

FOORD COMPASS LIMITED

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

FIVE YEAR RETURN TO DEBENTURE HOLDERS 13.2% PER ANNUM 2010 INTEREST YIELD OF 10.5% ON OPENING NAAV NET ATTRIBUTABLE ASSET VALUE 787C PER DEBENTURE

CONDENSED STATEMENT OF FINANCIAL POSITION at 31 December 2010

Notes	Reviewed 2010	Audited 2009
	Rm	Rm
ASSETS		
Current assets		
Investments	1 474.5	1 200.9
Income receivables and unsettled sales	24.5	35.3
Taxation receivable	0.1	-
Cash and deposits	468.6	564.7
Total assets	1 967.7	1 800.9
EQUITY AND LIABILITIES		
Capital and reserves		
Ordinary share capital	0.1	0.1
Accumulated profits	35.6	31.4
Non-current liabilities		
Unsecured debentures	1 093.1	1 044.7
Deferred taxation	1 081.6	1 037.5
	11.5	7.2
Current liabilities		
Accounts payable	838.9	724.7
Taxation	2.7	2.3
	-	1.3
Short investment positions	753.9	647.8
Unsettled purchases	2.9	9.2
Debenture interest payable	79.4	64.1
Total equity and liabilities	1 967.7	1 800.9
Number of debentures in issue	147 475 338	145 504 265
Number of ordinary shares in issue	8 800 070	8 800 070
	Cents	Cents
Net attributable asset value per debenture (cum interest)	787.3	757.1
Net attributable asset value per debenture (ex interest)	733.4	713.0
Net attributable asset value per ordinary share	405.7	358.0

CONDENSED STATEMENT OF COMPREHENSIVE INCOME

Notes	Reviewed 2010	Audited 2009
	Rm	Rm
Investment income	93.9	122.8
Realised trading profits	43.8	23.2
Operating expenditure	(15.5)	(13.5)
Net distributable profit	122.2	132.5
Capital profits on sale of investments	26.5	8.3
Revaluation of investments	15.5	43.1
Net portfolio income before debenture interest	164.2	183.9
Debenture interest	(110.0)	(119.3)
Increase in carrying value of debentures	(30.2)	(40.8)
Profit before taxation	24.0	23.8
Taxation expense	(11.0)	(9.9)
Profit attributable to ordinary shareholders	13.0	13.9
Weighted average number of debentures in issue	146 291 597	142 661 438
	Cents	Cents
Interest per debenture (weighted)	75.2	83.6
Earnings per debenture (weighted)	95.8	112.2
Earnings per ordinary share	147.7	158.0

CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Ordinary share capital	Accumulated profits	Total
	Rm	Rm	Rm
Balance at 31 December 2008 (audited)	0.1	17.5	17.6
Profit attributable to ordinary shareholders	-	13.9	13.9
Balance at 31 December 2009 (audited)	0.1	31.4	31.5
Dividend paid	-	(8.8)	(8.8)
Profit attributable to ordinary shareholders	-	13.0	13.0
Balance at 31 December 2010 (reviewed)	0.1	35.6	35.7

CONDENSED STATEMENT OF CASH FLOWS

	Reviewed 2010	Audited 2009
	Rm	Rm
Net cash inflow from operating activities	1.6	272.2
Interest, dividends and taxation paid	(111.6)	(142.1)
Net cash received from issue of debentures	13.9	46.0
Net change in cash and deposits	(96.1)	176.1
Cash resources at beginning of year	564.7	388.6
Cash resources at end of year	468.6	564.7

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 the AC 500 standards as issued by the Accounting Practices Board 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 2009.

2. Operating segments

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

3. Investments

Investments comprise both long and short positions in listed and unlisted securities. The investment objective is to achieve a total return of 10% per annum above the annual change in SA CPI on a rolling five-year basis. 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 investment manager.

4. Unsecured debentures

	Reviewed 2010	Audited 2009
	Rm	Rm
Unsecured debentures comprise		
Debenture capital at issue price	1 000.5	986.6
Cumulative revaluation of debentures	81.1	50.9
Fair value of debentures	1 081.6	1 037.5
Reconciliation of balance		
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	1 081.6	1 037.5
Increase in carrying value of debentures		
Net portfolio income before debenture interest	164.2	183.9
90% allocation to debenture holders	147.8	165.5
Less: proportionate share of taxation expense	(7.6)	(5.4)
Less: interest distribution for year	(110.0)	(119.3)
Revaluation - current year	30.2	40.8

5. Taxation expense

	Reviewed 2010	Audited 2009
	Rm	Rm
Taxation comprises:		
Current taxation charge - current year	6.7	4.8
Deferred taxation charge - current year	4.3	5.1
Net expense per statement of comprehensive income	11.0	9.9

Deferred taxation relates to the revaluation of investments. The share of the net taxation charge attributable to the unsecured debentures, which amounts to R7.6 million (2009: R5.4 million), has been deducted from the carrying value of the debentures as set out in note 4 above.

AUDITOR'S REVIEW OPINION

These results have been reviewed in terms of ISRE2410 by our auditors, Deloitte & Touche, whose unmodified review opinion is available for inspection at the registered office of the company.

RESULTS FOR THE YEAR ENDED 31 DECEMBER 2010

For the year ended 31 December 2010, debenture holders earned 13.4% on a net attributable asset value basis. The dominant component of return continues to be the income produced from the portfolio. The capital return has been subdued by the weak performance of markets in general, but especially over the last three years due to the financial crisis.

The investment returns earned for our debenture holders are tabulated below (in percent per annum), after taking into account operating expenses and capital gains taxation.

	1 year to 31 December 2010 (% per annum)	3 years	5 years
Income	10.5%	11.8%	11.9%
Capital	2.9%	0.1%	1.3%
Total Return*	13.4%	11.9%	13.2%
CPI+10% p.a.	13.5%	16.4%	16.8%

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

For the year ended 31 December 2010, the investment portfolio earned a total return of 16.5% against the investment objective of 13.5%. The second half of 2010 saw a significant improvement in performance, with the portfolio earning 14.0% for the six months to December, compared to the 2.2% earned in the first half of 2010.

Net distributable profit for the year amounted to R122.2 million, a decline of 8% from R132.5 million in 2009. The second half 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 fund 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 is 75.2 cents (2009: 83.6 cents) and the interest distribution for the second six months is 53.8 cents (2009: 44.0 cents), an increase of 22%. (see separate announcement)

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

PORTFOLIO STRUCTURE

The effective asset structure 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

The top 5 JSE listed investments by value comprise: Anglo American, Redefine Properties, Capital Shopping Centres, Foschini Group and Steinhoff.

There has been a further significant increase in the effective exposure to equities to 95% from 77%, especially after June 2010 when equity exposure was only at 62%. Both domestic and foreign equities have been increased, while the effective cash exposure has declined to 17% of portfolio from 34% in 2009. Listed property has been increased while the short position in government bonds remains. Investment in corporate debt and commodities has reduced slightly. The overall exposure to foreign assets stands at 53%, up from 46%.

The net asset value of the portfolio at year-end was R1,208 million (2009: R1,140 million).

COMMENT

2010 certainly turned out to be a tale of two halves - especially as far as global equity markets were concerned. All equity markets delivered negative returns in 1H 2010 and strong positive returns in 2H 2010, resulting in mostly positive returns for FY2010. As fears of a double dip recession receded and interest rates remained at record low levels, equity investors pushed stock-markets towards the peaks reached in 2007 - even after the strong recovery seen in 2009. The FTSE/JSE All Share Index returned 19% for the year and 33% in US dollars, as the rand appreciated 12% for the year and 16% in the second half alone. Emerging markets continued to attract large investment flows and outperformed developed markets with an average return of 19% versus 12% in US dollars. Global bond yields declined over the last twelve months, but there was a sharp rise in yields in the final quarter, as inflation fears emerged. The SA All Bond Index returned 15% for the year, while cash returned only 7% as interest rates declined. SA listed property had another good year and returned 30%.

Commodities in general had another positive year, with the precious metals complex being the lead performers.

Given the volatile return profile that prevailed during the year, the investment portfolio benefited from its diverse asset allocation which has been dynamically managed to cope with the ever-changing risk landscape.

For the year, the equity component contributed the major portion of the total return to debenture holders, as shown in the table below. The foreign asset component was well managed to produce an 8% return in rands, despite the 12% appreciation in the rand over the year.

The actual return from each asset class and their respective contributions to the total debenture return is as follows:

	Return	Contribution
Equities	36.0%	11.6%
Listed property	15.2%	1.6%
Bonds and cash	-3.9%	-2.7%
Foreign	8.2%	2.8%
Other	6.3%	0.1%

Total debenture return for year **13.4%**

On the income side, it was pleasing to see some SA companies resuming the payment of dividends, but the dividends paid on the FTSE/JSE All Share Index were still, on average, 15% lower in 2010 than in 2009. This, together with lower interest rates on lower average cash balances, explains why the total income received on the portfolio declined 24% in the year. This decline was compensated for by the 89% increase in trading profits, hence limiting the decline in the annual interest distribution to 8%, with the final distribution rising 22%. The effective income yield on the debentures for the year was an attractive 10.5%.

OUTLOOK

The short term outlook for equity markets appears positive as the 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 allocation to equities. We are mindful of the risk of loss if interest rates start rising earlier than expected and have the capacity to reduce equity exposure rapidly, if needed.

We believe that record budget deficits, growing government debt levels and emerging inflation will be negative for bond markets.

The investment portfolio is well diversified across a range of economic sectors, countries and currencies. The management of risk is key to the portfolio manager's success in the year ahead.

Signed on behalf of the board

MO Hodges

MO Hodges
19 January 2011

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FOORD COMPASS LIMITED

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Incorporated in the Republic of South Africa • “Compass” or “the company”

ANNOUNCEMENT

INTEREST DISTRIBUTION

Notice is hereby given that a debenture interest payment (number 47) of 53.846 cents per debenture in respect of the six months ended 31 December 2010 is payable to debenture holders recorded in the debenture register of the company on the record date. In compliance with the Listings Requirements, the following dates are applicable

Last date to trade	Friday, 4 February 2011
Debentures trade ex-interest	Monday, 7 February 2011
Record date	Friday, 11 February 2011
Payment date	Monday, 14 February 2011

Debentures may not be rematerialised or dematerialised between Monday, 7 February 2011 and Friday, 11 February 2011 both days inclusive.

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

As provided for in section 6.4 of the Debenture Trust Deed, 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, 11 February 2011. 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, 11 February 2011 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, 4 February 2011. 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 2010 of 733.4 cents. Accordingly, the ratio is 7.342 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 Monday, 14 February 2011. An adjustment to the number of debentures listed will be made on or about Tuesday, 15 February 2011 in accordance with the actual number of debentures issued having regard to the elections made.

Cheques and/or new debenture certificates will be posted to certificated debenture holders and the safe custody accounts updated and/or credited by CSDPs or brokers of dematerialised debenture holders on or about Monday, 14 February 2011.

Signed on behalf of the board



MO Hodges
19 January 2011



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