

# FOORD COMPASS LIMITED

JSE code: FCPD • ISIN: ZAE000054466 • Reg Number: 1987/003591/06

- Record high interest distribution of 93.6c
  - Interest payment up 18% per debenture
  - Net attributable asset value 743c per debenture
- Total Return:**
- 2008: 6.3% • Five Years: 20.7% p.a



## CONDENSED BALANCE SHEET at 31 December 2008

	Notes	Reviewed 2008 R'm	Audited 2007 R'm
<b>ASSETS</b>			
<b>Current assets</b>		<b>1 639.7</b>	<b>1 333.7</b>
Investments	2	1 224.8	715.1
Income receivables and unsettled sales		26.3	414.8
Cash and cash equivalents		388.6	203.8
<b>Total assets</b>		<b>1 639.7</b>	<b>1 333.7</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>		<b>17.6</b>	<b>13.6</b>
Ordinary share capital		0.1	0.1
Accumulated profits		17.5	13.5
<b>Non-current liabilities</b>		<b>952.8</b>	<b>1 014.5</b>
Unsecured debentures	3	950.7	998.7
Deferred taxation		2.1	15.8
<b>Current liabilities</b>		<b>669.3</b>	<b>305.6</b>
Accounts payable		2.1	1.9
Taxation		3.5	1.3
Short investment positions	2	579.0	242.9
Unsettled purchases		4.8	0.2
Debenture interest payable		79.9	59.3
<b>Total equity and liabilities</b>		<b>1 639.7</b>	<b>1 333.7</b>
Debentures in issue		138 730 846	136 245 025
Ordinary shares in issue		8 800 070	8 800 070
		Cents	Cents
<b>Net attributable asset value per debenture (cum interest)</b>		<b>742.9</b>	<b>776.6</b>
<b>Net attributable asset value per debenture (ex interest)</b>		<b>685.3</b>	<b>733.1</b>
<b>Net attributable asset value per ordinary share</b>		<b>200.0</b>	<b>152.8</b>

## CONDENSED INCOME STATEMENT

	Notes	Reviewed 2008 R'm	Audited 2007 R'm
Investment income		129.4	72.6
Realised trading profits		26.6	33.9
Operating expenditure		(11.9)	(9.6)
<b>Net distributable profit</b>		<b>144.1</b>	<b>96.9</b>
Capital profits on sale of investments		13.1	33.4
Revaluation of investments		(98.8)	(123.2)
<b>Net portfolio income before debenture interest</b>		<b>58.4</b>	<b>7.1</b>
Debenture interest		(129.8)	(87.2)
Revaluation of debentures	3	66.5	80.1
Loss before taxation		(4.9)	-
Taxation credit	4	8.9	1.1
<b>Profit for the year</b>		<b>4.0</b>	<b>1.1</b>
Weighted average number of debentures in issue		138 404 567	101 912 669
		Cents	Cents
<b>Interest per debenture (weighted)</b>		<b>93.8</b>	<b>85.6</b>
<b>Earnings per debenture</b>		<b>45.7</b>	<b>7.0</b>
<b>Earnings per ordinary share</b>		<b>45.5</b>	<b>12.0</b>

## CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Ordinary share capital	Accumulated profits	Total
	R'm	R'm	R'm
<b>Balance at 31 December 2006 (audited)</b>	<b>0.1</b>	<b>22.5</b>	<b>22.6</b>
Dividends	-	(10.1)	(10.1)
Profit for the year	-	1.1	1.1
<b>Balance at 31 December 2007 (audited)</b>	<b>0.1</b>	<b>13.5</b>	<b>13.6</b>
<b>Profit for the year</b>	<b>-</b>	<b>4.0</b>	<b>4.0</b>
<b>Balance at 31 December 2008 (reviewed)</b>	<b>0.1</b>	<b>17.5</b>	<b>17.6</b>

## CONDENSED CASH FLOW STATEMENT

	Reviewed 2008 R'm	Audited 2007 R'm
<b>Net cash inflow (outflow) from investing activities</b>	<b>278.1</b>	<b>(256.0)</b>
<b>Dividends, interest and taxation paid</b>	<b>(111.8)</b>	<b>(83.6)</b>
<b>Net cash received from issue of debentures</b>	<b>18.5</b>	<b>494.3</b>
Net change in cash resources	184.8	154.7
Cash resources at beginning of year	203.8	49.1
Cash resources at end of year	388.6	203.8

These results have been reviewed by our auditors, Deloitte & Touche, whose unmodified review opinion is available for inspection at the registered office of the company.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 1. Basis of preparation and significant accounting policies

The condensed financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards and in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting*.

The condensed financial statements have been prepared under the historical cost convention, except for the revaluation of financial instruments. The same accounting policies, presentation and methods of computation are followed in these condensed financial statements as were applied in the preparation of the company's financial statements for the year ended 31 December 2007.

### 2. Investments

Investments comprise listed and unlisted securities managed to achieve a total return which over the long-term exceeds the investment objective. In managing the investment portfolio, securities may be held for trading within twelve months or may be realised over longer periods as deemed appropriate by the manager.

### 3. Unsecured debentures

	Reviewed 2008 R'm	Audited 2007 R'm
<b>Unsecured debentures comprise</b>		
Debenture capital at issue price	940.6	922.1
Cumulative revaluation of debentures	10.1	76.6
<b>Fair value of debentures</b>	<b>950.7</b>	<b>998.7</b>
<b>Reconciliation of balance</b>		
Balance at beginning of year	998.7	584.5
Net proceeds on issue of debentures	18.5	494.3
Revaluation - current year	(66.5)	(80.1)
<b>Balance at end of year</b>	<b>950.7</b>	<b>998.7</b>
<b>Revaluation of debentures</b>		
Net portfolio income before debenture interest	58.4	7.1
90% allocation to debenture holders	52.6	6.4
Plus: proportionate share of taxation credit	10.7	0.7
Less: interest distribution for year	(129.8)	(87.2)
Revaluation - current year	(66.5)	(80.1)

### 4. Taxation credit

	Reviewed 2008 R'm	Audited 2007 R'm
Current taxation charge - current year	4.8	1.3
Deferred taxation credit - current year	(13.7)	(2.4)
<b>Net credit to income statement</b>	<b>(8.9)</b>	<b>(1.1)</b>

The deferred taxation credit arose as a result of the negative revaluation of investments over the year. The debenture share of the net taxation credit which amounts to R10.7 million (2007: R0.7million) has been credited to the carrying value of the debentures as set out in note 3 above.

## RESULTS FOR THE YEAR ENDED 31 DECEMBER 2008

The directors are pleased to announce a final interest distribution for the six months ended 31 December 2008 of 57.6 cents per debenture - an increase of 32% over the corresponding distribution in 2007. This brings the total interest distribution for 2008 to 93.6 cents per debenture - an increase of 18% over the 79.5 cents paid out in 2007. The 2008 interest payment is a record high distribution for the company.

Due to the issue of new debentures during the year, on a weighted average basis interest per debenture amounts to 93.8 cents (2007: 85.6 cents).

Net distributable profit for the year increased nearly 50% to R144.1 million (2007: R96.9 million). This increase was driven by a trebling in dividends received due to some significant unbundling distributions (Wesco, Remgro). Realised trading profits decreased to R26.6 million (2007: R33.9 million) due to reduced market opportunities in the course of the year. Similarly, realised capital profits were lower. The mark-to-market revaluation of investments held at the year end was less than in 2007, but was still a negative value which reduced the net asset value.

The Net Attributable Asset Value (NAAV), ex interest, per debenture declined to 685.3 cents (2007: 733.1 cents).

The returns to debenture holders for the years to 31 December 2008 are shown in the table below:

	5 years to 31 Dec 2008 (% per annum)	3 years	1 year
Income	13.6%	12.2%	12.8%
Capital	7.1%	-0.1%	-6.5%
<b>Total return *</b>	<b>20.7%</b>	<b>12.1%</b>	<b>6.3%</b>
<b>Benchmark (CPI + 10% p.a.)**</b>	<b>16.1%</b>	<b>18.5%</b>	<b>21.8%</b>

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

\*\* Lagged one month

Two consecutive years of single digit returns for debenture holders have reduced the 3-year return to 12.1% p.a., which is below the long-term investment objective of CPI + 10%. The 5-year return of 20.7% p.a. remains ahead of the benchmark.

The effective asset structure of the investment portfolio at 31 December is as follows:

	2008	2007		
	Domestic	Foreign	Total	Total
Equities	39%	23%	62%	51%
Listed property	6%	0%	6%	4%
Government bonds	-50%	0%	-50%	-12%
Corporate debt	5%	10%	15%	0%
Commodities	0%	2%	2%	0%
Cash and money market instruments	57%	8%	65%	57%
	<b>57%</b>	<b>43%</b>	<b>100%</b>	<b>100%</b>

The portfolio remains conservatively positioned across all asset classes, with cash and near-term money market instruments making up 65% of the asset base. Foreign asset exposure was increased to 43% from an average 35% in 2007. Domestic equity exposure was reduced, while foreign equities were increased. The "short" government bond position has been increased while corporate debt has been introduced.

## COMMENT

2008 will be remembered as one of the most volatile and challenging years in investment history, both globally and locally. Share markets worldwide recorded some of their biggest one-year losses in history. Property prices declined. Commodity prices were smashed downwards. Interest rates were cut, especially latterly, and government bond yields declined, leaving this asset class as the only one to deliver positive returns for the year as a whole. Corporate bond spreads, conversely, widened hugely. The rand also depreciated 28% against the US dollar. In short, there was ample opportunity to make significant losses in 2008, while profit opportunities were very limited.

The speed and size of the asset price declines were most remarkable as investors latterly came to realise the full implications of the credit and liquidity crises, the onset of a global recession and potential deflation.

Under these extremely negative circumstances, your investment portfolio has performed exceptionally well to record a positive total return of 6.3% for the year and deliver an increase in the final interest distribution of 32%, while limiting the capital decline to 6.5%.

Strategic asset allocation was, once again, the major contributor to the positive outcome. Equity losses were limited due to a reduced average weighting of this asset class during the year. The foreign asset allocation contributed positively. Higher cash holdings benefited from higher interest rates. Dividend payouts generally increased and advantage was taken of some extraordinary distributions in specie. The short bond position was positive in the first half of the year, but made a negative contribution in the second half.

## OUTLOOK

The future is, perhaps, more uncertain than it has been for a long time. This implies that risk management and capital preservation remain the most important focus areas for the portfolio manager. The current conservative asset allocation reflects this focus in order to cope with the uncertain future.

We anticipate that there will be some great investment opportunities in 2009 as global economic conditions should stabilise and then normalise. We look forward to the end of recessionary times and the avoidance of a long deflationary cycle. We forecast some economic growth for South Africa, albeit below capacity. Inflation should continue to trend downwards for some time which should be positive for interest rates and subsequent economic growth in South Africa.

Under these circumstances, we look forward to an investment return which exceeds the investment objective. Further commentary and detail will be made available in the annual report which is expected to be published in March 2009.

## INTEREST PAYMENT AND ELECTION

Notice is hereby given that a debenture interest payment (number 43) of 57.561 cents per debenture in respect of the six months ended 31 December 2008 is payable to debenture holders recorded in the debenture register of the company on the record date. In compliance with the Listings Requirements of the JSE, the following dates are applicable:

Last date to trade	Friday, 6 February 2009
Debentures trade ex-interest	Monday, 9 February 2009
Record date	Friday, 13 February 2009
Payment date	Monday, 16 February 2009

## IMPORTANT: ELECTION TO RECEIVE DEBENTURES IN LIEU OF A CASH INTEREST PAYMENT

The board has resolved that **debenture holders recorded in the debenture register at the close of business on the record date may elect to receive new fully paid Foord Compass Limited Variable Rate debentures in lieu of a cash interest payment ("the debentures")**. The motivation for this decision is to retain cash and build capital for debenture holders. The tax implications of the settlement of the debenture interest payment by the issue of debentures or by the payment of cash should be the same. However, debenture holders are encouraged to consult their professional advisors should they be in any doubt as to the appropriate action to take.


Certificated debenture holders who wish to elect to receive debentures in respect of all or a part of their interest entitlement, must complete the Form of Election (mailed under separate cover) in accordance with the instructions therein and return such election form to the company's transfer secretaries to be received by no later than 12:00 on the record date, being Friday, 13 February 2009. Dematerialised debenture holders who wish to elect to receive debentures in respect of all or a part of their interest entitlement must, in terms of the agreement between themselves and their Central Securities Depository Participant ("CSDP") or broker, instruct their CSDP or broker accordingly.

**If the election to receive debentures is not made by dematerialised debenture holders by the cut-off time stipulated by their CSDP or broker, or by 12:00 on Friday, 13 February 2009 in the case of certificated debenture holders, debenture holders will be deemed to have elected to receive a cash interest payment.** As indicated above, the last day to trade in the company's debentures on the JSE to ensure that a purchaser appears as an owner on the record date will be Friday, 6 February 2009. The number of debentures to be issued ("the ratio") will be determined with reference to the ex-interest net attributable asset value per debenture as at 31 December 2008 of 685.3 cents. Accordingly, the ratio is 8.399 interest debentures for each 100 debentures held on the record date. Only rounded numbers of interest debentures will be issued based on conventional rounding principles. No fractions will be paid. The right to receive debentures may not be traded on the JSE.

Subject to JSE approval of the debenture election, application will be made to the JSE Limited for a listing of the maximum number of debentures to be issued with effect from the commencement of business on Tuesday, 17 February 2009. An adjustment to the number of debentures listed will be made on or about Monday, 16 February 2009 in accordance with the actual number of debentures issued having regard to the elections made.

Cheques and/or new debenture certificates will be posted by registered post to certificated debenture holders and the accounts updated and/or credited by CSDPs or brokers of dematerialised debenture holders on or about Monday, 16 February 2009.

Signed on behalf of the board

  
MO HODGES  
20 January 2009

  
D FOORD