty) Ltd. The investment mandate is to achieve the investment objective of CPI + 10% per annum on a rolling five-year basis, thereby providing sustainable positive real returns to the providers of capital.

Over the last five years, the gross return on the portfolio has been 16.7% per annum, while the investment objective was 16.8% p.a. This is the first time from inception that the portfolio return has lagged behind the investment objective, albeit marginally. The Board acknowledges that this is a tough mandate, but considers it to be worthy and attainable in future. The mandate continues.

The Board receives regular reports from the manager with a view to assessing performance and investment risk. I have written before about the importance of risk management in the investment process.

Investment risk can be defined in many ways and means different things to different investors. We prefer to view risk as the potential for permanent loss of capital in absolute terms. As risk exists primarily in the future, the management of investment risk involves the identification and critical analysis of possible future outcomes under a variety of investment scenarios.

In a portfolio management context, potential outcomes and attendant risks to these outcomes are balanced against each other through appropriate asset allocation. Having a diversified investment portfolio reduces the risk of loss. The asset allocation process (risk management) is undertaken on a dynamic and active basis.

The past year has been a good example of active risk management, given the prevailing risks. Currency risk has been spread to mitigate the negative impacts of both depreciation and appreciation of currencies. There has been prudent and efficient use of derivatives both to protect the portfolio from downside risk and to take advantage of the upside opportunities once equity markets had turned positive after mid-year. To this end, exposure to equities varied between 58% and 97% in the course of the year. Investment in property averaged 13% over the year. Exposure to foreign assets varied between 47% and 51%. The short position in SA government bonds was maintained through the year, but was partially offset by a 20% long position in corporate debt.

I believe this type of process for managing risk has been a big contributor to the creation of value for investors and the preservation of capital over the longer term. The board views investment risk management as a priority amongst its duties and is satisfied with the rigorous process employed by Foord Asset Management.

As may be seen from the asset structure set out in the Investment Manager's Report (p7), the company's portfolio is invested in a wide variety of asset classes and within each asset class there is also a diversity of selection. The manager has discretion to take both long and short investment exposures. Details of the more material investments in the portfolio are set out in Note 3 to the Annual Financial Statements (p20).

The company continues to hold unlisted investments outside of the Foord Asset Management mandate, which we have reported on previously. These investments improved their positive performance over the year and provide some added diversification to the overall portfolio. They represent less than 4% of the portfolio at fair value and consist of loans and equity capital to smaller businesses in the insurance and motor industries.

### PROSPECTS

The short term outlook for equity markets appears positive as the gross size of the global economy pushes ahead to record levels, supported by a nascent recovery of the US economy. Interest rates are likely to remain low to assist those developed countries where debt levels are excessively high and problematic. These factors, together with strong corporate balance sheets and cash flows should allow profits to continue growing, which should lead to higher dividends, hence our high asset allocation to equities. We are mindful of the risk of loss if interest rates start rising earlier than expected, and we have the capability to reduce equity exposure rapidly, if needed. We remain wary of valuations in sovereign bond markets. The asset and geographic diversification embedded in the investment portfolio structure will continue to provide a hedge against investment risk in pursuit of the investment objective.

### DIRECTORS

During the course of the year, we accepted the resignation of Dave Moir, who has been one of the leading independent, non-executive directors since the creation of Foord Compass Limited in 2001. We are grateful to Dave for his thoughtful contribution to the many facets of being a director in this business. We also welcomed Dr Johannes van der Horst to the Board as an independent, non-executive director. Subsequent to the year-end, Adam Cowell was appointed to the Board, also as an independent, non-executive director. We look forward to utilising the unique talents which each of these gentlemen bring to our business.

In closing, I wish to thank each member of the Board for their wise counsel and solid support during the past year. This company is fortunate to have such dedicated and talented people looking after its interests.

John Levin continued as the debenture Trustee. We are grateful for his professional conduct and competence in overseeing the interests of debenture holders.

Lastly, we thank our loyal investors for their support and trust, which we realise must be earned.

The notices for the annual general meetings of debenture holders and shareholders will be sent under separate cover to this report. I look forward to welcoming members to those meetings in April 2011.



Mark Hodges | Chairman  
Date: 25 March 2011



In last year's report we noted that one scenario for continued appreciation of asset prices in 2010 involved higher global liquidity with potentially higher global inflation. We reported on our purchase towards the end of 2009 of call options on SA equities. These options gave the portfolio upside equity exposure while protecting against capital loss. Overall exposure to equities was a cautiously optimistic 77% of portfolio, while the fund enjoyed a 34% effective cash exposure which served to reduce the risk of loss and allow for further purchases of risk assets should markets decline.

We therefore commenced the year being cautious, but not bearish. As the risk of a double-dip recession receded, in H1 we continued to increase the portfolio's effective equity exposure, despite the first half of the year being mostly negative for equity markets. The big change which became evident early in the year was that European governments collectively shunned the Bernanke approach, opting instead for austerity measures to rein in budget deficits. Such action leads to reduced aggregate demand and could lead to deflation. But Europe is not as important to the world economy as it once was, while Germany - the largest economy in the EC - is benefitting from a weaker euro as demand for its exports grows.

The critical question facing investors during the year was whether the world was entering an inflationary or deflationary period. We previously held the view that there would be a deflationary period followed by inflation. But it increasingly appeared to us that emerging markets would experience inflation while developed markets would experience falling inflation or perhaps even deflation in some cases. Share markets in the first half priced this as being negative for equities, but this correlation doesn't necessarily hold. Our view remained that equities would still be the best prospective asset class. Yet they faced some headwinds and we felt that they might become cheaper and were prepared to commit to buying further at lower levels.

As fears of a double dip recession receded and interest rates remained low, equity investors pushed stock markets towards multi-year highs. The broad strategy adopted late in 2009 and executed through 2010 of up weighting equities was therefore correct. It was apparent to us that the more significant risk was the risk of not being in equities rather than the risk of being in equities. In hindsight, we should have been more confident in our view that equities were the most attractive asset class.

*There are two times in a man's life when he should not speculate:  
when he can't afford it, and when he can.*

**MARK TWAIN**

## RETURNS ACHIEVED IN 2010

The actual returns achieved on the portfolio from each asset class are as follows:

Equities	36.0%
Listed property	15.2%
Bonds and cash	-3.9%
Foreign assets	8.2%
Other	6.3%
<b>Portfolio total return (weighted)</b>	<b>16.5%</b>

The domestic equity portfolio returned 36.0% for the year - well ahead of the SA market which yielded 19.0%. The contribution of this SA equity return to the total portfolio return was 14.2%. It is evident that the selection component of total return has been sound, particularly in JSE listed shares but also offshore assets. We hold the view that selection will continue to be critical; while equities may be the asset class of choice, it is the selection of quality companies that will provide the downside protection if the global economy weakens.

Looking ahead, we are mindful that the global stimulus must still be withdrawn while global interest rates must eventually rise (especially in the USA, UK and Eurozone). The timing of these moves will be critical for global growth and returns to global equities. Because we chose to implement the strategy of increasing equity exposure as cheaply as possible by using call options, these can be quickly unwound.

Over the course of the year, the effective exposure to foreign assets increased from 46% to 53% of portfolio. This position was negative for the portfolio because the rand was stronger than we expected it to be. It has only been subsequent to the financial reporting date that we have begun to see foreign investors reduce their SA bond holdings - which has impacted bond yields but only started to pressure the rand.

In 2010 we further diversified the foreign asset portfolio by reducing the exposure to the Foord International Trust, taking further direct positions in foreign companies. Positions were established in Fosters Group and QBE Insurance while we increased our position in General Electric.

On the whole, the offshore portfolio kept pace with rand appreciation (especially the position in the Edcon bonds), ensuring that rand returns were protected. Returns from foreign assets in aggregate amounted to 8% in rands, despite the 12% appreciation in the rand over the year.

The short SA government bond position was largely maintained during the period, although the maturities and duration have been actively managed. Given the fall in yields, this position was again negative for the portfolio for the year. However, it has been our view for some time that there has been a massive overvaluation of these bond markets. Our conviction regarding these positions has only increased as bond prices have advanced during the year.

It is important to note that the short bond position is more complex than simply betting on a rise in SA government bond yields. Structurally, it has allowed Compass to borrow at attractive rates. The risk to this strategy is that a deflationary environment would result in capital losses. Given the decline in cash yields, it was an expensive position if the only consequence of the short borrow was to invest in cash instruments, which has not been the case.

## LONGER-TERM RETURNS

We have run this portfolio against the investment objective of CPI + 10% per annum for close on a decade. Tabulated below are the long-term returns achieved on the portfolio relative to this objective and the returns delivered by the FTSE/JSE All Share Index (in % per annum to 31 December 2010):

	1 year	3 years	5 years	From Inception (9 years)
Portfolio total return	16.5%	14.1%	16.7%	23.4%
CPI + 10% p.a.	13.5%	16.4%	16.8%	15.8%
FTSE/JSE All Share Index	19.0%	6.5%	15.2%	16.6%

It is pleasing to us that the portfolio has exceeded its objective over one year and on a since inception basis from 1 January 2002. It is also interesting to note that the longer-term returns (three years and longer) have exceeded the total returns earned from the FTSE/JSE All Share Index by a wide margin - and in our view with considerably less investment risk than exists in the average share investment.

**PROSPECTS**

Looking ahead, interest rates should remain low to assist those developed markets where debt levels are high and problematic. We believe that record budget deficits, growing government debt and emerging inflation will be negative for bond markets. The risk of policy error is high. The outlook for equity markets however remains positive. The low interest rate environment, strong corporate balance sheets and growing earnings should lead to higher dividends for listed companies.

This view is reflected in the positioning of the portfolio at year-end. The effective asset allocation of the investment portfolio at 31 December is as follows:

	Domestic %		Foreign %		Total %	
	2010	2009	2010	2009	2010	2009
Equities	65	53	30	24	95	77
Listed property	6	9	6	0	12	9
Government bonds	-47	-46	0	0	-47	-46
Corporate debt	9	12	13	12	22	24
Commodities	0	0	1	2	1	2
Effective cash exposure	14	26	3	8	17	34
	47	54	53	46	100	100

Taking into account the delta on the options, effective equity exposure was 95% of the market value of the portfolio at year-end. Listed property was at 12% of portfolio, corporate debt at 22% and effective cash exposure amounted to 17% of portfolio (down from 34% one year ago). Nominal commodity exposure and the short SA bond position complete the asset allocation at year-end. Foreign assets account for 53% of the portfolio, up from 46%.

The investment portfolio remains well diversified across a range of economic sectors, countries and currencies to manage the many risks that lie ahead.

We continue with a dual aim of achieving the investment objective of a real return of 10% and of preserving the capital base.



Dave Foord | Foord Asset Management  
Date: 25 March 2011

*Patience is the companion of wisdom.*

**ST. AUGUSTINE**



**MARK HODGES (57) (Chairman)**

**B Comm, CA(SA), CFA**

Mark has served on the board of Foord Compass since 2001. He is a director and senior portfolio manager at Foord Asset Management (Pty) Ltd, where he manages balanced funds and equity portfolios. Mark is also a director of Foord Unit Trusts Limited. He has previous experience at Allan Gray Limited and completed his articles at Deloitte & Touche.



**ADAM COWELL (58)**

**B Comm, CA(SA) MAICD; Grad Dip in Acc and Fin Plan**

Adam's experience encompasses both executive and non-executive directorships and has spanned a range of industry sectors including finance, financial services, investment, property, training, retail, insurance, accounting and financial planning groups. He has served as managing director and financial director of Fairheads Trust Company Limited, non-executive director of Mercantile Bank Holdings Limited as well as executive chairman of Mercantile Bank Group non-banking subsidiaries. Adam joined the Foord Compass Board on 19 January 2011. He also serves on the Foord Unit Trusts Limited board and chairs its audit committee. He is currently the General Manager of business sales and acquisitions for London Cape Town Capital.



**DAVE FOORD (58)**

**B Comm, CA(SA)**

Dave is a director of Foord Asset Management (Pty) Ltd, where he serves as Chief Investment Officer and key institutional portfolio manager. As part of his responsibilities, Dave personally manages the Foord Compass portfolio. He also manages the flagship Foord Equity, Foord Balanced and Foord Flexible Fund unit trust funds and has co-managed the Foord International Trust global fund for the past 13 years. Dave serves as a director at Infiniti Insurance Limited.



**CHRIS GREYLING (50)****B Comm (Hons)**

Chris joined the board of Foord Compass in October 2003. He has extensive experience in the financial services industry, ranging from banking to portfolio management. Chris was previously CEO of Foord Asset Management (Pty) Ltd and had been Head of Fixed Interest Securities before taking on the role of Chief Investment Officer at Sanlam Investment Management. Chris has served on the executive committees of the South African Futures Exchange (SAFEX) and the Bond Exchange of South Africa (BESA). Chris serves as an independent non-executive director and chairman of Foord Unit Trusts Limited.

**JOHANNES VAN DER HORST (67)****BA LLD**

Johannes worked for Old Mutual from 1971 to 2002, where he was general manager (investments) from 1985 to 1997. Over the past 25 years he has served on the boards of various companies listed on the JSE Limited. He currently serves on the boards of Assore Limited and Reunert Limited. Johannes joined the Foord Compass board in April 2010.

**JAN VAN NIEKERK (36)****B Comm (Hons)(Maths), FIA, CFA**

Jan was appointed to the board of Foord Compass Limited in April 2008 in the capacity of independent, non-executive director. He currently serves as CEO at Peregrine Holdings and as chairman of Citadel Investment Services Limited. He started his career at Sanlam in 1997.



The King Code of Governance for South Africa 2009 (King III) was released by the Institute of Directors in February 2009, with the revised and final version being released in September 2009. King III came into effect on 1 March 2010. The board of directors has historically endorsed the recommendations contained in the King reports. However, given the size of the board and nature of the company's operations, compliance with all the recommendations of the code has not always been possible in every reporting period.

One of the key concepts of King III is sustainability. In order for sustainability to become integrated into the company, effective and ethical leadership is required. Mr Hodges, who is not classified as independent, chairs the board of directors. At the reporting date, the board of directors comprises six individuals, four of whom are independent, all classified as non-executive. This is in compliance with the King report which states that the majority of non-executive directors should be independent. Directors do not receive share options and the chairman and non-executive directors also do not receive incentive awards based on the performance of the company.

The board of directors has a duty to keep abreast of laws, regulations, rules and standards applicable to the company as well as being accountable for the company's compliance with these. This is achieved by continual review of applicable rules and regulations and through consultation with appropriate individuals including the investment manager, independent debenture trustee and external auditors.

The board of directors continues to meet formally on a quarterly basis for the purpose of reviewing the portfolio managed by Foord Asset Management (Pty) Ltd, evaluating the private equity investments of the company, reviewing management financial statements, and for policy and strategy formulation. Additional meetings of the board may be called on an ad-hoc basis to address specific matters. Committees of the board meet according to the specific requirements and the terms of reference of the committee.

Directors are remunerated by means of an agreed annual fee. The remuneration policy is approved by shareholders at the Annual General Meeting. Directors are also remunerated for additional responsibilities which include chairmanship of the board or committees of the board and for participation on committees of the board. Attendance at board meetings is monitored by the chairman. All directors attended each of the four board meetings held during the 2010 financial year.

Mr John Levin continues in the position of independent debenture trustee. The debenture trustee's role is to safeguard the interests of the debenture holders and oversee compliance with the Debenture Trust Deed. The company outsources both the administration and investment management functions to Foord Asset Management (Pty) Ltd, a related party. Given these arrangements, the company employs no salaried persons.

At the date of approval of these financial statements, the company's audit committee comprised four independent directors, namely Mr Cowell (Chairman) (CA(SA)) appointed 19 January 2011, Mr Greyling, Mr Van der Horst and Mr Van Niekerk. All committee members are independent non-executive directors. The audit committee's mandate includes assessing the processes, internal controls and risk management procedures adopted by Foord Asset Management (Pty) Ltd with regard to the safeguarding of the company's assets as well as the maintenance of suitable accounting systems. Amongst its other functions, the audit committee annually reviews the appointment and independence of the external auditor, Deloitte & Touche, and determines the auditor's remuneration. This has been done in the current financial year.

*Investors can be their own worst enemy, particularly when emotions take hold.*

**BOB FARRELL**



## STATEMENT OF RESPONSIBILITY BY THE BOARD OF DIRECTORS

The directors are responsible for the preparation, integrity and fair presentation of the financial statements of Foord Compass Limited. The financial statements presented on pages 13 to 27 have been prepared in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa, and include amounts based on judgements and estimates made by the directors.

The directors believe that, based on the company's current financial position and existing borrowing facilities, Foord Compass Limited will be a going concern in the period to the next annual financial statements. The directors have therefore continued to adopt the going concern basis in preparing the financial statements.

The financial statements have been audited by the independent auditors, Deloitte & Touche, who were given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the board of directors and committees of the board. The directors believe that all representations made to the independent auditors during their audit are valid and appropriate. The unmodified audit report is set out on page 12.

The directors are responsible for the company's system of internal control, which includes internal financial controls, designed to provide reasonable, not absolute, assurance against material misstatement and loss. The company maintains controls over inter alia the safeguarding of assets and the reliability of accounting records and other financial information. Even an effective system of internal control, no matter how well designed, has inherent limitations, including the possibility of circumvention or the overriding of controls. An effective system of internal control, therefore, aims to provide reasonable assurance with respect to the reliability of financial information and in particular, financial statement presentation. Further, because of changes in conditions, the effectiveness of internal controls may vary over time.

## APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The annual financial statements set out on pages 13 to 27 were approved by the board of directors on 25 March 2011, and are signed on its behalf by:



MO Hodges | Chairman



D Foord

## CERTIFICATE BY THE COMPANY SECRETARY

In my capacity as company secretary I hereby confirm that for the year ended 31 December 2010, the company lodged with the Registrar of Companies all such returns as are required of it in terms of section 268G(d) of the Companies Act 1973, as amended, and that all such returns are true, correct and up to date.



PE Cluer | Secretary  
Foord Asset Management (Pty) Ltd  
Date: 25 March 2011

## INDEPENDENT AUDITOR'S REPORT

To the members of Foord Compass Limited



PO Box 578  
Cape Town 8000  
South Africa

Deloitte & Touche  
Registered Auditors  
Audit - Cape Town  
1st Floor The Square  
Cape Quarter  
27 Somerset Road  
Green Point 8005  
Docex 5 Claremont

Tel: +27 (0)21 427 5300  
Fax: +27 (0)21 425 7651  
[www.deloitte.com](http://www.deloitte.com)

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the annual financial statements of Foord Compass Limited, which comprise the directors' report, the statement of financial position as at 31 December 2010, the statement of comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages 13 to 27.

### DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

### AUDITOR'S RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, 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 financial statements present fairly, in all material respects, the financial position of Foord Compass Limited as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa.

*Deloitte & Touche*

Deloitte & Touche  
Registered Auditors  
Per: Brendan Africa  
Partner  
25 March 2011

National Executive: GG Gelink Chief Executive AE Swiegers Chief Operating Officer GM Pinnock Audit  
DL Kennedy Risk Advisory NB Kader Tax & Legal Services L Geeringh Consulting L Bam Corporate Finance  
JK Mazzocco Human Resources CR Beukman Finance TJ Brown Clients NT Mtoba Chairman of the Board  
MJ Comber Deputy Chairman of the Board  
Regional Leader: BGC Fannin

A full list of partners and directors is available on request

**B-BBEE rating: Level 2 contributor/AAA (certified by Empowerdex)**

Member of Deloitte Touche Tohmatsu Limited

The directors have pleasure in presenting their report for the year ended 31 December 2010.

## 1. PRINCIPAL ACTIVITIES

Foord Compass Limited is an investment company which is financed by both equity and debt. Its investment objective is to deliver a total return on its assets of 10% per annum above the annual change in the South African Consumer Price Index over rolling five year periods, thereby providing sustainable real returns to the providers of capital.

The assets of the company comprise a portfolio of listed and unlisted investments. The board has appointed Foord Asset Management (Pty) Ltd to manage the listed investment portfolio. The company's principal finance is provided by holders of unsecured variable interest rate debentures, which are listed on the main board of the JSE Limited. The ordinary shares of the company are privately held.

## 2. DISTRIBUTION TO DEBENTURE HOLDERS

Distributions to debenture holders are governed by the Debenture Trust Deed. The net investment income of the company, consisting of interest and dividends accrued from the investment portfolio, net of operating expenses, plus any net realised trading profits comprise the basis for the interest payable on the unsecured debentures.

In terms of the debenture trust deed, debenture holders are entitled annually to ninety percent of the net distributable income of the company. Interest is distributable annually, although in practice an interim distribution is made.

Income that is not distributed comprises net unrealised profits and realised capital profits and is adjusted for any proportionate share of the capital gains taxation charge for the year. Ninety percent of the net income that is not distributed is credited to the carrying value of the debentures or debited in the case of a net loss.

## 3. FINANCIAL RESULTS, INTEREST AND DIVIDENDS

The financial results of the company are set out in the attached financial statements. The company earned net portfolio income before debenture interest of R164.2 million for the year (2009: R183.9 million). In aggregate, interest of R110.0 million accrued to debenture holders during the year (2009: R119.3 million). This amounted to 75.2 cents per debenture (2009: 83.6 cents) based on the weighted average number of debentures in issue for the year. A dividend of R1 per ordinary share amounting to R8,800,070 was paid during the year (2009: nil).

## 4. UNSECURED DEBENTURES

Based on the elections of debenture holders, the company in February and August issued and allotted 1 971 073 debentures in lieu of a cash interest payment. The total number of debentures in issue at the year-end was 147 475 338 (2009: 145 504 265).

In terms of the company's accounting policy, debentures are reflected in the financial statements at their net attributable asset value, amounting in aggregate to R1 081.6 million (2009: R1 037.5 million), or 733.4 cents per debenture (2009: 713.0 cents per debenture).

## 5. DIRECTORS AND SECRETARY

The directors during the year and at the date of this report were:

MO Hodges (Chairman) \* : Non-executive

AD Cowell ++ \*\* : Non-executive, independent (appointed 19 January 2011)

D Foord \* : Non-executive

JC Greyling + : Non-executive, independent

DA Moir : Non-executive, independent (resigned 21 April 2010)

JC van Niekerk + : Non-executive, independent

JC van der Horst + : Non-executive, independent (appointed 21 April 2010)

\* British

\*\* Australian

+ Audit Committee

++ Chairman Audit Committee

The secretary of the company is Mr PE Cluer whose business and postal addresses are:

Business:  
7 Forest Mews  
Forest Drive  
Pinelands  
7405

Postal:  
PO Box 135  
Howard Place  
7450

## 6. HOLDING COMPANY

At the year-end, the company's ultimate holding company was Baruch Mach 1 Limited, a company incorporated in the British Virgin Islands.

## 7. AUDITORS

Deloitte & Touche were reappointed as auditors during the year and will continue in office in accordance with section 270(2) of the Companies Act of South Africa.

## 8. EVENTS SUBSEQUENT TO THE REPORTING DATE

On 19 January 2011 a dividend of 60 cents per ordinary share was declared, payable on 14 February 2011.

Based on the elections of debenture holders, on 14 February 2011 the company issued and allotted 4 912 546 debentures at 733.4 cents per debenture to settle part of the interest liability at 31 December 2010. The total number of debentures in issue at the date of this report is 152 387 884.

In January 2011, the ordinary shares in the company held at the year-end by Baruch Mach 1 Limited were sold to Analemma Pte Limited, a company incorporated in Singapore.

## 9. DIRECTORS' INTEREST IN SHARE CAPITAL AND DEBENTURES OF THE COMPANY

At 31 December 2010, the directors of the company were directly and indirectly interested in the issued share capital and debentures of the company as follows:

	Number	2010 %	Number	2009 %
<b>ORDINARY SHARES</b>				
Beneficial interest				
<b>Directly</b>				
MO Hodges	10 000	0.1%	10 000	0.1%
<b>Indirectly</b>				
D Foord	6 979 707	79.3%	845 474	9.6%
MO Hodges	63 001	0.7%	63 001	0.7%
<b>Total indirectly held</b>	<b>7 042 708</b>	<b>80.0%</b>	<b>908 475</b>	<b>10.3%</b>
<b>Total held</b>	<b>7 052 708</b>	<b>80.1%</b>	<b>918 475</b>	<b>10.4%</b>
<b>DEBENTURES</b>				
Beneficial interest				
<b>Directly</b>				
JC Greyling	300 000	0.2%	300 000	0.2%
<b>Indirectly</b>				
D Foord	4 500 000	3.0%	4 500 000	3.1%
JC van Niekerk	112 635	0.1%	112 635	0.1%
<b>Total indirectly held</b>	<b>4 612 635</b>	<b>3.1%</b>	<b>4 612 635</b>	<b>3.3%</b>
<b>Total held</b>	<b>4 912 635</b>	<b>3.3%</b>	<b>4 912 635</b>	<b>3.4%</b>

## 10. DIRECTORS' REMUNERATION

	2010 R	2009 R
MO Hodges	50 000	50 000
JC Greyling	60 000	60 000
DA Moir	37 500	75 000
JC van Niekerk *	70 000	70 000
JC van der Horst	45 000	-
D Foord	30 000	30 000

\* Ceded to the Stella Trust V

Directors are remunerated on an annual fee basis to better align remuneration with the level of responsibility assumed, especially for independent directors.

**11. LISTED DEBENTURE INFORMATION**

Listed below is an analysis of holdings extracted from the register of debenture holdings at 31 December 2010.

	Number	Percentage of issued debentures
Public debenture holders	924	82.1%
Non-public debenture holders, being directly or indirectly held by:	4	17.9%
- directors of the issuer	3	3.3%
- persons interested in 10% or more of the issued securities	1	14.6%

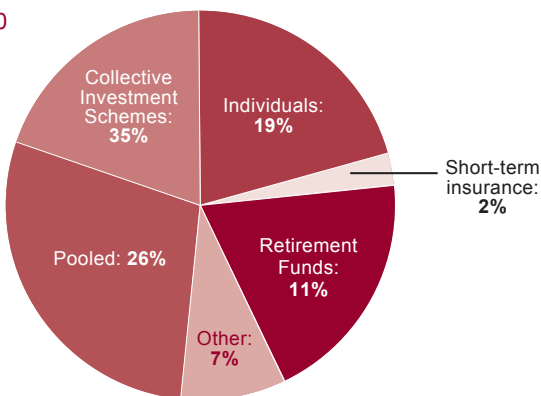
The following debenture holders beneficially hold, directly or indirectly, at 31 December 2010, in excess of 5% of the issued debentures of the company:

	Percentage
Investment Solutions Limited	14.6
Stella Trust V	8.9
Foord Balanced Fund	8.7
Motorite Insurance Administrators (Pty) Ltd	5.0
Nedgroup Investments Growth Fund	5.0

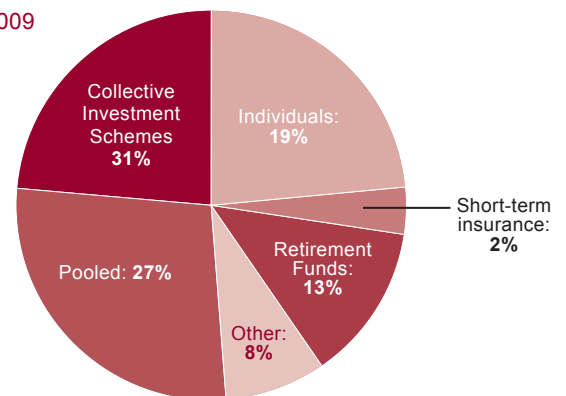
**DEBENTURE SPREAD**

Institutional investors in the form of retirement funds, collective investment schemes, short- and long-term insurers and other pooled investors account for 74% of the debentures in issue (2009: 73%).

2010



2009



*You need to have a certain amount of intelligence, but it's wasted over a certain level.  
After that it's more about intuition.*

**STANLEY DRUCKENMILLER**

CHAIRMAN OF DUQUESNE CAPITAL MANAGEMENT LLC

**STATEMENT OF FINANCIAL POSITION  
AT 31 DECEMBER 2010**

	Notes	2010 Rm	2009 Rm
<b>ASSETS</b>			
<b>Current assets</b>		<b>1 967.7</b>	1 800.9
Investments	3	1 474.5	1 200.9
Income receivables and unsettled sales	4	24.5	35.3
Taxation receivable		0.1	-
Cash and deposits		468.6	564.7
<b>Total assets</b>		<b>1 967.7</b>	1 800.9
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>		<b>35.7</b>	31.5
Ordinary share capital	5	0.1	0.1
Accumulated profits		35.6	31.4
<b>Non-current liabilities</b>		<b>1 093.1</b>	1 044.7
Unsecured debentures	6	1 081.6	1 037.5
Deferred taxation	7	11.5	7.2
<b>Current liabilities</b>		<b>838.9</b>	724.7
Accounts payable		2.7	2.3
Taxation		-	1.3
Short investment positions	3	753.9	647.8
Unsettled purchases		2.9	9.2
Debenture interest payable	8	79.4	64.1
<b>Total liabilities</b>		<b>1 932.0</b>	1 769.4
<b>Total equity and liabilities</b>		<b>1 967.7</b>	1 800.9
		<b>Cents</b>	Cents
<b>Net attributable asset value per debenture (cum interest)</b>		<b>787.3</b>	757.1
<b>Net attributable asset value per debenture (ex interest)</b>		<b>733.4</b>	713.0
<b>Net attributable asset value per ordinary share</b>		<b>405.7</b>	358.0

**STATEMENT OF CHANGES IN  
SHAREHOLDERS' EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2010**

	Ordinary share capital	Accumulated profits	Total
	Rm	Rm	Rm
Balance at 31 December 2008	0.1	17.5	17.6
Profit for the year	-	13.9	13.9
<b>Balance at 31 December 2009</b>	<b>0.1</b>	<b>31.4</b>	<b>31.5</b>
Dividend paid	-	(8.8)	(8.8)
Profit for the year	-	13.0	13.0
<b>Balance at 31 December 2010</b>	<b>0.1</b>	<b>35.6</b>	<b>35.7</b>

**STATEMENT OF  
COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2010**

	Notes	2010	2009
		Rm	Rm
Investment income	9	93.9	122.8
Realised trading profits		43.8	23.2
Operating expenditure		(15.5)	(13.5)
<b>Net distributable profit</b>	10	<b>122.2</b>	<b>132.5</b>
Capital profits on sale of investments		26.5	8.3
Revaluation of investments		15.5	43.1
<b>Net portfolio income before debenture interest</b>		<b>164.2</b>	<b>183.9</b>
Debenture interest	8	(110.0)	(119.3)
Increase in carrying value of debentures	6	(30.2)	(40.8)
<b>Profit before taxation</b>		<b>24.0</b>	<b>23.8</b>
Taxation expense	11	(11.0)	(9.9)
<b>Profit attributable to ordinary shareholders</b>		<b>13.0</b>	<b>13.9</b>
		<b>Cents</b>	<b>Cents</b>
<b>Interest per debenture (weighted)</b>		<b>75.2</b>	<b>83.6</b>
<b>Earnings per debenture (weighted)</b>	12	<b>95.8</b>	<b>112.2</b>
<b>Earnings per ordinary share</b>	12	<b>147.7</b>	<b>158.0</b>

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2010**

	Notes	2010	2009
		Rm	Rm
<b>Cash flows from operating activities</b>			
Net cash inflow from trading activities	14	1.6	272.2
Interest paid		(94.7)	(135.1)
Dividends paid		(8.8)	(8.8)
Taxation paid		(8.1)	(7.0)
<i>Net cash (outflow) inflow from operating activities</i>		<b>(110.0)</b>	<b>130.1</b>
<b>Cash flows from financing activities</b>			
Net cash received from issue of debentures		13.9	46.0
Net change in cash and deposits		(96.1)	176.1
Cash and deposits at beginning of year		564.7	388.6
Cash and deposits at end of year		<b>468.6</b>	<b>564.7</b>

## **1. ADOPTION OF NEW AND REVISED STANDARDS**

The company adopts all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and have become effective in the reporting period. The company has not identified any new Standards or amendments to existing Standards during the current period that are applicable to its operations or could significantly affect the amounts reported in these financial statements.

At the date of authorisation of these financial statements, the following new or revised Standards applicable to the company were in issue, but not yet effective:

Standard	Annual period beginning on or after:
IAS 24 Related Party Disclosures	1 January 2011
IFRS 9 Financial Instruments	1 January 2013

## **2. SIGNIFICANT ACCOUNTING POLICIES**

### **Basis of preparation**

The annual financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). The preparation of the annual financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities, that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis by the directors. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

### **a) Financial assets**

Investments are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' ("FVTPL"), 'held-to-maturity' investments, 'available-for-sale ("AFS") financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets are derecognised by the company when:

- The contractual rights to the cash flows arising from the financial assets have expired or been forfeited; or
- It transfers the financial asset, including substantially all the risks and rewards of ownership of the asset; or
- It transfers the financial asset, neither retaining nor transferring substantially all the risks and rewards of ownership of the asset, but no longer retains control of the asset.

### **Financial assets at FVTPL**

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL. All investments are classified as financial assets at FVTPL. Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. Fair values of financial instruments are determined as set out in note 15.

### **Loans and receivables**

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. Cash and cash equivalents and trade receivables are carried at their nominal values, which approximate fair value.

### **Impairment of financial assets**

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each reporting date. Financial assets are impaired if there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated future cash flows of the investment have been impacted.

### **b) Financial liabilities and equity instruments issued by the company**

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. A financial liability is derecognised when the liability is extinguished, that is, when the obligation specified in the contract is discharged, cancelled or expired.

#### **Equity instruments**

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

#### **Financial liabilities**

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'. Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

The listed, unsecured debentures, which are repayable on dissolution of the company and earn interest at rates linked to the company's profitability, are designated as at FVTPL. Fair value is determined in accordance with the provisions of the Debenture Trust Deed. The fair value is calculated as the net attributable asset value of the debentures. Gains and losses from changes in fair value are included in profit or loss for the period. Short investment positions are designated as at FVTPL. Manufactured interest and dividends payable on short investment positions are capitalised to the cost of the position. Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

### **c) Derivative financial instruments**

Derivative financial instruments are initially measured at fair value on the contract date, and are remeasured to fair value at subsequent reporting dates. Derivative contracts are disclosed as assets when amounts are receivable and as liabilities when amounts are payable. Listed derivative instruments are marked-to-market daily.

### **d) Revenue recognition**

Dividend revenue from investments is recognised when the company's right to receive payment has been established. Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

### **e) Borrowing costs**

Interest paid is recognised on a time proportion basis taking account of the principal outstanding and the effective interest rate applicable. The minimum debenture interest determined in accordance with the Debenture Trust Deed is charged to the statement of comprehensive income in the period to which it relates.

### **f) Cash and cash equivalents**

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand and deposits held on call with banks, net of bank overdrafts.

### **g) Segments**

The company has one principal operating segment and accordingly additional segmental disclosures have not been made.

### **h) Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax. Current tax payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date. Deferred taxation is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

The company is not registered for value-added-taxation (VAT) and therefore expenses recorded in the income statement are inclusive of VAT, where applicable.

**NOTES TO THE FINANCIAL  
STATEMENTS  
(CONTINUED)**

**3. INVESTMENTS AND SHORT INVESTMENT POSITIONS**

Investments and short investment positions include the following significant exposures:

	2010	2009	2010	2009
	Number	Number	Rm	Rm
<b>JSE listed securities - at fair value</b>				
Redefine Properties	8 000 000	9 685 880	63.9	69.3
The Foschini Group	600 000	800 000	54.0	48.4
Steinhoff International Holdings	2 175 000	520 000	53.3	10.8
Remgro	400 000	250 000	45.2	22.3
British American Tobacco	160 000	160 000	41.1	38.7
Bidvest	260 294	220 000	40.8	28.4
Discovery Holdings	1 000 000	500 000	39.4	16.0
Astral Foods	300 000	367 500	38.6	37.5
<b>Listed on foreign exchanges - at fair value</b>				
Edcon Bond 15.06.2014	10 000 000	10 000 000	75.3	68.0
Edcon Bond 15.06.2015	10 000 000	10 000 000	74.3	54.7
Anglo American PLC	190 000	-	65.2	-
Capital Shopping Centres Group PLC	1 300 000	-	55.3	-
Fosters Group	1 250 000	-	47.8	-
QBE Insurance Group	300 000	-	36.7	-
General Electric	300 000	100 000	36.1	11.2
<b>Collective investment schemes - at fair value</b>				
Foord International Trust	1 158 926	1 566 034	212.6	292.1
<b>BESA listed securities - at fair value</b>				
RSA 7.50% 15.01.2014 (R206)	(200 000 000)	(200 000 000)	(203.8)	(192.9)
RSA 10.5% 21.12.2026 (R186)	(170 000 000)	(50 000 000)	(203.6)	(56.6)
RSA 8.00% 21.12.2018 (R204)	(100 000 000)	(100 000 000)	(100.1)	(94.1)
RSA 8.75% 21.12.2014 (R201)	(60 000 000)	(180 000 000)	(63.5)	(182.8)
BEER01 9.935% 19.07.2012	50 000 000	50 000 000	54.5	52.5
<b>Unlisted securities</b>				
Infiniti Holdings (Pty) Ltd - at fair value	69	69	18.5	12.5
Loans and receivables - at amortised cost			24.6	21.4

At year-end the company had the following open derivative exposures:

<b>Listed</b>			
- Equity derivatives		210.4	276.8
- Property derivatives		-	3.9
		<b>210.4</b>	<b>280.7</b>

The positions disclosed above individually exceed 5% of the non cash investment portfolio. A register of all investments is available for inspection at the registered office of the company at the prescribed fee.

**4. INCOME RECEIVABLES AND UNSETTLED SALES**

Accrued income	0.1	1.1
Unsettled security sales	24.4	34.2
	<b>24.5</b>	<b>35.3</b>

## 5. ORDINARY SHARE CAPITAL

	2010	2009
	Rm	Rm
<b>Authorised</b>		
15 000 000 ordinary shares of 1 cent each	0.2	0.2
500 000 000 participating preference shares of 1 cent each	5.0	5.0
50 000 000 convertible deferred preference shares of 1 cent each	0.5	0.5
	<b>5.7</b>	<b>5.7</b>
<b>Issued</b>		
8 800 070 ordinary shares of 1 cent each	0.1	0.1

## 6. UNSECURED DEBENTURES

The terms and conditions of the unsecured debentures are set out in the Debenture Trust Deed. The principal terms and conditions are as follows:

- a) Debenture interest amounts to at least ninety percent of the net income before taxation, excluding all capital profits and unrealised trading profits (described as “net distributable profit” in the statement of comprehensive income).
- b) Any surplus (deficit) remaining after deducting the amount of interest distributed for the year from total income available for debenture holders is credited (debited) to the carrying value of the debentures in order to determine their net attributable asset value and carrying value (refer accounting policy note 2(b) on page 19 of these annual financial statements). The net attributable asset value of the debentures is also adjusted by the proportionate share of the taxation charge relating to the debentures.
- c) The debentures are unsecured and are repayable on dissolution of the company or by special resolution of debenture holders. On repayment, the debenture holders are entitled to receive the audited net attributable asset value per debenture as at the date of liquidation or deregistration or such special resolution.
- d) The Debenture Trust Deed is available for inspection by debenture holders on the company’s website or at the registered office of the company.

	2010	2009
	Number	Number
<b>Number of issued debentures</b>		
Number of debentures at beginning of year	145 504 265	138 730 846
Issued on part settlement of debenture interest liability	1 971 073	6 773 419
Number of debentures at end of year	<b>147 475 338</b>	145 504 265
	Rm	Rm
<b>Unsecured debentures comprise</b>		
Debenture capital at issue price	1 000.5	986.6
Cumulative revaluation of debentures	81.1	50.9
Fair value of debentures	<b>1 081.6</b>	1 037.5
<b>Reconciliation of balance</b>		
Balance at beginning of year	1 037.5	950.7
Net proceeds on issue of debentures	13.9	46.0
Revaluation - current year	30.2	40.8
Balance at end of year	<b>1 081.6</b>	1 037.5
<b>Revaluation of debentures</b>		
Net portfolio income before debenture interest	164.2	183.9
90% allocation to debenture holders	147.8	165.5
Less: proportionate share of normal taxation charge	(7.6)	(5.4)
Less: interest distribution for year	(110.0)	(119.3)
Revaluation - current year	<b>30.2</b>	40.8

## 7. DEFERRED TAXATION

The following are the major deferred tax liabilities recognised by the company, and the movements thereon, during the current and previous reporting periods.

	Balance at beginning of year	Charge to profit for the year	Balance at end of year
	Rm	Rm	Rm
Profits on option contracts	0.1	-	0.1
Revaluation of investments	7.1	4.3	11.4
<b>Total liability</b>	<b>7.2</b>	<b>4.3</b>	<b>11.5</b>

## 8. DEBENTURE INTEREST

	2010	2009
	Rm	Rm
Interim payment: 21.0 cents (2009: 39.0 cents) per debenture	30.6	55.2
Final payment: 53.8 cents (2009: 44.0 cents) per debenture	79.4	64.1
	<b>110.0</b>	<b>119.3</b>

Debenture interest determined in accordance with the Debenture Trust Deed is calculated as follows:

Net distributable profit per statement of comprehensive income	122.2	132.5
90% distribution to debenture holders	110.0	119.3

## 9. INVESTMENT INCOME

Dividends	24.9	35.1
Interest	69.0	87.7
	<b>93.9</b>	<b>122.8</b>

## 10. NET DISTRIBUTABLE PROFIT

Net distributable profit is stated after charging:

Auditors' remuneration		
- current year	0.2	0.2
Administration fees (refer note 18)	0.1	0.1
Interest expense	0.6	-
Investment management fees (refer note 18)	9.7	8.4
Scrip borrowing fees	3.9	3.6

### Directors' service contracts

There are no contracts with directors of the company with a notice period greater than one year, nor compensation on termination greater than one year's emoluments.



## 11. TAXATION

	2010	2009
	Rm	Rm
<b>Taxation comprises:</b>		
Current tax expense - current year	6.7	4.8
Deferred taxation charge - current year	4.3	5.1
<b>Net charge to statement of comprehensive income</b>	<b>11.0</b>	<b>9.9</b>

The total charge for the year is reconciled to the accounting profit as follows:

	2010		2009	
	Rm	%	Rm	%
Profit before taxation	24.0		23.8	
Tax at the standard tax rate of 28%	6.7	28.0	6.7	28.0
<b>Adjusted for the tax effects of:</b>				
- Income not subject to taxation	(5.8)	(24.2)	(9.8)	(41.2)
- Expenses that are not deductible in determining taxable profit	5.4	22.1	9.0	3.8
- Difference in tax base and accounting book value	-	-	0.7	2.8
- Revaluation of debentures	8.4	35.0	11.4	(34.0)
- Non-taxable portion of realised and unrealised net capital gains	(3.7)	(15.4)	(8.1)	48.0
<b>Tax expense and effective tax rate for the year</b>	<b>11.0</b>	<b>45.5</b>	<b>9.9</b>	<b>41.6</b>
<b>Tax on dividends credits</b>				
Credits available to reduce future tax on dividends liability	144.5		132.7	

## 12. EARNINGS PER SHARE AND EARNINGS PER DEBENTURE

Earnings per ordinary share and debenture holders' earnings per debenture are calculated as follows:

	2010	2009
	Rm	Rm
<b>Earnings per ordinary share</b>		
Earnings (R'm)	13.0	13.9
Weighted average number of shares	8 800 070	8 800 070
Earnings per ordinary share (cents)	147.7	158.0
<b>Debenture holders' earnings per debenture</b>		
Earnings attributable to debenture holders (R'm)	140.2	160.1
Weighted average number of debentures	146 291 597	142 661 438
Earnings per debenture (cents)	95.8	112.2

## 13. DIVIDENDS PER SHARE

Dividends per share are calculated as follows:

	2010	2009
	Rm	Rm
Dividends (R'm)	8.8	-
Weighted average number of shares	8 800 070	8 800 070
Dividends per share (cents)	100.0	-



**JSE EQUITIES**

<b>Change in portfolio equities</b>	<b>-20.0%</b>	<b>-10.0%</b>	<b>-5.0%</b>	<b>0.0%</b>	<b>5.0%</b>	<b>10.0%</b>	<b>20.0%</b>
Resultant equity change *	-127 268	-68 513	-36 231	-	41 504	88 367	193 221
Resultant portfolio value *	1 040 329	1 099 084	1 131 366	1 167 597	1 209 101	1 255 964	1 360 818
Resultant portfolio change (%)	-10.9%	-5.9%	-3.1%	0.0%	3.6%	7.6%	16.5%

**FOREIGN ASSETS**

<b>Move in R/\$ exchange rate</b>	<b>-20.0%</b>	<b>-10.0%</b>	<b>-5.0%</b>	<b>0.0%</b>	<b>5.0%</b>	<b>10.0%</b>	<b>20.0%</b>
<b>R/\$ Exchange rate</b>	<b>7.9426</b>	<b>7.2807</b>	<b>6.9497</b>	<b>6.6188</b>	<b>6.2879</b>	<b>5.9569</b>	<b>5.2950</b>
Resultant for. assets change *	129 473	64 736	32 368	-	-32 368	-64 738	-129 473
Resultant portfolio value *	1 297 070	1 232 333	1 199 965	1 167 597	1 135 229	1 102 859	1 038 124
Resultant portfolio change (%)	11.1%	5.5%	2.8%	0.0%	-2.8%	-5.5%	-11.1%

**JSE PROPERTY**

<b>Change in portfolio property</b>	<b>-20.0%</b>	<b>-10.0%</b>	<b>-5.0%</b>	<b>0.0%</b>	<b>5.0%</b>	<b>10.0%</b>	<b>20.0%</b>
Resultant property change *	-15 291	-7 646	-3 823	-	3 823	7 646	15 291
Resultant portfolio value *	1 152 306	1 159 951	1 163 774	1 167 597	1 171 420	1 175 243	1 182 888
Resultant portfolio change (%)	-1.3%	-0.7%	-0.3%	0.0%	0.3%	0.7%	1.3%

**SA BONDS**

<b>Change in yields</b>	<b>-3.0%</b>	<b>-2.0%</b>	<b>-1.0%</b>	<b>0.0%</b>	<b>1.0%</b>	<b>2.0%</b>	<b>3.0%</b>
Resultant fixed income change *	-100 460	-63 590	-30 244	-	27 509	52 599	75 545
Resultant portfolio value *	1 067 137	1 104 007	1 137 353	1 167 597	1 195 106	1 220 196	1 243 142
Resultant portfolio change (%)	-8.6%	-5.4%	-2.6%	0.0%	2.4%	4.5%	6.5%

\* in R'000 Indication only

The sensitivity table presented assumes immediate changes in the variables presented using information as at 31 December 2010. It incorporates the full effective exposures to the respective asset classes including the effects of option contract exposures calculated using deltas applicable at year-end.

**Liquidity risk management**

The company manages liquidity risk within the investment portfolio by monitoring forecast cash flows and through active cash management. The company's unsecured debentures are redeemable on dissolution of the company or by special resolution of debenture holders and are linked to the value of the investment portfolio. Accordingly the company faces no liquidity risk relating to the early redemption of the debentures. Short investment positions disclosed as current liabilities may be recalled by the lenders on demand. The remaining liabilities will be settled within the next twelve months at the carrying value disclosed in the statement of financial position.

**Credit risk**

Credit risk represents the financial risk to the company as a result of default by the counterparty, which is the failure of the counterparty to comply with its obligation to service outstanding debt. Potential concentrations of credit risk are in respect of the unlisted loan receivable included in the investments, trade receivables, short-term deposits and cash. At the end of the reporting period, the directors did not consider there to be any concentration of credit risk that had not been adequately provided for. The company's cash equivalents and short-term deposits are placed with reputable financial institutions.

*It's not certain that everything's uncertain*

**BLAISE PASCAL, PENSÉES**

**NOTES TO THE FINANCIAL  
STATEMENTS  
(CONTINUED)**

The company's exposure to credit risk at the reporting date is as follows:

	2010	2009
	Rm	Rm
Loans and receivables	24.6	21.4
Trade receivables and unsettled sales	24.5	35.3
Cash on weekly fixed deposit	42.5	55.0
Cash collateral	378.1	235.9
Negotiable certificates of deposit	-	52.2
Margin deposit	26.4	19.0
Bank deposits	20.4	202.6

**Fair value of financial instruments**

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments;
- the fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of option pricing models.
- The fair value of the unsecured debentures is calculated in accordance with accounting policy note 2 (b) and as set out in note 6 on page 21.

**Fair value measurements recognised in the statement of financial position**

The following table provides an analysis of financial instruments as at 31 December 2010 that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3	Total
	Rm	Rm	Rm	Rm
<b>Financial assets at FVTPL</b>				
Held for trading	1 431.4	-	18.5	1 449.9
<b>Financial liabilities at FVTPL</b>				
Held for trading	753.9	-	-	753.9
Designated as at FVTPL:				
non-current	-	1 081.6	-	1 081.6
current	-	79.4	-	79.4
<b>Total</b>	<b>753.9</b>	<b>1 161.0</b>	<b>-</b>	<b>1 914.9</b>

There were no transfers between levels during the current period.

## 16. BORROWING POWERS

In terms of the Articles of Association, the aggregate borrowings of the company and its subsidiaries are not to exceed 80% of the directors' valuation of the consolidated investment portfolio. Borrowings for this purpose exclude the unsecured debentures. The total borrowing capacity of the company at year end is R968.6 million (2009: R915.2 million) of which approximately R214.6 million (2009: R267.4 million) is unutilised.

## 17. ASSETS PLEDGED AS SECURITY

The company maintains a prime brokerage arrangement with Deutsche Bank Limited. The assets of the trading portfolio are pledged as security against any loans of cash or securities to the company by Deutsche Bank Limited. At year-end, assets of R745.6 million were pledged as security against borrowings of R387.7 million (2009: assets pledged of R619 million and borrowings of R363.5 million).

The company had also borrowed securities valued at R363.5 million and pledged shares and cash to the value of R387.4 million at year end with independent counterparties.

## 18. RELATED PARTY TRANSACTIONS

The company's ultimate holding company is Baruch Mach 1 Limited. Foord Asset Management (Pty) Ltd, which manages the investments of Foord Compass Limited in terms of an arm's length portfolio management agreement, is associated with Baruch Mach 1 Limited.

The investment management fee paid by Foord Compass Limited to Foord Asset Management (Pty) Ltd for these services is 1% plus VAT per annum on the fair value of the portfolio. The fee is calculated and paid quarterly. It is not charged on any portion of the portfolio which is invested in the Foord International Trust. The investment management fee for 2010 amounts to R9.7 million (2009: R8.4 million). No performance fee accrued for the financial year (2009: nil). Foord Asset Management (Pty) Ltd also receives a monthly accounting and secretarial administration fee of R7 500 before VAT. The amount owing by the company to Foord Asset Management (Pty) Ltd at 31 December 2010 was R2.7 million (2009: R2.3 million).

Assets invested in the Foord International Trust attract a 1.35% basic fee which is levied and accrued within the Foord International Trust portfolio and paid over to Foord Asset Management (Guernsey) Limited, which is associated with Foord Compass Limited.

Foord Compass Limited is related to Infiniti Holdings (Pty) Ltd through the directorship of D Foord. With the exception of interest earned over the year on the subordinated loan advanced to Infiniti Holdings (Pty) Ltd and a partial repayment of the loan, there were no transactions with Infiniti Holdings (Pty) Ltd during the year.

Details of directors' remuneration are set out in the directors' report.

*There are times when the burden of taking other people's money forces you to be active when you don't really have conviction. It gives you a sense of pressure and expectation.  
When it's your own money you don't have to do anything.*

## **TONY JAMES**

**PRESIDENT OF BLACKSTONE, COMMENTING ON STANLEY DRUCKENMILLER'S DECISION  
TO WIND UP HIS HEDGE FUND. AS REPORTED IN THE FINANCIAL TIMES.**





## **COMPANY INFORMATION**

**Company name:** Foord Compass Limited **Company registration number:** 1987/003591/06

**Registered address:** 7 Forest Mews, Forest Drive, Pinelands, 7405

**Postal address:** PO Box 135, Howard Place, 7450

**Contact numbers:** Tel: +27 21 532 6988 Fax: +27 21 532 6999

**Website:** [www.foordcompass.co.za](http://www.foordcompass.co.za) **Email:** [info@foord.co.za](mailto:info@foord.co.za)

**Auditors:** Deloitte & Touche **Bankers:** Nedbank Limited **Transfer secretaries:** Computershare Investor Services (Pty) Ltd

**Sponsor:** Barnard Jacobs Mellet Corporate Finance (Pty) Ltd **Debenture trustee:** John Levin

**Investment managers:** Foord Asset Management (Pty) Ltd



*I can calculate the motions of heavenly bodies, but not the madness of people.*

**SIR ISAAC NEWTON**

