

## CORONATION 🐱 | Annual Report FUND MANAGERS | 2005



This year's report builds on the theme of showcasing the events, activities and achievements that best characterise Coronation Fund Managers in 2005.

CONTENTS			
CONTENTS		Page	
	At a glance	2	
	Board of directors	4	
	Highlights	5	
	Chairman's statement	6	
	Chief executive officer's review	10	
	Risk management and control	17	
	Corporate governance	19	
	Corporate structure	26	
	Financial statements	27	
	Shareholders' information		
	Analysis of shareholders	69	
	Notice to shareholders	71	
	Shareholders' diary	74	
	Corporate information	74	
	Form of proxy	75	
	Transformation at Coronation	Appendix	

		Our values
		Everyone is accountable
ASSETS UNDER MANAGEMENT	NUMBER OF STAFF	Know that without clients we have no business
R82 bn	140	Own the bottom line
		Be the best

## AT A GLANCE

#### **UNDILUTED FOCUS**

In 1993 Coronation Fund Managers revolutionised the traditional asset management business model in South Africa by creating a business that differed dramatically to the monolithic institutions of the time. The vision of this group of young entrepreneurs was quite simply to manage money. To focus solely on fund management, produce exceptional investment performance and develop innovative and appropriate products for their clients.

The business began with 15 people in Strand Street, Cape Town and a client base of zero. But it wasn't long before the reputation, determination and entrepreneurial flair of the Coronation team attracted the interest of some of the largest retirement funds in the country. During its initial years, the business focused on winning the collective attention of the institutional market, securing pension fund and provident fund clients as well as medical aid schemes and trusts.

In 1996 the decision was taken to package the team's investment skills and maximise the outstanding success achieved in the institutional market by launching a unit trust business, Coronation Management Company.

That same year, Coronation proactively sought a global solution for its clients through the creation of the international awardwinning Coronation Global Equity Alternative Strategy Fund, now one of the largest long/short equity funds in the world, and the establishment of the international fund of funds business based in Dublin and London.

Today, Coronation Fund Managers is one of the largest third-party asset management companies in South Africa.

Act with integrity and always be transparent and professional

Live the culture

No hierarchy – follow guidelines, not rules

Achieve with passion and energy

Work as a team – everyone's contribution is important

Always question and search for new ideas

#### **OUR MISSION**

Coronation Fund Managers is about a singular focus on fund management. We are a business with a strong culture of ownership and entrepreneurial flair, staffed with independent thinkers who share a passion and drive for excellence; excellence of investment performance, innovative products, client service, operations and marketing. Our vision is to be the best in all that we do.

#### **INVESTMENT PHILOSOPHY**

The defining characteristics of our investment philosophy are: our long-term time horizon, and commitment to proprietary research.

#### **ACHIEVEMENTS IN 2005**

- ▶ BEE partnership with Imvula Trust, comprising all current and future black staff.
- ► The return to the Culture of Ownership 25% staff-owned.
- Raging Bull Unit Trust Manager of the Year for the second time in three years.
- ▶ Number one in the Plexus Survey across all four quarters.
- ► 11 individual ACI/Personal Finance Raging Bull and Standard & Poor's/Financial Mail fund awards.
- Coronation Global Equity Alternative Strategy Fund awarded "best large global long/short fund of funds of the year" by InvestHedge Magazine.
- 2005 PWC Banking Survey The Best Provider of Retail Asset Management Services.
- Formation of Coronation Fund Managers (Botswana) (Pty) Limited.

## BOARD OF DIRECTORS

#### GAVAN RYAN (chairman) (57) \* #

#### BCom, CTA, CA(SA), MBA

Gavan is an executive director of Coronation Investments and Trading Limited, the investment banking group formerly listed as Coronation Holdings Limited. He was a director of the Coronation Holdings Limited group from 1992, serving as chairman from 1993 to 2001. Prior to joining Coronation, Gavan had over 20 years experience in investment banking in South Africa.

#### THYS DU TOIT (chief executive officer) (46) \*

#### BSc, MBA

Thys is one of the founding members of Coronation Fund Managers and was appointed as chief executive officer in 1997. Prior to joining Coronation Fund Managers, he spent four years with Syfrets Managed Assets as a portfolio manager, and six years (three as a director) with George Huysamer & Partners (later bought out by ABN Amro) in the fields of capital and derivative markets, equity research and portfolio management.

#### WINSTON FLOQUET (director) (64) \* #

#### CA(SA), MBA

Winston is chairman of Flagship Private Asset Management (Pty) Limited, a position he has held for the past four years (2001 to present). Prior to this, he held the position of deputy chairman of Fleming Martin South Africa (now JP Morgan) for seven years (1995 to 2001) and the position of chief executive officer of Martin & Co Inc. for 10 years (1986 to 1995). He is also a former chairman of the Investment Analysts Society and a former member of the Accounting Practices Board.

#### ERIC MOLOBI (director) (59) \*\*

#### ΒA

Following his release from Robben Island, Eric worked for the Munich Re Insurance Company (SA) as an insurance underwriter and was subsequently recruited by the South African Council of Churches to set up a community development programme aimed at the disadvantaged youth of South Africa. In 1990, he joined Kagiso Charitable Trust as chief executive officer. He initiated the establishment of Kagiso Trust Investments (Pty) Limited and is currently responsible for its overall strategic direction as executive chairman.

#### TONY GIBSON (executive chairman, international) (49) \*\* BCom

Tony is a founder member of Coronation Fund Managers and was appointed as executive chairman of the international group of companies in 2004. Recognised as one of the leading portfolio managers in South Africa, Tony was Coronation's global chief investment officer from 1993 to 2004 and was instrumental in setting up the international operation in 1996. Prior to establishing Coronation, Tony spent seven years at UAL and eight years at Syfrets Managed Assets working in the areas of portfolio management and research.

#### SHAMS PATHER (director) (55) \*\*\*

#### BBusSc, BCom, MBA

Shams has 28 years experience in the asset management industry. From 1974 to 2002 he was with Norwich Union, Colonial Mutual Life Assurance, Southern Life and Real Africa Asset Management. Other directorships include Oceana Group Limited, Sunshine Street Investments 63 (Pty) Limited, The RARE Group (Pty) Limited, Lungisa Industrials (Pty) Limited, Lungisa Technologies (Pty) Limited, Lungisa Investment Holdings (Pty) Limited, as well as the UCT Joint Investment Council.

#### LOUIS STASSEN (director) (42) \*\*\*

#### BSc, BCom (Hons), CFA

Louis is a founder member and chief investment officer of Coronation Fund Managers. He has more than 16 years industry experience and has worked in the investment teams of Allan Gray, Syfrets Managed Assets and Standard Bank in London. Louis joined Coronation in 1993 and from 1999 to 2001 held the position of chief investment officer (South Africa). Until September 2004 he headed up the Absolute Investments Unit which he established in 1999, and became chief investment officer in January 2005.

- Member of the audit and risk committee \*\* Outgoing
- Member of the remuneration committee
- \*\*\* Incoming



Assets under management (R billion).

## HIGHLIGHTS

	2005		
	2005	2004	2003*
SHAREHOLDERS			
Shareholders' equity (Rm)	220	226	150
Headline earnings (Rm)	182	130	61
Annualised headline earnings per share (cents)	47,6	33,9	38,3
Weighted number of ordinary shares in issue (thousand)	382 275	382 275	382 275
Income before tax (Rm)	270	168	78
Return on shareholders' equity	85%	56%	41%
Net asset value per share (cents)	57,7	59,0	39,3
Dividend per share (cents)	1	25	12
Capital distribution per share (cents)			
– Special	24	_	_
– Proposed	36	_	_
MARKET INFORMATION FOR THE YEAR ENDED 30 SEPTEMBER 2005			
Volume of shares traded (million)	56,9	71,8	41,3
Value of shares traded (Rm)	250	253	138
Closing share price (cents)	550	350	282
Price/earnings ratio **	11,6	10,3	7,4
FINANCIAL SUMMARY			
Revenue	580	389	165
– Performance fees	224	107	41
– Management fees	313	263	108
– Other	43	19	16
Operating and interest expense	310	221	87
Cost to income ratio	53,4%	56,8%	52,8%
Annuity income as a percentage of operating income	54,0%	67,7%	65,9%
Contribution to headline earnings	,	- ,	
– South Africa	92,0%	84,3%	63,4%
- International	8,0%	15,7%	36,6%
CLIENTS			
Assets under management (Rbn)	82	64	54
Funds subject to performance fees (% of assets under management)			
- Institutional	62%	44%	47%
– Retail	35%	29%	25%
- International	69%	64%	83%
– Total	58%	44%	48%

\* Five months

\*\* Using annualised headline earnings per share (cents)



**GAVAN RYAN** 

### CHAIRMAN'S STATEMENT

he past year has been an excellent one for Coronation Fund Managers. We have delivered exceptional investment performance across all client portfolios and made significant progress in implementing our strategy of growing a sustainable and successful business in South Africa.

Strong domestic markets and exceptional investment performance together with significant net retail inflows increased total assets under management by some 28,7% from R63,7 billion at 30 September 2004 to R82 billion at 30 September 2005. The integrity of our investment philosophy and ability to produce alpha is consistently reflected in the returns of our institutional and unit trust portfolios. We strongly believe in the equitable treatment of all clients, where all Coronation client portfolios reflect the same "DNA" in their construction. An example of this consistency is seen in terms of our relative position in both the retail and institutional performance surveys. In the retail business we have dominated 1st and 2nd place for 20 consecutive quarters in the Plexus Survey to end September 2005, and are the Raging Bull Unit Trust Company of the Year; while in the Alexander Forbes SA Large Manager Watch for institutional fund managers we are in 2nd position over one and three years and 3rd over five years.

Number of years in existence.

13

In tune with the markets and the changing needs of our clients.

Strong earnings for the year resulted largely from strong domestic markets, superior investment performance and a high level of performance fees. In line with our dividend policy of paying out 75% of profits after tax, an equivalent capital distribution of 36 cents per share is proposed. As an alpha-generating house we view performance fees as the true acid test of our ability. While they can result in volatility of earnings we believe that this model firmly aligns our clients' interests with those of our own.

Coronation retains its singular focus on fund management, and over the past year we have concentrated our efforts on further strengthening our core competencies, profitability and better aligning the interests of clients, shareholders and staff.

#### THE RIGHT STRATEGY

The bases for success in a client-centric business such as ours are investment performance and people. Performance surveys and ranking tables confirm the consistent strength of our investment performance over the year, and the reintroduction of a significant staff shareholding across all levels of our business has returned Coronation to a culture of staff ownership. Our efforts have concentrated on those areas which we believe to be critical in building and maintaining a profitable business, with the ongoing review of our product offerings in relation to developments in the market and the opportunity to innovate, featuring strongly.

A significant event within the institutional business was the closure of the Absolute Investments Unit to new investors at the end of September 2005. This was the fulfilment of a promise made to investors at the time of launch, that upon reaching critical mass the unit would be closed to new investors. We see the development of our hedge fund franchise as an integral part of our business and continue to build on our almost three-year track record and growing product range.

We have enhanced our retail business to become more accessible to direct investors. While our third-party distribution relationships remain extremely important to us, being in a position to respond to the changing needs of the majority of investors is vital to our future success. Consequently, early in 2006 we will launch a range of Coronation retirement products and endowment plan which are transparent, flexible and cost-effective.

While South African investors have largely avoided investments in global markets in recent times we have continued to build a robust and credible international fund of funds business. Over the year we have identified some very exciting international product opportunities and remain focused on managing the international assets of both our South African institutional and retail clients.

We continue to benefit from our strategic partnership with Namibia Asset Management and are currently in the process of acquiring a significant shareholding in this business. In line with our intention to develop a presence in Africa, we opened Coronation Fund Managers (Botswana) (Pty) Limited in February 2005, and have already begun the process of implementing our proven enterprise development model of training and skills transfer.

Over the period we sold our 49% shareholding in Kagiso Asset Management (Pty) Limited and our 26% stake in FinSource Group Holdings (Pty) Limited.

#### TRANSFORMATION

We actively promote black economic empowerment and sustainable transformation within our business and understand its relevance to our future success. In August 2005 we attained an "A" EmpowerDEX rating and are delighted to have been the first financial services company to have implemented a

## "The passion and insight of our people has played a significant role in our success and will continue to do so into the future."

"staff only" empowerment transaction at ownership level. We continue to make good progress on employment equity and skills development, procurement, enterprise development and corporate social investment, all of which are detailed in our transformation strategy as an appendix to this report.

#### **OWNERSHIP**

Through the conclusion of our BEE deal with the Imvula Trust, and the sale to staff of a significant holding in Coronation by our major shareholder, Coronation Investments and Trading Limited, we have enhanced the long-term sustainability of the business.

#### **BEE** shareholding

On 1 April 2005, 10% of Coronation's business was sold to the Imvula Trust, the beneficiaries of which are all current (54 people) and future black staff of Coronation Fund Managers. The deal was concluded at the market price of 385 cents and was 100% externally financed by a third-party financier to the extent of R148 million.

#### Staff shareholding

William James, the American philosopher, said "the instinct of ownership is fundamental in man's nature". This is never more prevalent than in a human-capital intensive business such as asset management.

In two separate deals, Coronation Investments and Trading Limited sold 15% of its shareholding in Coronation to Coronation staff. The first transaction involved the sale of 10%, which was effected in February 2005, and a further sale of 5% in September 2005. As a result of these two transactions and the sale of 10% to the Imvula Trust, as at 30 September 2005, staff own 25% of Coronation Fund Managers.

The importance of staff ownership primarily stems from the need to align the interests of the shareholders and management (staff) of the business. It also has the added advantage of ensuring that staff foster and maintain a long-term focus (which we believe is in the best interests of our clients) – a far more attractive alternative to pure remuneration where shortterm focus can result in the incentivisation of short-term performance. The importance of an alignment of interests should not be underestimated – it changes the mindset and commitment of people. In addition it has and will continue to assist us in attracting and retaining highly motivated and talented staff – essential in building and maintaining a superior fund management business.

#### **CORPORATE GOVERNANCE**

Today's changing markets and heightened regulatory environment have produced new sets of challenges to investors and asset managers alike. We welcome the rising standards of corporate governance worldwide, and invite the more onerous disclosure requirements within South Africa and the industry. We operate in strict compliance with the King II report and watch with interest the change in international trends.

#### THE BOARD

I welcome to the board Louis Stassen, chief investment officer, as executive director; and Shams Pather who joins as an independent non-executive director. Shams has 28 years experience in the asset management industry and I look forward to his insight and contribution to the board.

On behalf of the board and the company I would like to thank outgoing directors, Eric Molobi and Tony Gibson. Eric has served as a non-executive director since the company's listing in June 2003 and has resigned due to a conflict of interest. I thank Eric for his perspective and objectivity over the years and wish him a speedy recovery to good health. Tony Gibson remains an integral part of the Coronation investment team, particularly on the international side. While he resigns from the board, his skills and experience remain a vital ingredient to the business. We thank Tony for his significant contribution to the board as well as his commitment to Coronation Fund Managers. The percentage of the company owned by staff.



A return to the culture of ownership.

#### **THE BRAND**

The Coronation brand started life in 1993 as part of the formerly listed Coronation Holdings. As a niche operation it was a brand built from the ground, actively targeting our selected markets and growing the business to become the second largest independent asset management company in the country. More than a decade later, we are now poised to take the brand to the next level with the launch of a new and exciting above-the-line advertising campaign which will break in early 2006.

Coronation is a brand which comprises many components, not least of which is our people. The passion and insight of our people has played a significant role in our success and will continue to do so into the future.

#### **PROSPECTS**

As we move into the 2006 financial year we will continue to explore the many opportunities presented by the market and remain focused on our core competencies of producing consistent superior investment performance, innovative products and exceptional client service.

The economic outlook of continued growth and government's intent on pension fund reform signals greater opportunities for Coronation Fund Managers to widen its sphere of influence and claim its share of a growing market.

#### ACKNOWLEDGEMENTS

I would like to thank all our staff for their incredible contributions throughout this most eventful year. In particular I wish to thank Thys du Toit as chief executive officer and Louis Stassen as chief investment officer for their strength of leadership, inspiration and driving passion for the business. I also thank our shareholders for their continued support and our clients and business partners for their ongoing belief in our ability to deliver investment excellence.

#### Gavan Ryan

Chairman



THYS DU TOIT

## CHIEF EXECUTIVE OFFICER'S REVIEW

oronation Fund Managers has once again confirmed its place as a leader in the South African investment management industry. Strong domestic markets, superior investment performance and a strategy firmly focused on growing a sustainable business combined to produce an impressive set of results for 2005.

For the 12 months to end September, the FTSE/JSE All Share Index returned a spectacular 47,8%, ably assisted by the resilience of the South African consumer in an environment of strong economic growth. Although the fixed income market ended the period on a rather subdued note, the All Bond Index still managed to produce a healthy return of 13,6%. Global markets showed satisfactory returns as reflected in the 19,5% return of the MSCI World Index (in US dollars), which translates to a rand return of 16,8% for the period. Empowerment credentials: "A" rating by independent empowerment rating and research company.

EMPOWERDEX





A night in full colour. An opportunity to entertain our clients and their partners.

#### 🐨 | INSTITUTIONAL

Institutional assets at 30 September 2005 exceed R61 billion, which represents growth of 24% from 2004. Clients include retirement funds, medical schemes, multi-manager organisations and charities, and in the past 12 months we have extended our client base to include domestic fund of hedge fund managers as well as empowerment trusts. Our exceptional investment performance coupled with a comprehensive product range has ensured that we continue to manage portfolios for all larger multi-manager organisations in South Africa.

Over the year we attracted 39 new client mandates, totalling R4,1 billion in new assets, and continued to increase our market share with the various multi-manager and linked product companies in South Africa.

#### The landscape

The South African retirement fund industry is currently undergoing much change. Initiated by National Treasury in December 2004 with the release of their first discussion paper on pension fund reform, the intention was to provide a holistic and comprehensive review of retirement fund policy in South Africa. Through its proposal of reform, government endeavours to create the environment where individuals are encouraged to adequately provide for their retirement and the needs of their dependants. Examples of this include the proposed provision of cost-efficient retirement funding vehicles that promote the retention of purchasing power of pensions through protection against the effects of inflation and the call for full disclosure of all fees. It also addresses the need for higher standards of investor education and fund governance amongst a number of other important components of investment strategy and shareholder activism. Further, it considers the applicability of Socially Responsible Investments (SRIs) and the extent to which these should be incorporated into a retirement fund's investment strategy as

well as the applicability of member investment choice within the South African environment. After significant response from various industry bodies we now await the second reform document which will also include retirement fund tax policy. The final output will impact the investment and regulatory environment in which all funds operate and are ultimately managed, and therefore we look forward to our continued involvement in formulating a retirement fund industry that is suited to our country's circumstances and socio-economic conditions.

Over the year the focus on empowerment credentials and the establishment of relevant sector charters was immense. The Financial Sector Charter (FSC) scorecard was released with the intention of being gazetted and legislated during the course of 2005. However, this process was hampered by controversy surrounding the inclusion of all relevant parties in the process, and discrepancies between the FSC guidelines and the Department of Trade and Industry (DTI) Codes of Good Practice. The Charter Council has been tasked with addressing these differences and it is hoped that more progress on the FSC will be achieved in 2006.

Empowerment credentials continue to play a crucial role in the appointment and retention of investment managers, and we are therefore pleased to have attained an "A" EmpowerDEX rating.

#### Investment performance

Once again strong financial markets have provided a solid backdrop for exceptional performance delivered across our entire product stream. For the year to 30 September 2005, our specialist equity portfolios continued to top the performance surveys, delivering an annualised outperformance of the markets of 5,4% since their inception five years ago. Also dominating the top-spot throughout the year was our flagship domestic balanced portfolios, ending in



2nd position in the Alexander Forbes SA Large Manager Watch over one year, and in 2nd and 3rd position over the longer-term three and five-year periods. The absolute return funds produced returns that were substantially ahead of their benchmarks. In particular, the Coronation Absolute Fund yielded a convincing outperformance of its benchmark (inflation + 7%) of 7,7% per annum since inception in August 1999.

#### Client-centric focus and product development

2005 has been a landmark year for Coronation, and throughout we have been humbled by the loyalty shown to us by our clients – for their support we are truly grateful and continue to strive for excellence. The Coronation model of also providing "non-investment" alpha (client service) has been entrenched over the past two years. We have built a strong team of investment professionals whose key role is to partner clients and consultants to devise appropriate investment strategies and solutions.

Significant inflows backed by exceptional performance, has resulted in our closing the Absolute Investments Unit to new clients as at 30 September 2005. This marks the keeping of a promise made to investors six years ago when we launched the first absolute product.

The profile of our domestic hedge fund business has increased and our product offering has grown through the

addition of the Coronation Granite Fixed Income Fund in August 2005 (previously Decillion) and the launch of the Coronation Presidio Fund on 1 October 2005. Our impressive risk-adjusted return on the Coronation Multi-Strategy Arbitrage Fund has placed Coronation on the radar screen and buy-lists of most domestic fund of hedge fund managers.

Part of our product development strategy is to combine our widely used and highly regarded skills of stock picking and asset allocation with our well tested risk management techniques (both derivative and quantitative). To this end we have launched the Coronation Capital Preserver Fund which satisfies the explicit need of many conservative retirement investors, providing capital preservation with upside market participation through the use of derivative skills developed over the last eight years.

Capitalising on the increased focus on SRIs, we launched the Coronation Siyakha Bond Fund (isiZulu for "we are building") which leverages off our existing skills base and opens up a new investment universe from which to demonstrate our skills in achieving investment excellence. Number of consecutive quarters in top two placings for consistency of unit trust performance in the Plexus Survey.

20

By the nose

Coronation Fund Managers. Raging Bull Unit Trust Company of the Year 2004.

#### 🐨 | RETAIL

Our position as a premier provider of domestic and international unit trust funds to individual investors in South Africa was firmly entrenched over the past year. Assets under management grew by 76%, to R13,7 billion (excluding international), significantly exceeding the 46,3% growth rate experienced by the unit trust industry over the same period.

The R5,8 billion increase in assets was the result of positive market conditions and strong support from clients. As in the past year, our managed, equity, fixed interest and property funds attracted inflows and, in line with industry trends, marginal outflows were experienced from the randdenominated international funds. Net inflows approaching R1,5 billion were received into our managed funds, and almost R1 billion into the Coronation Strategic Income Fund, confirming our competitive positioning in these fund categories.

Activities focused on our traditional intermediated client base, with the backbone of our distribution strategy continuing to be the independent financial advisors, the majority of whom utilise the administrative platforms provided by linked investments service providers (LISPs). Significant growth in business sourced from the fast-growing emerging multi-manager market was also experienced during the year.

#### The landscape

The favourable conditions in the domestic financial markets were supported by a continued structural shift in the composition of South Africa's formal savings industry in favour of the unit trust industry. This resulted in a net inflow of R34,2 billion to long-term funds and a growth in assets to R273,9 billion at industry level. All fund categories, with the exception of international and equity sector funds attracted significant inflows. The industry experienced a significant increase in the number of third-party funds hosted by management companies on behalf of boutique fund managers, institutional multi-managers and wealth managers. This trend is posing some challenges for the industry, primarily in relation to protecting the integrity of the unit trust vehicle through appropriate levels of performance and cost disclosure.

#### Investment performance

Coronation achieved excellent relative performance results for clients across all asset classes, and we are particularly pleased with both the relative and absolute performance of our core fund range:

- Our two longest running unit trusts, the Coronation Equity Fund and the Coronation Balanced Plus Fund, recorded a second consecutive year of significantly outperforming the majority of their peers.
- ► The Coronation Strategic Income, Capital Plus and Market Plus funds all comfortably outperformed their respective benchmarks over all-time periods since their respective inception dates.
- The Coronation Money Market Fund continued to provide a very competitive yield throughout the period.

In 2004, Coronation was recognised as the Raging Bull Unit Trust Manager of the Year for the second time in three years. For each quarter of the financial year we maintained our 1st position in the Plexus Survey which measures consistency of performance across the entire fund range, and rank in 1st or 2nd place in this survey for 20 consecutive quarters to end September 2005. We also received 11 individual fund awards at the ACI/Personal Finance Raging Bull and Standard & Poor's/Financial Mail fund award ceremonies held early in 2005. Furthermore, the 2005 PWC Banking Survey rates Coronation as "the best provider of retail asset management services" in the country. "The only certainty about the future is that we will strive to exceed our clients' expectations."



#### Client-centric focus and product development

We further strengthened our relationships with independent financial advisors by providing unparalleled access to our investment team by means of the more than 50 *Conversations with Coronation* workshops hosted across the country throughout the year.

In our aim to achieve a more accessible and fully transparent business, performance fee caps were introduced across all funds with performance fee structures. Over the period, there were no significant changes made to the product range or regular fee structures, and in terms of regulatory compliance we made significant progress with establishing compliance with the recently introduced anti-money laundering legislation. Currently our client base, measured by assets, is almost 100% compliant with the Know-Your-Client requirements of the Financial Intelligence Centre Act. We continue to monitor the impact of the Financial Advisory and Intermediary Services Act which came into effect on 1 September 2004, and anticipate marginal benefits as a result of the further relaxation in exchange control during October 2005.

In line with government's goal of pension fund reform and the availability of cost-efficient retirement funding vehicles, we have developed a range of individual retirement products and endowment plan utilising Coronation unit trust funds as the underlying investment structure. The range, which is to be launched in the 2006 calendar year, includes the Coronation Retirement Annuity Fund, the Coronation Preservation Pension Fund, the Coronation Preservation Provident Fund, the Coronation Living Annuity and the Coronation Endowment Plan.

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Coronation International Limited manages fund of funds investments on behalf of sophisticated investors, predominantly pension funds, endowments and other institutions, as well as high-net-worth individuals. Investment products include fund of hedge funds as well as absolute return oriented long-only fund of funds. Assets under management currently total US\$1,1 billion.

The focus of our international business has returned to meeting the specific needs of our South African clients through the consistent delivery of exceptional returns across portfolios and providing product which is representative of the varying needs of our different client portfolios. Our business model is therefore a greater focus on the generation of alpha rather than the acquisition of international client mandates.



In March 2005 our Global Equity Alternative Strategy Fund was awarded the Best Global Equity Fund of the Year at the annual InvestHedge Fund of Hedge Funds awards in New York.

#### The landscape

The low inflation environment internationally has caused market participants to continue to focus on alpha-generating strategies, or alternatives. However, for the hedge fund industry in particular, the rate of inflows has slowed after some years of spectacular asset growth. Although institutional allocations have increased, the demand from the typical investor base of high-net-worth individuals has waned primarily because of their short investment horizon. This shift in the source of new money has given rise to a shift in the approach of the industry. Institutional investors' demands are different to those of the typical high-net-worth investor. The demand for increased transparency and governance as well as specific infrastructure has seen the industry mature. The advent of hedge fund platforms from large trusted traditional brands can be seen as a response to demands from institutional investors.

For our global long-only portfolios, we are constantly looking for managers who run regulated long-only portfolios that seek to produce consistent absolute returns through asset allocation, active risk management and efficient portfolio implementation. Although there are very few managers with a track record of investing on this basis, we are seeing increased growth in this area and finding more opportunities for investment. This approach has also received increasing press coverage and we believe that we will see a higher level of interest in the space, as well as an influx of market participants.

#### Investment performance

The product range produced pleasing performance over the period. The flagship Coronation Global Equity Alternative Strategy Fund, a fund of hedge funds with assets under management in excess of US\$500 million, was one of the best performing funds in its category in 2004 and was awarded "best large global long/short fund of funds of the year" by InvestHedge Magazine. Its annualised return since inception in August 1996 is 11,8%, outperforming both the global equity and bond markets over that period by almost 5% per annum.

The Coronation Global Equity Fund of Funds (long-only) has also managed a strong outperformance of the MSCI World Index of 5,3% (in US dollars and net of fees) over the past year, in an arena where most managers fail to beat the benchmark after fees. This fund has started to attract the attention of South African and international institutional investors given its flexible mandate.

The Coronation Relative Value Fund, with assets in excess of US\$200 million, produced a return of 7,1% despite rising interest rates, continuous low volatility in the equity markets, the credit crisis and the sell-off in the convertible bond markets. Also producing strong returns was the Coronation Bond Fund of Funds, with a 3,5% (after fees) outperformance of the benchmark.

#### Client-centric focus and product development

We have dissected our product offering into two distinct categories: fund of hedge funds and long-only fund of funds. Within the fund of hedge funds range we have three products, the Coronation Global Equity Alternative Strategy Fund, the Coronation Relative Value Fund and the soon to be launched, Coronation Multi-Strategy Fund. The long-only platform comprises our very successful Coronation Global Equity and Coronation Bond funds as well as our new Coronation Global Cash Fund. These portfolios are available to both unit trust and institutional investors within the relevant regulatory frameworks.

As we broaden the product range to cater for the varying risk and return profiles of our South African clients our aim is to ensure that we include the best managers across asset



classes and geographies with the highest potential return. Our experience in dealing with a number of clients internationally, and the lessons learnt from investment strategies that many of the world's top funds have successfully implemented over the last decade, places our London-based team in an ideal position to extract the best international investment ideas for the benefit of our clients.

### 🐨 | FUTURE FOCUS

It has been a dynamic and eventful year throughout which we have demonstrated the true mettle of our people and our ability to produce exceptional investment returns for clients. We have the right strategy in place upon which we will continue to grow a long-term sustainable business. We remain singularly focused on fund management and are very excited about our launch of "third generation" tax-effective, individual retirement savings products which will be transparent, flexible and cost-effective. With the return to a culture of staff ownership, we bring long-term incentivisation and the alignment of interests which will ensure that if we do well for our clients, all stakeholders will benefit. Guided by our focus on investment excellence we will continue to look for opportunities to enhance returns to clients and shareholders alike.

Thys du Toit Chief executive officer Total assets under management (R billion).

RISK MANAGEMENT AND CONTROL

#### **RISK MANAGEMENT**

As risk is an inherent part of Coronation's business and activities, risk management within the business is a multifaceted process which involves independent monitoring, frequent communication, the application of judgement and detailed knowledge of specialised products and markets. Senior management takes an active role in the risk management process and is responsible for the maintenance of, and ultimately compliance with, the risk management framework. The business recognises that in a complex financial services environment, risk management processes are evolutionary and should be subject to ongoing review and modification. In addition, the responsibilities of the audit and risk committee also include various aspects of risk management and compliance.

The board has delegated responsibility for the implementation of the risk framework to risk management functions in the operating companies. These functions, which are subject to review by senior management, are responsible for identifying the risks faced by the companies, ensuring that the controls established to manage those risks are effective, and for the monitoring of their application. The risk management functions are also responsible for ensuring that consistent policies and procedures are established for measuring, managing and reporting risk. The board is kept informed through interaction between the executive members of the board and those responsible for the risk management functions, as well as more structured feedback at quarterly board meetings.

Coronation's risk management objectives are to:

- create the right awareness and understanding of risk at all levels of the group.
- ▶ instil a culture of risk management and risk ownership.
- proactively engage risks and manage risks within the risk appetite of the business.
- embed risk management in the way the business is run.

comply with appropriate risk management practices in terms of corporate governance guidelines.

28,7% growth in assets in the 2005 financial year.

► comply with the requirements of the King Report on Corporate Governance for South Africa 2002 (King II).

#### **RISK CATEGORIES**

The group has identified a number of risks as being of particular significance to its business. Some of these risk categories are more applicable to the management of client funds than to the business itself, but are still an integral part of risk management for which the board is ultimately responsible.

#### Credit risk

Credit risk is the risk of loss resulting from when a counterparty is unwilling or unable to service or pay its debt on time. The business has a credit risk committee dedicated solely to credit review and analysis of short-term and longterm fixed interest instruments and issuers, and assessment of the exposure to such instruments and issuers.

The committee is chaired by an independent chairman (i.e. a non-Coronation employee) to provide an unbiased and fresh perspective to the credit selection process. The remaining members of the committee comprise the risk manager, credit analyst, fixed interest portfolio managers and the financial analyst. Members of the equity research team are consulted where required.

Exposure to an entity is only permitted after a thorough credit evaluation process. A dedicated credit analyst utilises conservative credit analysis methodologies together with proprietary credit models. Factors such as capital adequacy, asset quality, management and ownership, earnings and liquidity are taken into account when considering acceptable risk profiles. Exposure to high-risk counterparties and excessive exposure to any single counterparty, rating class or product is avoided.

## "We operate in strict compliance with the King II report and watch with interest the change in international trends."



#### Market risk

Market risk is the risk that the value of Coronation's balance sheet positions will be adversely affected by movements in equity and interest rate markets, currency exchange rates and commodity prices. The company's revenue is dependent on the value of its assets under management, which is subject to these market risk factors. The business manages market risk through its structured investment process.

#### **Operational risk**

In addition to the risks described above, Coronation recognises the existence of a number of other risks which affect its business and which are often referred to as "operational risk". The key elements of operational risk are considered to be transaction processing risk, legal risk, compliance risk, information technology risk and key personnel risk. These risks are regularly assessed and are managed in the context of their likelihood of occurrence and their impact on the business should they occur.

#### Reputational risk

The business recognises the importance of its reputation and devotes considerable effort, at a senior level, to managing all aspects of that reputation. Risks of reputational damage are assessed and measures are taken to ensure that these risks are effectively managed.



non-executive directors

## CORPORATE GOVERNANCE

#### **INTRODUCTION**

Coronation Fund Managers confirms its commitment to a balanced approach to effective corporate governance. The directors endorse the principles of the Code of Corporate Practices and Conduct contained in King II.

The directors have considered the implications of King II and are of the opinion that, save those set out below, Coronation has, in all material respects, complied with the requirements of King II during the 2005 financial year.

Composition of the board and its two committees, the audit and risk committee and the remuneration committee, are as follows:

	Board of directors	Audit and risk committee	Remuneration committee
Thys du Toit <sup>3</sup>	CEO	Member	
Winston Floquet <sup>1</sup>	Director	Chairman	Member
Tony Gibson <sup>3</sup>	Director		
Eric Molobi 1	Director		
Gavan Ryan <sup>2</sup>	Chairman	Member	Chairman

<sup>1</sup> Independent non-executive <sup>2</sup> Non-executive <sup>3</sup> Executive

Attendances at the meetings of the board and its two committees were as follows:

	Board of directors	Audit and risk committee	Remuneration committee
Thys du Toit	4/4	4/4	
Winston Floquet	3/4	3/4	5/5
Tony Gibson	4/4		
Eric Molobi	1/4		
Gavan Ryan	4/4	4/4	5/5

Shams Pather joined the board as a non-executive director and Louis Stassen as an executive director with effect from 9 November 2005. These appointments replace Eric Molobi (non-executive director) and Tony Gibson (executive director).

#### **BOARD OF DIRECTORS**

Coronation has a unitary board, comprising two executive directors and three non-executive directors, two of whom are independent. The non-executive directors have the necessary integrity, skills and experience to bring independent judgement to bear on board deliberations and discussions. The chairman is non-executive but not considered to be independent in terms of the King II definition. The board, however, believes that a strong independent element already exists in the balance of the board members. The roles of chairman and chief executive officer are separate. The directors are listed on page 4 together with a brief curriculum vitae of each director.

The board's primary responsibility is to increase shareholder wealth. The board is accountable to shareholders and is responsible to, as well as actively managing relationships with, its various stakeholders. In fulfilling its primary responsibility, the board is aware of the importance of achieving a balance between conformance to governance principles and economic performance. A board charter has not yet been formally adopted.

The board is responsible for appointing the chief executive officer, guiding and reviewing corporate strategy, considering major initiatives and for risk policy. Executive management is accountable to the board for the development and implementation of strategy and policies. The board regularly reviews group performance, matters of strategic concern and any other matters it regards as material.

The board accepts the role of a nominations committee. The full board is responsible for selection of new directors and for making recommendations to shareholders for the appointment of new directors and for the re-appointment of existing directors. There are no service contracts for non-executive directors. The executive directors have service contracts with the group terminable upon one month's written notice to the board. In terms of the Articles of



An investment philosophy characterised by our long-term time horizon, and commitment to proprietary research. The constant pursuit of alpha.

Association of the company, at least one third of the directors are required to retire each year. The directors who are required to retire are those who have been in office the longest since their last election or appointment. The retiring directors may make themselves eligible for re-election. The board has full and effective control of the group, which is exercised through senior management and the subsidiary boards.

Disclosure of the individual executive and non-executive directors' emoluments and shareholdings are set out on page 31.

The board meets quarterly and additional meetings are convened as required. Material decisions may be taken between meetings by way of written resolution, as provided for in the Articles of Association. The non-executive directors are provided with comprehensive group information at each of the quarterly board meetings and are also briefed on business developments between board meetings. The board met on four occasions during the 2005 financial year.

#### AUDIT AND RISK COMMITTEE

The audit and risk committee is chaired by an independent non-executive director and consists of a further two members being the non-executive chairman of the board and the chief executive officer.

The internal and external auditors as well as the risk manager have unrestricted access to the committee, which ensures that their independence is in no way impaired.

Meetings are held quarterly and are also attended by the internal and external auditors, the chief financial officer and the risk manager and, on invitation, appropriate members of management.

The primary role of the audit and risk committee is to ensure the integrity of the audit process and financial reporting and to maintain a sound risk management and internal control system. In fulfilling its responsibility of assisting the board in discharging their duty to shareholders, the following are considered to be the main responsibilities of the committee:

- Monitoring the integrity of financial reporting by reviewing and providing guidance on accounting principles and policies adopted, reporting and disclosure as well as the examination of documentation supporting the annual report.
- Reviewing the group internal audit, compliance and risk management plans, reports and findings.
- Ensuring that all the risks to which the company is exposed are identified and managed in a well-supported control environment.
- Reviewing and approving external audit plans, findings and reports.
- Ensuring compliance with the applicable legislation and the requirements of regulatory authorities.

During the year the committee approved the external auditors' terms of engagement and scope of work and also reviewed the internal auditors' coverage plan aimed at providing assurance in respect of the various levels of operations. The committee received regular internal and external audit reports on the results of the audits conducted at various company levels. The committee's terms of reference also include various aspects of risk management and compliance. The audit and risk committee met four times during the 2005 financial year.

Based on the recommendations of King II, the board reviewed the performance of the audit and risk committee and is of the opinion that the committee has effectively discharged its responsibilities, as contained in its terms of reference, for the year under review.

#### Luck has nothing to do with it.

Wealth is created before it's inherited. For more than a decade we've been delivering superior investment returns for our clients.



#### **REMUNERATION COMMITTEE**

The remuneration committee is chaired by a non-executive director, but not by an independent director, which is not consistent with the recommendations of King II. In compliance with King II, the chief executive officer is not a member of the committee but does attend all meetings by invitation.

The committee meets twice-yearly in April and October to coincide with the bonus payment times of the year and meets between these times when required. Five meetings of the committee were held during the 2005 financial year.

The committee's primary objective is to ensure that the appropriate calibre of management is recruited and retained. It approves the company's remuneration philosophy and policies and ensures that directors and senior executives are appropriately rewarded for their contribution to the performance of the business, with specific focus on incentives and longer-term remuneration structures. Local and international remuneration levels and trends are taken into consideration. The committee will also consider, at an overall level, remuneration levels and conditions of service of employees, other than executives, to ensure that these are fair and in line with the company's remuneration policy.

The remuneration committee examines the recommendations of the remuneration executive committee which comprises the chief executive officer, the chief investment officer and such other senior executives as the chief executive officer may, from time to time, deem appropriate in determining and subsequently approving the individual remuneration packages.

Non-executive directors receive fees for their services as directors and for services as members of committees of the board. These fees were determined and agreed by the board on the recommendations of the remuneration committee.

#### **INTERNAL AUDIT AND INTERNAL CONTROLS**

Whilst the audit and risk committee believes that the company benefits from an internal audit function, it believes this should not be conducted by an in-house function. The business therefore contracts an auditing firm to fulfil the internal audit functions at the relevant subsidiaries. This role is provided by Deloitte Enterprise Risk Services. Deloitte provides the appropriate independence and objectivity to assist the board in discharging its responsibilities.

The internal audit function performs an independent appraisal with the full co-operation of the board and management. Its objective is to assist members of executive management in the effective execution of their responsibilities through an examination and evaluation of the subsidiaries' activities, business risks and systems of internal control. Any material or significant control weaknesses are brought to the attention of management and the audit and risk committee.

Consultation takes place between the internal and external auditors during the year to ensure that all identified financial, operational and compliance controls are appropriately covered, and to minimise duplication of effort. At the start of each year an internal audit plan is developed and presented to the audit committee for approval. The plan is based on a formal risk assessment together with issues identified by management and the audit committee. Planning is of a continuous nature to identify new risk areas as the business develops.

The directors acknowledge their responsibility for the overall process of risk management and monitoring. Management is accountable to the executive directors for ensuring that the risk management process is incorporated into the dayto-day activities of the business, which includes design, implementation and monitoring thereof. The internal audit function does not assume the function of risk management

## PRICEWATERHOUSE COOPERS ®

Ranked by industry peers as the best provider of retail asset management services in the country. Source: Survey of Strategic and Emerging Issues in South African Banking

but is used to provide an independent assessment of the effectiveness of the internal controls.

A compliance function exists to provide assurance in respect of compliance with applicable laws, regulations and supervisory requirements. The regulatory environment has continued to become increasingly more stringent, impacting both the business and its clients.

Additional information on risk management has been provided on page 17.

### DEALING IN SECURITIES AND PERSONAL ACCOUNT TRADING

#### Dealing in securities

The company complies with the continuing obligations of the Listings Requirements of the JSE Limited (the JSE Listings Requirements) as they apply to dealing in securities by the directors and company secretary as well as the directors and company secretaries of major subsidiary companies (as defined in paragraph 3.35 of the JSE Listings Requirements) within Coronation. The executive directors and non-executive directors as well as the company secretaries are required to obtain prior written approval from the chairman for all dealings in the company's shares (including off-market transactions). For the chairman's own dealings, prior written approval must be obtained from an independent non-executive director (the chairman of the audit and risk committee, Mr Winston Floquet, has been nominated as the designated director for this purpose).

Once clearance has been obtained, the company secretary will file a written record of such clearance, and as soon as the trade has been executed, ensure that disclosure is made on SENS in terms of the JSE Listings Requirements.

These conditions apply to shares held directly, indirectly, beneficially or non-beneficially and also apply to:

- any associate of the director as defined in the JSE Listings Requirements.
- ► any independent entity, in terms of which any director, associate or the company secretary may derive any beneficial or non-beneficial interest either now or in the future.

#### **Closed** periods

In terms of the company's "closed period" policy, all directors and staff are prohibited from dealing in Coronation Fund Managers shares from the date such a period is declared prior to the interim or year-end until the announcement of the interim or final results on SENS, and during times when a cautionary announcement is in place.

#### Personal account trading

The company has stringent personal account trading rules for its staff. All trades are pre-approved by the compliance officer after a client order check has been performed by the order implementation unit. Personal account trades are permitted where there are client orders only if the security in question is included in the FTSE/JSE Top 40 Index, since these securities are considered to be highly liquid and a personal account trade would not be to the detriment of any client. Personal account trades in securities falling outside of the FTSE/JSE Top 40 Index (illiquid) are not permitted if client orders are in place, irrespective of any price limits at which these orders may have been placed.

No turnaround of less than six months is permitted. All staff may only open accounts with the company's designated broker for personal account trading, which facilitates the monitoring process.

#### **GOING CONCERN**

After making due enquiries, the directors expect that the company has adequate resources to continue to operate for the foreseeable future. For this reason the financial statements have been prepared on the going concern basis. Transformation is integral to the strategy of our business.



#### **INVESTOR RELATIONS**

The company understands the information needs of shareholders and strives to ensure that they are kept appropriately informed on matters relevant to the business. A comprehensive programme of meetings with major shareholders and analysts is held annually following the release of the annual results. The chief executive officer and the company chief financial officer are the only persons authorised to speak to analysts, investors and the media on the financial affairs of the company.

#### **CODE OF ETHICS**

The company's code of ethics is designed to set standards of behaviour and focuses on respecting client confidentiality, avoiding conflicts of interest and on conducting business with total integrity and honesty.

#### **ENVIRONMENTAL PROGRAMME**

The company believes that integrating economic growth with respect for the environment is good business practice and is committed to the principles of sustainable development.

As a South African company with specialist international capabilities, Coronation Fund Managers recognises its corporate responsibilities towards both the environment and the community in its various roles as investor, employer and consumer.

Unlike a manufacturing or mining company, the company's business activities do not have significant environmental impact. However, direct and indirect impacts can still be identified and these will be managed in a responsible manner.

The company is committed to the ongoing assessment of the environmental impact of its activities, the setting of appropriate objectives and targets, the monitoring and continuous improvement of its environmental performance, as well as ensuring compliance with local, national and international law. The company is committed to:

- ▶ integrating environmental considerations into:
  - corporate policy;
  - business decision making; and
  - purchasing and supplier management.
- continual improvement of its policy and performance in line with good practice.
- promoting good environmental practice in the financial services sector.

#### COMPANY SECRETARY AND PROFESSIONAL ADVICE

All directors have unlimited access to the services of the company secretary, who in turn has access to appropriate resources in the provision of this support. All directors are also entitled to seek independent professional advice with regard to the affairs of the company.

#### AUDITOR INDEPENDENCE

The group financial statements have been audited by the independent auditors KPMG Inc. The company has no reason to believe that KPMG Inc. has not at all times acted with unimpaired independence. Details of fees paid for audit and non-audit services are disclosed in the financial statements.







# GIPS®

#### Raging Bull Unit Trust Company of the Year

An independent business A history of transformation Client-centric culture of excellence

#### International performance reporting standards

#### Innovators and market leaders

South Africa's Best Unit Trust Company in 2002 and 2004 based on consistency of investment performance of all funds under management. We have dominated the top two positions of the Plexus Survey for 20 consecutive quarters to end September 2005 and have been awarded a total of 21 ACI/Personal Finance Raging Bull Awards.

The only separately listed asset manager on the JSE Limited. Our business model focuses solely on being a product provider with nonaffiliated distribution channels. We embrace transformation and the pursuit of BEE at all levels of our business. 10% of our business is owned by black staff through the Imvula Trust and our social investment spend is dedicated to the upliftment of communities and individuals through Coronation's Growing Entrepreneurs Programme.

We have absolute commitment to clients and service excellence. We know that we will only remain successful if we focus on our clients' needs and exceed their expectations.

The integrity of our investment returns is confirmed by our being the first asset manager in South Africa to gain GIPS<sup>®</sup> compliance (Global Investment Performance Standards). The first to introduce absolute products to the South African market in 1999. We are one of the largest managers of absolute portfolios in the country.





PRICEWATERHOUSE COPERS 18

A culture of ownership

Award-winning funds

Focus and size of operation Enterprise development in southern Africa International fund of funds business

Top-ranked financial institution Retail Unit Trusts

We have one of the most talented investment teams in the country and an innovative and dynamic culture of excellence. 25% of our business is owned by staff. Coronation has a total of 27 Standard & Poor's/Financial Mail Investment Performance Awards for individual fund performances. We employ a total of 140 people and manage assets of R82 billion on behalf of institutional and individual investors. We outsource all non-core operations. Our only business is asset management.

The creation of Namibia Asset Management and Namibia Unit Trust Managers, Kagiso Asset Management and most recently, Coronation Fund Managers (Botswana). We were the first to launch funds of hedge funds to institutional investors in 1996. Our flagship Global Equity Alternative Strategy Fund was the International InvestHedge Global Equity Fund for 2004. The fund invests in long/short equity hedge fund managers covering the US, European and Far East markets.

Ranked by industry peers in the 9th edition of this annual survey on Strategic and Emerging Issues in South African Banking.

## CORPORATE STRUCTURE



## CONTENTS OF THE FINANCIAL STATEMENTS

Directors' responsibility for the annual financial statements	28
Report of the independent auditors	29
Declaration by the company secretary	29
Directors' report	30
Accounting policies	34
Group income statement	40
Group balance sheet	41
Group statement of changes in equity	42
Group cash flow statement	43
Notes to the financial statements	44
Principal subsidiaries and associates	68

## DIRECTORS' RESPONSIBILITY FOR THE ANNUAL FINANCIAL STATEMENTS

In accordance with Companies Act requirements, the directors are responsible for the preparation of the financial statements and related information which conform with South African Statements of Generally Accepted Accounting Practice and which fairly present the state of affairs of the company and the group as at the end of the financial year, and the net income and cash flows for that year.

It is the responsibility of the independent auditors to report on the fair presentation of the financial statements.

The directors are ultimately responsible for the internal controls. Management enables the directors to meet these responsibilities. Standards and systems of internal control are designed and implemented by management to provide reasonable assurance as to the integrity and reliability of the financial statements and to adequately safeguard, verify and maintain accountability for group assets. Appropriate accounting policies, supported by reasonable and prudent judgements and estimates, are applied on a consistent basis.

Based on the information and explanations given by management and the internal and external auditors, the directors are of the opinion that the accounting controls are adequate and that the financial records may be relied upon for preparing the financial statements and maintaining accountability for the group's assets and liabilities. Nothing has come to the attention of the directors to indicate that any breakdown in the functioning of these controls, resulting in material loss to the group, has occurred during the period and up to the date of this report.

The directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

The financial statements which appear on pages 30 to 69 were approved by the board of directors on 9 December 2005 and are signed on its behalf by

Gavan Ryan Chairman

**Thys du Toit** Chief executive officer

We have audited the annual financial statements and group annual financial statements of Coronation Fund Managers Limited set out on pages 30 to 68 for the year ended 30 September 2005. These financial statements are the responsibility of the company's directors. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the company and of the group at 30 September 2005 and the results of their operations and cash flows for the year then ended in accordance with South African Statements of Generally Accepted Accounting Practice, and in the manner required by the Companies Act in South Africa.

KPMG hc.

KPMG Inc. Registered Accountants and Auditors Chartered Accountants (SA) 9 December 2005 Cape Town

## DECLARATION BY THE COMPANY SECRETARY

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In terms of the Companies Act, No. 61 of 1973 (the Act), and for the year ended 30 September 2005, I certify that Coronation Fund Managers Limited has lodged all returns required by the Act with the Registrar of Companies and that all such returns are true, correct and up to date.

Jacob Mahlangu Company secretary

#### **BUSINESS ACTIVITIES**

<u>.</u>

Coronation is one of the largest third-party asset management companies in the country and regarded as a leader in the industry. We are a South African company with specialist international capabilities, offering a complete range of traditional fund management and international multi-manager investment products to institutional and individual investors. Our clients include almost 300 institutions, most multi-manager companies in South Africa, many of the major banking and insurance groups, selected investment advisory businesses, more than 400 prominent independent financial advisors, high-net-worth individuals and over 8 000 direct unit trust account holders.

The business is located in Southern Africa, the United Kingdom and Ireland.

#### **GROUP RESULTS**

Coronation has once again confirmed its place as a leader in the South African investment management industry. Strong domestic markets, superior investment performance and a strategy firmly focused on growing a sustainable business, combined to produce an impressive set of results for 2005. For the year ended 30 September 2005, headline earnings per share increased by 40% from 33,9 to 47,6 cents and diluted headline earnings per share by 33% from 33,5 to 44,5 cents. Total assets under management increased by 29% to R82 billion.

A general review of the operations of the institutional, retail and international businesses is provided on pages 11 to 16.

#### FINANCIAL STATEMENTS

The financial statements for the year ended 30 September 2005 have been prepared in accordance with the requirements of South African Generally Accepted Accounting Practice and the Companies Act in South Africa.

#### **INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)**

In accordance with the JSE Listings Requirements, Coronation will report in terms of IFRS for the year ending 30 September 2006. The comparative figures will be restated accordingly. In the announcement of the interim results for the six months ending 31 March 2006, which will be presented in terms of IFRS, the effects of these new accounting standards will be fully disclosed.

One of the most significant impacts will be brought to bear by IFRS 2 – Share-based Payment (IFRS 2). Details of these effects are set out on page 55 for illustrative purposes.

An unexpected result of a strict interpretation of IFRS 2 is that the discount contained in the sale of issued shares by Coronation Investments and Trading Limited to employees of Coronation is required to be expensed. These are represented in Transactions 2, 4 and 5, details of which are set out of pages 54 and 55. The cumulative effect of these in the 2006 financial year will be an income statement expense of R30 million.

We would like to stress that future dividend/capital distribution payments will be based on cash earnings as opposed to strict accounting earnings.

#### SHARE CAPITAL

#### Ordinary shares

There were no changes to the authorised or issued ordinary share capital during the financial year.

#### Preference shares

There were no changes to the authorised or issued preference share capital during the financial year.

#### STAFF SHARE TRANSACTIONS

On 18 December 2003, 15 100 000 share options were granted to eligible participants of which 6 500 000 have lapsed. Details of this scheme are set out on page 53.

On 1 February 2005, Coronation Investments and Trading Limited offered 16 695 000 Coronation shares and 8 555 000 share options to staff at R1,50 per share. Details of this transaction are set out on page 54.

On 1 April 2005, the Imvula Trust acquired 10% of Coronation Investment Management (Pty) Limited from Coronation. Details of this transaction are set out on page 54.

On 15 April 2005, Coronation Investments and Trading Limited offered 15 000 000 Coronation shares to staff at R1,50 per share. Details of this transaction are set out on page 55.

On 5 and 7 September 2005, Coronation Investments and Trading Limited offered 6 900 667 and 12 099 333 Coronation shares to staff at R4,05 per share. Details of this transaction are set out on page 55.

#### SHAREHOLDER ANALYSIS

Based on information provided by STRATE and Computershare Investor Services 2004 (Pty) Limited, the following shareholder has a beneficial interest of more than 5% in the issued ordinary shares of the company as at 30 September 2005:

38,40%

Coronation Investments and Trading Limited

Further details appear on page 69.

#### SUBSIDIARIES AND ASSOCIATES

Details of principal subsidiaries are set out on page 68.

During the year the shareholdings held by Coronation Investment Management (Pty) Limited in Kagiso Asset Management (Pty) Limited and FinSource Group Holdings (Pty) Limited were sold.

Bojammogo Asset Management Company (Pty) Limited became a subsidiary company of Coronation Investment Management (Pty) Limited with effect from 1 April 2005. The name of this company has subsequently been changed to Coronation Fund Managers (Botswana) (Pty) Limited.

#### DIRECTORS AND SECRETARY

Shams Pather joined the board as a non-executive director and Louis Stassen as an executive director, replacing Eric Molobi (nonexecutive director) and Tony Gibson (executive director). These changes were effective from 9 November 2005. Profiles of the directors are provided on page 4.

Jacob Mahlangu was appointed as company secretary on 1 June 2005. Details of the company secretary and the company's registered address are set out on page 74. The business address of the company secretary is the same as the company's registered address.

#### DIRECTORS' INTERESTS

No material contracts were entered into during the financial year in which directors or officers of the company had an interest.

At 30 September 2005, the directors' direct and indirect beneficial interests in the issued share capital of the company were:

	Beneficial				
	Direct	Indirect	%		
Ordinary shares					
Gavan Ryan	_	23 033 616	6,03		
Thys du Toit	_	5 091 605	1,33		
Tony Gibson	1 000	1 500 000	0,39		
Preference shares					
Thys du Toit	-	7 600 000	100,00		

DIRECTORS' REPORT for the year ended 30 September 2005

Tor the year ended 30 September 2003

At 30 September 2004, the directors' direct and indirect beneficial interests in the issued share capital of the company were:

	Beneficial		
	Direct	Indirect	%
Ordinary shares			
Gavan Ryan	-	32 997 437	8,63
Thys du Toit	-	1 091 605	0,29
Preference shares			
Thys du Toit	-	7 600 000	100,00

#### Preference shares

The preference shares were issued at a premium of 171,99 cents per share to Thys du Toit on 30 September 2003 and:

► are convertible into ordinary shares on a one-for-one basis after three, four and five years, subject to the achievement of predetermined earnings per share and share growth targets;

confer on the holder thereof the right to receive out of the divisible profits of the company a cumulative annual preferential cash dividend at a rate of 66% of the prime rate of interest on the capital paid up thereon plus any arrear dividends;

rank pari passu with the ordinary shares as to voting rights; and

▶ are convertible upon the occurrence of certain events stipulated in the Articles of Association.

The direct and indirect beneficial interests in the issued share capital of the company by new directors are:

	Direct	Indirect	%
Ordinary shares			
Louis Stassen	2 641 495	13 500 000	4,22

#### DIRECTORS' EMOLUMENTS

Payments to directors for services rendered for the year ended 30 September 2005 were as follows:

Executive directors	Salary R'000	Paid Bonus R'000	d by subsidiary of Pension fund contributions R'000	companies Medical aid contributions R'000	Total 2005 R'000	Total 2004 R'000
Thys du Toit Tony Gibson	600 600	3 033 3 683	120 120	50 44	3 803 4 447	5 787 5 191
Total	1 200	6 716	240	94	8 250	10 978

The following fees were unanimously approved by the board of directors for the year ended 30 September 2005.

Non-executive directors	Basic fee R'000	Board meetings R'000	Audit and risk committee meetings R'000	Remuneration committee meetings R'000	Total 2005 R'000	Total 2004 R'000
Gavan Ryan	25	60	45	40	170	180
Eric Molobi	25	10	_	_	35	45
Winston Floquet	25	30	45	20	120	165
Total	75	100	90	60	325	390

#### Material benefits

Shares offered by Coronation Investments and Trading Limited, the then holding company of Coronation, were taken up as follows:

	Number of shares	Cost price R	Market value at acquisition R	Benefit R'000
Louis Stassen	13 600 000	1,50	3,95	33 320
Louis Stassen	1 500 000	4,05	5,01	1 440
Thys du Toit	3 000 000	4,05	5,01	2 880
Thys du Toit	1 000 000	4,05	4,81	760
Tony Gibson	1 500 000	4,05	5,01	1 440

Details of these transactions are set out on pages 53 to 55.

#### DIVIDENDS

#### Ordinary dividend

In view of the fact that a capital distribution is proposed, Coronation will not be declaring a final cash dividend.

#### Special dividend

Arising from the BEE transaction, a dividend of 1 cent per share was paid on 25 April 2005.

#### Preference dividend

On 30 September 2005, in accordance with the Articles of Association, a dividend of 14 cents per share (2004: 13,2 cents per share) became due and payable to the holder of the cumulative redeemable preference shares. The dividend was paid on 30 September 2005.

#### **CAPITAL DISTRIBUTION**

Special distribution

Arising from the BEE transaction, a capital distribution of 24 cents per share was paid on 25 April 2005.

#### Final distribution

Subject to shareholder approval, a capital distribution of 36 cents per ordinary share payable to Coronation shareholders in lieu of a final cash dividend has been proposed. This distribution will be written off against the share premium account.

#### SPECIAL RESOLUTIONS

No special resolutions were passed by the company and its subsidiaries.

#### EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

On 3 November 2005, Coronation Investment Management (Pty) Limited increased its shareholding in Coronation Fund Managers (Botswana) (Pty) Limited from 51% to 100% for no consideration.

The financial statements incorporate the principal accounting policies set out below, which, with the exception of the change in accounting policy for goodwill as a result of the issue of AC140: Business Combinations, are consistent with those adopted in the previous financial year. The accounting policies of the subsidiaries and associates are consistent with those of the holding company.

#### **1.1 BASIS OF PREPARATION**

The financial statements and group financial statements are prepared in terms of the Companies Act and South African Statements of Generally Accepted Accounting Practice using the historical cost basis, except as disclosed below.

#### **1.2 BASIS OF CONSOLIDATION**

#### Investment in subsidiaries

Subsidiaries are those entities over whose financial and operating policies the group has the power to exercise control, so as to obtain benefits from their activities.

The group financial statements incorporate the assets, liabilities and results of the operations of the company and its subsidiaries. The results of subsidiaries acquired and disposed of during a financial year are included from the effective date of acquisition and to the effective date of disposal. Where necessary, the accounting policies of subsidiaries are changed to ensure consistency with the policies adopted by the group.

#### Consolidation - Imvula Trust and Imvula Capital (Pty) Limited

These entities have been consolidated as they are effectively controlled by Coronation.

#### Investments in associates

An associate is an enterprise over whose financial and operating policies the group has the ability to exercise significant influence and which is neither a subsidiary nor a joint venture of the group.

The equity method of accounting for associates is adopted in the group financial statements. In applying the equity method, account is taken of the group's share of accumulated retained earnings and movements in reserves from the effective date on which the enterprise became an associate and up to the effective date of disposal.

Goodwill arising on the acquisition of associates is included in the carrying amount of the associate and is treated in accordance with the group's accounting policy for goodwill.

The share of associated retained earnings and reserves is generally determined from the associate's latest audited financial statements.

Where the group's share of losses of an associate exceeds the carrying amount of the associate, the associate is carried at nil value. Additional losses are only recognised to the extent that the group has incurred obligations or made payments on behalf of the associates.

#### Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the group's interest in the enterprises and are eliminated against the investment in the associate.

#### Minority interest

Minority interest in the net assets of consolidated subsidiaries is identified separately from the group's equity therein. Minority interest consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the business combination.

#### 1.3 GOODWILL

Goodwill is any excess of the cost of an acquisition over the group's interest in the fair value of the identifiable assets and liabilities acquired at the date of acquisition.
Goodwill arising from transactions entered into prior to 31 March 2004 is carried at cost less accumulated amortisation and impairments. Goodwill is not recognised with respect to transactions among enterprises under common control.

With effect from 1 April 2004 the group adopted AC140: Business Combinations. In terms of the provision of this accounting statement, goodwill arising from a business combination for which the agreement date is on or after 31 March 2004, will not be amortised, but carried at cost less accumulated impairment losses. Goodwill is tested annually for impairment. There have been no transactions of this nature since 31 March 2004.

## **1.4 EQUIPMENT**

All items of equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses.

Where an item of equipment comprises major components with different useful lives, the components are accounted for as separate items of equipment.

Depreciation is provided on the straight-line basis at rates calculated to amortise the cost of the assets to their estimated residual values over their estimated useful lives.

Subsequent expenditure relating to an item of equipment is capitalised when it is probable that future economic benefits from the use of the asset will be increased. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

Surpluses (deficits) on the disposal of equipment are credited (charged) to income. The surplus or deficit is the difference between the net disposal proceeds and the carrying amount of the asset.

# 1.5 LEASES

### **Operating leases**

Leases where the lessor retains the risks and rewards of ownership of the underlying asset are classified as operating leases. Payments made under operating leases are charged against income on a straight-line basis over the period of the lease.

## **1.6 IMPAIRMENT**

The carrying amounts of the group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If there is any indication that an asset may be impaired, its recoverable amount is estimated. The recoverable amount is the higher of its net selling price and its value in use.

In assessing value in use, the expected future cash flows from the asset are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

A previously recognised impairment loss is reversed if the recoverable amount increases as a result of a change in the estimates used to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised in prior years.

### **1.7 FINANCIAL INSTRUMENTS**

### Recognition and derecognition of financial instruments

Financial instruments are recognised on the balance sheet when the group becomes a party to the contractual provisions of the particular instrument. Financial assets are derecognised when the group loses control of the contractual rights that comprise the asset – for instance where the rights are realised, expire or are surrendered. Financial liabilities are derecognised when the obligations under the contract are discharged. All financial instruments are recognised and derecognised using trade date accounting.

## Measurement

Financial instruments are initially measured at cost, which includes transaction costs. Subsequent to initial recognition these instruments are measured as set out below.

### Securities held at fair value

Securities held at fair value are those that the group principally holds for the purpose of short-term profit taking and those designated as held at fair value in terms of AC133: Financial instruments – Recognition and Measurement. Securities are measured at fair value. Fair values are obtained from quoted market prices or, in the case of mutual fund and unit trust investments, the repurchase price. Gains and losses arising from the revaluation of securities held at fair value are included in income.

### Loans and receivables originated by the group

These include loans, trade and other receivables and are measured at cost less provision for non-recoverable amounts.

### Available-for-sale financial assets

Available-for-sale financial assets are financial assets that are not classified as one of loans and receivables originated by the group, held-to-maturity investments or held at fair value. These include the additional investments the group has made into mutual funds and unit trusts during the year, unlisted investments and the company's investment in its subsidiary.

Listed investments classified as available-for-sale financial assets are measured at market value, which is calculated by reference to stock exchange quoted selling prices at the close of business on the balance sheet date. Unlisted investments classified as available-for-sale financial assets are measured at fair value, unless their fair value cannot be reliably determined, in which case they are shown at cost less accumulated impairment losses. The value of the company's investment in its subsidiary is determined with reference to the share price of Coronation Fund Managers Limited.

Gains and losses arising on revaluation of available-for-sale financial assets are recognised directly in equity until the financial asset is sold, collected or otherwise disposed of, or until the financial asset is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in income.

### Linked assets backing policyholders' funds

Linked assets backing policyholders' funds are measured at fair value, with the fair value movements reflected in the income statement.

### Investment contracts issued by Coronation Life Assurance Limited

Linked investment contracts, which are contracts of insurance in legal form but which do not transfer significant insurance risk, are measured at fair value. Fair value is determined by reference to the addendum to PGN104 issued by the Actuarial Society of South Africa.

Investment contracts are designated-as-trading financial liabilities. All gains and losses on those liabilities, whether realised or unrealised, are reflected in income in the year in which they arise, and are equivalent to the gains and losses on the linked assets backing policyholders' funds.

#### Trade and other payables

Trade and other payables originated by the group are measured at amortised cost.

### Cash and cash equivalents

Cash and cash equivalents are measured at fair value, based on the relevant exchange rates at balance sheet date.

### Offset

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when the group has a legally enforceable right to set off the recognised amounts, and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

# **1.8 REVENUE**

Revenue comprises fee income, interest and investment income, realised and unrealised profits or losses on sale or revaluation of securities held at fair value, realised and unrealised foreign exchange gains and losses and other sundry income.

Management and service fee income is recognised on an accrual basis when the service is rendered and is net of value added tax and rebates.

Performance fee income is recognised when earned as and when the group is unconditionally entitled to the revenue and no contingency with respect to future performance exists.

#### Interest income

Interest income is recognised in the income statement on an accrual basis using the effective interest rate method.

#### Dividend income

Dividends are deemed to accrue to the group when the right to receive payment is established.

## 1.9 TAX

## Current tax

Current tax comprises tax payable calculated on the basis of the expected taxable income for the year, using the tax rates effective at the balance sheet date, and any adjustment for tax payable for previous years.

### Deferred tax

Deferred tax is provided using the balance sheet liability method, based on temporary differences. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax is charged to the income statement except to the extent that it relates to a transaction that is recognised directly in equity, or a business combination that is an acquisition.

The effect on deferred tax of any changes in tax rates is recognised in the income statement, except to the extent that it relates to items previously charged or credited directly to equity.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the associated unused tax losses and deductible temporary differences can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### Secondary tax on companies (STC)

STC is recognised as part of the current tax charge in the income statement when the related dividend is declared. When dividends received in the current year can be offset against future dividend payments to reduce the STC liability, a deferred tax asset is recognised to the extent of the future reduction in STC.

### **1.10 EMPLOYEE BENEFITS**

#### Short-term employee benefits

The cost of all short-term employee benefits is recognised during the period in which the employee renders the related service. The accrual for employee entitlements to remuneration and annual leave represents the amount which the group has a present obligation to pay as a result of employees' services provided to the balance sheet date. These accruals have been calculated at undiscounted amounts based on current salary rates.

### **Retirement benefits**

Employees belong to the group's provident fund, a defined contribution plan. Contributions are charged to the income statement as incurred. The group does not have any other retirement benefit obligations.

#### Equity compensation benefits

The group grants share options to certain employees under an employee share plan. Other than costs incurred in administering the schemes which are expensed as incurred, the scheme does not result in any expense to the group.

## 1.11 FOREIGN CURRENCIES

## Foreign currency transactions

Transactions in foreign currencies are recorded at the rate of exchange ruling at the transaction date. Gains and losses from the settlement of such transactions are recognised in the income statement. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Gains and losses arising on translation are recognised in the income statement.

### Translation of foreign entities

The financial statements of foreign entities are translated into the reporting currency as follows:

- ► Assets and liabilities are translated at rates of exchange ruling at the balance sheet date.
- ▶ Income and expenditure and cash flow items are translated at rates of exchange ruling at the date of the transaction.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the exchange rate at the balance sheet date.

Exchange differences arising from the translation of foreign entities are taken directly to a foreign currency translation reserve, which is a non-distributable reserve.

# **1.12 CASH AND CASH EQUIVALENTS**

For the purpose of the cash flow statements, cash and cash equivalents comprise cash on hand, deposits held on call with banks, and investments in money market instruments, net of bank overdrafts, all of which are available for use by the group unless otherwise stated.

## **1.13 EARNINGS PER SHARE**

Earnings per share are based on earnings attributable to ordinary shareholders and calculated on the weighted average number of ordinary shares in issue during the financial period. Headline earnings per share are based on headline earnings attributable to ordinary shareholders and are calculated as above.

## 1.14 DIVIDENDS

Dividends are reflected in the period declared.

### **1.15 SEGMENT REPORTING**

The basis of segment reporting is representative of the internal structure used for management reporting.

Segment results include revenue and expenses directly attributable to a segment and the relevant portion of enterprise revenue and expenses that can be allocated on a reasonable basis to a segment, whether from external transactions or from transactions with other group segments. Inter-segment transfer pricing is based on cost plus an appropriate margin. These transfers are eliminated on consolidation.

Segment assets and liabilities comprise those operating assets and liabilities that are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment assets are determined after deducting related allowances that are reported as direct offsets in the group's balance sheet.

Capital expenditure represents the total costs incurred during the period to acquire segment assets that are expected to be used during more than one period.

## **1.16 MANAGED FUNDS AND TRUST ACTIVITIES**

Certain companies within the group operate unit trusts and hold and invest funds on behalf of clients. Assets and liabilities representing such activities are not reflected on the balance sheet, as these relate directly to clients. The values of these items are disclosed in the notes. Income from these activities is brought to account over the period to which the service relates.

# **1.17 ACCOUNTING TREATMENT FOR THE BEE TRANSACTION**

On 1 April 2005, Coronation sold 10% of its shareholding in Coronation Investment Management (Pty) Limited in terms of a broad-based BEE transaction to the Imvula Trust for a consideration of R148 million.

<u>.</u>

The beneficiaries of the Trust are current and future black employees of Coronation. The beneficial ownership in the Trust is and will be evidenced by a notional unit. Each unit does and will comprise a proportionate share of the Trust's net assets. It is intended that all the units will be allocated within a five-year period.

In order to fund this acquisition, the Trust borrowed money from its wholly-owned subsidiary, Imvula Capital (Pty) Limited, on an interest-free basis. Imvula Capital (Pty) Limited raised the funds through the issue of preference shares, which bear a market-related coupon to a third-party financier. Coronation guaranteed the funding provided by the third-party financier.

Coronation was not able to derecognise the transferred Coronation Investment Management (Pty) Limited shares because it has not transferred substantially all the risks and rewards and has not lost control.

Coronation continues to recognise this 10% interest in Coronation Investment Management (Pty) Limited and reflects a liability for the R148 million consideration received upfront which it needs to repay with interest.

# GROUP INCOME STATEMENT

for the year ended 30 September 2005

		2005	2004
	Note	R'000	R'000
Revenue		580 185	389 025
Management and service fees	1	313 128	263 308
Performance fees, trading income and initial charges	2	246 966	119 965
Interest income		12 039	6 906
Investment income		647	17
Other income	3	7 405	(1 171)
Operating expenses	4	(303 838)	(219 041)
Interest expense		(6 009)	(1 993)
Income before tax		270 338	167 991
Income tax expense	5	(84 398)	(41 570)
Income after tax		185 940	126 421
Share of after-tax profit of associates	8	967	120 421
Net income after tax		186 907	126 537
Minority interest		(586)	_
Net income attributable to shareholders		186 321	126 537
Forninge new share (sente)			
Earnings per share (cents) Attributable	6	48,5	32,8
Headline	-	48,5 47,6	32,8 33,9
пеацине	6	47,0	33,9
Diluted earnings per share (cents)			
Attributable	6	45,3	32,5
Headline	6	44,5	33,5

# Dividends per share

The dividend for 2004 was 25 cents per share. The special dividend for 2005 was 1 cent per share.

# Capital distributions per share

The special distribution for 2005 was 24 cents per share. The proposed final distribution for 2005 is 36 cents per share.

# GROUP BALANCE SHEET at 30 September 2005

		2005	2004
	Note	R'000	R'000
ASSETS			
Equipment	7	5 539	5 684
Investment in associates	8	-	3 706
Financial investments	9	119 857	120 575
Deferred tax asset	14	5 466	-
Long-term receivable	10	-	1 660
Non-current assets	_	130 862	131 625
Financial investments	9	2 705	6 690
Securities held at fair value		20 447	14 378
Trade receivables		94 612	65 727
Other receivables		15 736	20 967
Cash and cash equivalents		245 752	143 667
Current assets		379 252	251 429
Total assets		510 114	383 054
EQUITY AND LIABILITIES			
Ordinary share capital	11	38	38
Preference share capital	11	1	1
Share premium	11	1 815	93 561
Non-distributable reserve	12	(11 247)	(9 242)
Distributable reserves		229 477	141 373
Shareholders' equity		220 084	225 731
Minority interest		586	_
Total shareholders' interest		220 670	225 731
Policyholders' funds	21	13 388 419	11 386 588
Linked assets backing policyholders' funds	22	(13 388 419)	(11 386 588)
Interest-bearing borrowing	13	148 000	38 871
Deferred tax liability	14	1 489	11 661
Non-current liabilities		149 489	50 532
Trade payables		108 320	69 046
Current tax liabilities		31 635	37 745
Current liabilities		139 955	106 791
Total equity and liabilities		510 114	383 054

# GROUP STATEMENT OF CHANGES IN EQUITY

	2005	2004
	R'000	R'000
Equity at beginning of year	225 731	150 207
Ordinary share capital		
Balance at beginning and end of year	38	38
Preference share capital Balance at beginning and end of year	1	1
		ļ
Share premium	02 5/1	
Balance at beginning of year Capital distribution	93 561 (91 746)	93 561 _
Balance at end of year	1 815	93 561
Non-distributable reserve Balance at beginning of year	(9 242)	(3 916)
Currency translation differences	(2 005)	(5 326)
Balance at end of year	(11 247)	(9 242)
Distributable reserves		
Retained income Balance at beginning of year	140 185	60 523
Net income attributable to shareholders	186 321	126 537
Dividends paid	(100 318)	(46 875)
Balance at end of year	226 188	140 185
Revaluation reserve		
Balance at beginning of year	1 188	_
Revaluation of available-for-sale financial investments	2 101	1 188
Balance at end of year	3 289	1 188
Total distributable reserves	229 477	141 373
Shareholders' equity	220 084	225 731
Minority interest		
Balance at beginning of year	_	-
Profit for the year	586	_
Balance at end of year	586	_
Total shareholders' interest at end of year	220 670	225 731

# GROUP CASH FLOW STATEMENT for the year ended 30 September 2005

2005 2004 R'000 Note R'000 Cash flows from operating activities Cash generated from operations 16.1 267 359 133 566 Cash flow generated from return on investments 12 206 4 930 Interest income 12 039 6 906 (480) (1 993) Interest expense Investment income 647 17 (106 146) Taxation paid 16.2 (38 542) Dividends paid (100 318) (46 875) Net cash inflow from operating activities 73 101 53 079 Cash flows from investing activities Disposal of investment in associates 9 989 Increase in financial investments (32 411) (47 226) Additions to equipment (2 843) (4 087) Net cash outflow from investing activities (25 265) (51 313) Cash flows from financing activities Capital distribution (91 746) (9 784) Increase/(decrease) in interest-bearing borrowings 148 000 56 254 (9 784) Net cash inflow/(outflow) from financing activities 104 090 Net increase/(decrease) in cash and cash equivalents (8 018) Cash and cash equivalents at beginning of year 143 667 157 029 Exchange rate adjustments (2 005) (5 344) Cash and cash equivalents at end of year 245 752 143 667

for the year ended 30 September 2005

		2005	2004
		R'000	R'000
1.	MANAGEMENT AND SERVICE FEES		
	Management fees	230 095	213 665
	Service fees	83 033	49 643
		313 128	263 308
2.	PERFORMANCE FEES, TRADING INCOME AND INITIAL CHARGES		
	Performance fees	224 088	107 214
	Trading income	12 376	7 494
	– Realised gains	121	3 338
	<ul> <li>Revaluation of securities held at fair value</li> </ul>	10 271	2 562
	– Other trading income	1 984	1 594
	Initial charges	10 502	5 257
		246 966	119 965
3.	OTHER INCOME		
	Profit on disposal of associates	5 316	-
	Profit on disposal of available-for-sale financial investments	3 453	-
	Realised and unrealised foreign exchange losses	(2 923)	(3 569)
	Other sundry income	1 559	2 398
		7 405	(1 171)
4.	OPERATING EXPENSES		
	Operating expenses are stated after taking into account:		1 401
	Amortisation of film investments Auditors' remuneration	-	1 481
	– audit fee current year	514	487
	– audit fee prior year	1 114	1 249
	– other services	958	1 303
	Depreciation		
	– computer equipment	1 600	2 592
	– furniture and fittings	432	722
	– office equipment	395	331
	– leasehold improvements	336	426
	Loss on sale/scrapping of equipment	225	450
	Loss on disposal of film investments	1 602	15 713
	Operating lease payments	5 952	6 079
	Personnel expenses	144 639	117 497
	Restraint of trade payments	28 275	-
	Professional fees	8 915	5 588
	Remuneration to FinSource Group Holdings (Pty) Limited for fund		
	administration services	25 629	18 361
	Write-down of investment in associate	-	1 315

		2005	2004
		R'000	R'000
5.			
	Tax on income		
	South African normal tax	77 407	F2 027
	- current year	77 427	53 037
	– prior year underprovision/(overprovision)	5 162 382	(5 558)
	Capital gains tax South African deferred tax	(15 638)	(23 741)
	Secondary tax on companies	13 231	(23 741) 5 859
	Foreign tax	15 251	5 0 5 7
	– current year	3 206	11 325
	– prior year underprovision	628	648
		84 398	41 570
	Income tax expense per income statement	04 370	41 370
	Reconciliation of tax rate	%	%
	The tax charge for the year as a percentage of income before tax	31	24
		01	2 1
	Reversal of timing difference	4	14
	Disallowed expenditure	(1)	(11)
	Prior year (underprovision)/overprovision	(2)	3
	Secondary tax on companies	(5)	(3)
	Non-taxable income	1	-
	Lower tax rates applicable to foreign subsidiaries	1	3
	Standard rate of South African tax	29	30
6.	ATTRIBUTABLE AND HEADLINE EARNINGS PER SHARE Earnings per share Undiluted		
	Weighted average number of shares in issue (thousand) Earnings attributable to shareholders, calculated as follows:	382 275	382 275
	Net income attributable to shareholders	186 321	126 537
	Less: Dividend on convertible cumulative redeemable preference shares	(927)	(1 002)
	Earnings attributable to ordinary shareholders	185 394	125 535
	Attributable earnings per share (cents) <i>Diluted</i>	48,5	32,8
	Weighted average number of shares in issue (thousand) Shares to be issued on conversion of convertible cumulative redeemable	382 275	382 275
	preference shares	7 600	7 600
	Weighted shares to be issued – 2003 Employee Share Incentive Scheme	1 513	-
	Weighted shares to be issued – BEE transaction	21 744	-
	Number of shares in issue for diluted earnings per share (thousand)	413 132	389 875

		2005	2004
		R'000	R'000
6.	ATTRIBUTABLE AND HEADLINE EARNINGS PER SHARE (continued)		
	Diluted earnings attributable to ordinary shareholders, calculated as follows:		
	Net income attributable to shareholders	186 321	126 537
	Add: Secondary tax on companies – dividend on convertible cumulative	116	125
	redeemable preference shares Add: Secondary tax on companies – dividend on preference shares	110	125
	in Imvula Capital (Pty) Limited	691	_
	Diluted earnings attributable to ordinary shareholders	187 128	126 662
	Diluted earnings per share (cents)	45,3	32,5
	Headline earnings per share		
	Undiluted		
	Weighted average number of shares in issue (thousand)	382 275	382 275
	Headline earnings calculated as follows:	105 00 1	
	Earnings attributable to ordinary shareholders	185 394 1 355	125 535 2 207
	Add: Capital expenses Write-down of investment in associate	1 555	1 315
	Profit on sale of investment in associates	(4 934)	
	Loss on disposal/scrapping of equipment	160	450
	Headline earnings	181 975	129 507
	Headline earnings per share (cents)	47,6	33,9
	Diluted		
	Number of shares in issue for diluted earnings per share (thousand)	413 132	389 875
	Diluted headline earnings attributable to shareholders, calculated as follows:		
	Diluted earnings attributable to ordinary shareholders	187 128	126 662
	Add: Capital expenses	1 355	2 207
	Write-down of investment in associate	-	1 315
	Profit on sale of investment in associates	(4 934)	-
	Loss on disposal/scrapping of equipment	160	450
	Diluted headline earnings	183 709	130 634
	Diluted headline earnings per share (cents)	44,5	33,5

		Computer	Furniture and	Office	Leasehold	
		equipment	fittings	equipment	improvements	Total
		R'000	R'000	R'000	R'000	R'000
7.	EQUIPMENT 2005 Carrying amount at beginning					
	of year	2 682	1 179	1 073	750	5 684
	Cost Accumulated depreciation	6 629 (3 947)	2 237 (1 058)	1 495 (422)	1 032 (282)	11 393 (5 709)
	Additions Disposals Depreciation Exchange differences Carrying amount at end of year	2 402 (294) (1 600) (4) 3 186	149 (22) (432) (1) 873	440 (28) (395) (1) 1 089	– (20) (336) (3) 391	2 991 (364) (2 763) (9) 5 539
	Cost Accumulated depreciation	7 229 (4 043)	2 324 (1 451)	1 867 (778)	994 (603)	12 414 (6 875)
	Depreciation rate (%)	33,3	16,7	20,0	33,3	
	2004 Carrying amount at beginning of year	2 852	1 833	645	559	5 889
	Cost Accumulated depreciation	4 190 (1 338)	2 169 (336)	764 (119)	969 (410)	8 092 (2 203)
	Additions Disposals Depreciation Exchange differences Carrying amount at end of year	2 515 - (2 592) (93) 2 682	102 (5) (722) (29) 1 179	862 (55) (331) (48) 1 073	1 093 (425) (426) (51) 750	4 572 (485) (4 071) (221) 5 684
	Cost Accumulated depreciation	6 629 (3 947)	2 237 (1 058)	1 495 (422)	1 032 (282)	11 393 (5 709)

for the year ended 30 September 2005

		0005	0004
		2005 R'000	2004 R'000
		IX 000	IX 000
8.	INVESTMENT IN ASSOCIATES		
	Unlisted investments Carrying amount at beginning of year	3 706	5 904
	Distribution by associates	5700	(999)
	Write-down of investment in associate	_	(1 315)
	Share of after-tax profit for the year	967	116
	Disposal of investment in associates	(4 673)	-
	Net investment in associates	_	3 706
	Directors' valuation of unlisted investments	_	3 706
	Analysis of associates		
	FinSource Group Holdings (Pty) Limited – 0% (2004: 26,29%)	-	3 706
	Kagiso Asset Management (Pty) Limited – 0% (2004: 49%)	_	_
		_	3 706
9.	FINANCIAL INVESTMENTS At repurchase price Investment in mutual funds and unit trusts	122 471	88 383
	- available-for-sale investments	65 291 57 180	64 534
	– securities held at fair value	57 180	23 849
	Unlisted at directors' valuation Ordinary shares	1	1
	Listed		
	JSE right	90	10
	Unlisted at amortised cost		
	Investment in films	-	38 871
		122 562	127 265
	Transferred to current assets – available-for-sale investments	(2 705)	(6 690)
		119 857	120 575

In terms of a cession and pledge agreement, Coronation ceded all its rights, title and interest in the securities held at fair value to Depfin Investments (Pty) Limited as security for the interest-bearing borrowing (refer note 13).

Details regarding financial investments required in terms of the Companies Act are kept at the company's registered office and this information will be made available to shareholders on written request.

		2005	2004
		R'000	R'000
10.	LONG-TERM RECEIVABLE Unsecured variable rate bond	_	1 660
	The bond was reclassified as other receivables and was settled in October 2005.		
11.	SHARE CAPITAL Authorised 750 000 000 (2004: 750 000 000) ordinary shares of		
	0,01 (2004: 0,01) cent per share 7 600 000 (2004: 7 600 000) convertible cumulative redeemable preference	75	75
	shares of 0,01 (2004: 0,01) cent per share	1	1
		76	76
	<b>Issued</b> 382 274 930 (2004: 382 274 930) ordinary shares of 0,01 (2004: 0,01) cent per share	38	38
	7 600 000 (2004: 7 600 000) convertible cumulative redeemable preference	50	
	shares of 0,01 (2004: 0,01) cent per share	1	1
		39	39
	<b>Share premium</b> Balance at beginning of year Capital distribution	93 561 (91 746)	93 561 _
		1 815	93 561
	<b>Convertible cumulative redeemable preference shares</b> The terms and conditions of the convertible cumulative redeemable preference shares are set out in the directors' report. These shares rank pari passu with the ordinary shares as to voting rights.		
	<b>Unissued shares</b> Unissued shares are under the control of the directors until the forthcoming annual general meeting.		
12.	<b>NON-DISTRIBUTABLE RESERVE</b> Foreign currency translation reserve	(11 247)	(9 242)

for the year ended 30 September 2005

	2005 R'000	2004 R'000
13. INTEREST-BEARING BORROWING Coronation Capital (Ireland) Limited	-	38 871
The loan was settled during the year.		
Depfin Investments (Pty) Limited	148 000	_
	148 000	38 871

The funding received from Depfin Investments (Pty) Limited is in respect of the group's BEE transaction.

The terms of the funding arrangement are as follows: 74 000 cumulative redeemable fixed-rate preference shares of 1 000 cents per share at a rate of 9,12% per annum

74 000 cumulative redeemable floating-rate preference shares of 1 000 cents per share at a rate of 71% of prime

These dividends are payable in May and November of each year. The preference shares are redeemable at the option of the group but by no later than April 2015.

The borrowing is secured by a pledge of the group's investment in financial investments which has a value of R57,2 million at 30 September 2005 (refer note 9).

In terms of the company's Articles of Association, its borrowing powers are unlimited.

### **Subsidiaries**

Coronation Life Assurance Company Limited is restricted in its ability to borrow, in that borrowings require approval of the Registrar of Insurance in terms of the South African Long-term Insurance Act, No. 52 of 1998.

		2005	2004
		R'000	R'000
14.	DEFERRED TAX		
	Deferred tax liability at beginning of year	11 661	35 402
	Reversal of temporary differences and arising from new temporary differences	(10 172)	(23 741)
	Deferred tax liability at end of year	1 489	11 661
	The deferred tax liability is attributable to the following:		
	Unrealised gains	1 489	_
	Investment in films	_	11 661
		1 489	11 661
	Deferred tax asset at beginning of year	_	_
	Arising as a result of temporary differences	5 466	_
	Deferred tax asset at end of year	5 466	_
	The deferred tax asset is attributable to the following:		
	Restraint of trade payments	5 466	-
15.	COMMITMENTS AND CONTINGENT LIABILITIES		
	Operating lease commitments		
	Due within one year	7 501	6 648
	Due – one to five years	14 222	21 339
	Due – thereafter	-	7 631
		21 723	35 618

Details of immoveable properties leased from third parties are set out below:

Landlord	Location	Tenure	Expiry date	Lessee
RMB Properties (Pty) Limited	Newlands South Africa	10 years	2008	Coronation Asset Management (Pty) Limited
Derwent Valley London Limited	London United Kingdom	10 years	2013	Coronation International Limited

### Guarantees

Coronation Investment Management (Pty) Limited and Coronation Asset Management (Pty) Limited are the disclosed partners in the Granite Fixed Income Partnership and the Multi Strategy Arbitrage Partnership respectively. As the disclosed partners they are liable to third parties for all the liabilities of the partnership over and above the capital contributions of, and future income which accrues to the partners as well as the retained and current profits and assets of the partnerships. The other partners have no further liability for further contributions, or to incur any liability to any third party over and above their contributions. A register of guarantees is kept at the registered office of the company.

for the year ended 30 September 2005

	2005	2004
	R'000	R'000
6. NOTES TO THE CASH FLOW STATEMENT		
6.1 Reconciliation of income before tax to cash		
generated from operations		
Income before tax	270 338	167 99 <i>1</i>
Adjusted for:		
Depreciation, amortisation of film investments	2 763	5 552
Interest income	(12 039)	(6 900
Interest expense	6 009	1 993
Investment income	(647)	(1
Realised and unrealised foreign exchange losses	2 923	3 56
Unrealised profit on revaluation of securities held for trading	(10 271)	(2 56
(Profit on disposal)/write-down of investment in associates	(5 316)	1 31
Profit on disposal of investments	(3 453)	
Loss on disposal of film investments	1 602	15 71
Loss on sale/scrapping of equipment	225	45
Operating profit before working capital changes	252 134	187 098
Working capital changes		
(Increase)/decrease in securities held at fair value	(512)	1 97
Increase in trade and other receivables	(18 008)	(46 52)
Increase/(decrease) in trade and other payables	33 745	(8 98
	15 225	(53 53
Cash generated from operations	267 359	133 56
6.2 Taxation paid		
Unpaid at beginning of year	(37 745)	(10 97)
Income statement charge	(100 036)	(65 31
Unpaid at end of year	31 635	37 74
Taxation paid	(106 146)	(38 542

# 16.3 Non-cash transaction

During the year the group disposed of a film investment with a carrying value of R34,4 million (2004: R50,5 million), and in so doing was discharged of its obligation in terms of the interest-bearing borrowing which was secured by this investment amounting to R34,4 million (2004: R42,4 million).

# **17. RELATED PARTY TRANSACTIONS**

Entities within the group, in the ordinary course of business, enter into various service and investment transactions with related parties. The details of these transactions are given in the notes to the financial statements as indicated below:

- Directors' interest in share capital and directors' emoluments: refer directors' report

- Loans from affiliated entities (refer note 13)
- Fees paid to FinSource Group Holdings (Pty) Limited (refer note 4)
- Share transactions with employees (refer note 18)

# **18. EMPLOYEE BENEFIT INFORMATION**

## Coronation Retirement Fund

All staff are members of a defined contribution provident fund, which is governed by the Pension Funds Act, No. 24 of 1956, as amended. No valuation is performed as the liabilities of the fund cannot exceed its assets. Other than ongoing contributions charged against income as incurred, the group has no further retirement benefit obligations. The income statement charge for 2005 was R7,4 million (2004: R7,3 million).

#### Share-based payments

The group has not early adopted the requirements of IFRS 2 – Share-based Payment (IFRS 2) in reporting its financial statements for 2005 and, accordingly, has not recognised any compensation expenses related to options granted under the employee share incentive scheme and share-based payment transactions effected during 2005.

IFRS 2 will have a significant impact on the reported results on adoption of IFRS. Coronation derives the benefit from the services received from its employees and therefore the cost of consuming those benefits in terms of IFRS 2 needs to be reflected as a cost in the income statement even though no new shares were issued in some of the transactions mentioned below.

The information set out below has been presented for illustrative purposes, so as to indicate the potential impact on adoption of this standard. All the transactions set out below will be classified as equity settled in terms of IFRS 2.

#### Employee share incentive scheme – 18 December 2003 (Transaction 1)

On 18 December 2003, 15 100 000 share options were granted to eligible employees. The scheme provides for the grant to employees of options of a maximum of 10% of Coronation shares in issue. The share price of the options is market based and the options may be exercised over pre-determined periods if certain performance targets are met. As at 30 September 2005, 6 500 000 options had been forfeited with the remaining 8 600 000 options outstanding.

The fair value of options granted under the option plan was estimated at the date of the grant using an appropriate valuation model.

An assumed employee turnover rate of 5% per annum, together with the assumptions set out below, have been used in determining the value at grant date of the option grants outstanding at 30 September 2005, which become unconditional on the vesting dates as indicated below:

	Expected volatility %	Risk-free interest rate %	Dividend yield %	Expected life years	Subscription price cps	Number of shares
1 January 2006	30,0	8,8	4,5	3,5	342	2 866 667
1 January 2007	30,0	9,0	4,5	4,0	342	2 866 667
1 January 2008	30,0	9,2	4,5	4,5	342	2 866 666

	Expense as previously reported R'000	Adjustment for forfeitures experience R'000	Expected IFRS charge to income R'000
2004	3 569	_	3 569
2005	4 556	(2 827)	1 729
2006	2 888	(965)	1 923
2007	1 328	(418)	910
2008	222	(68)	154
	12 563	(4 278)	8 285

Should the optionholder resign from the group prior to the vesting dates as indicated above, the shares for options will not be issued, payment will therefore not be required, and the options will be forfeited.

for the year ended 30 September 2005

### 18. EMPLOYEE BENEFIT INFORMATION (continued)

### Share transaction – 1 February 2005 (Transaction 2A)

On 1 February 2005, Coronation Investments and Trading Limited offered to Coronation employees 16 695 000 Coronation shares at R1,50 per share. The shares have vesting periods as set out below:

- after 31 January 2008 a third of the shares vests
- after 31 January 2009 a further third of the shares vests
- after 31 January 2010 the final third of the shares vests

The sale of shares is restricted so that only two thirds of all vested shares can be sold while an employee is employed by Coronation. The final third can be sold one year after the employee leaves the employment of Coronation.

The closing Coronation share price on the grant date of 1 February 2005 was R4,02. The compensation benefits which are required to be spread over the vesting period of this offer in terms of IFRS 2 are approximated by the intrinsic value of the offer, being the difference between the market share price and the offer price on grant date. This amounts to R2,52 per share. Employee turnover of 5% per annum has been assumed in estimating the charge.

### Share option scheme - 1 February 2005 (Transaction 2B)

On 1 February 2005, Coronation Investments and Trading Limited offered 8 555 000 share options to Coronation employees. As at 30 September 2005, 2 744 000 options have been forfeited with the remaining 5 811 000 options outstanding.

The fair value of options offered under the option plan was estimated at the date of the grant using an appropriate valuation model.

An assumed employee turnover rate of 5% per annum, together with the assumptions set out below, have been used in determining the value at grant date of the option grants outstanding at 30 September 2005, which become unconditional on the vesting dates as indicated below:

	Expected volatility %	Risk-free interest rate %	Dividend yield %	Expected life years	Subscription price cps	Number of shares
1 February 2008	39,3	7,2	6,5	3,0	150	1 938 334
1 February 2009	39,3	7,4	6,5	4,0	150	1 938 334
1 February 2010	39,3	7,5	6,5	5,0	150	1 938 333

Should the optionholder resign from the group prior to the vesting dates as indicated above, the shares for options will not be issued, payment will therefore not be required, and the options will be forfeited.

### BEE Transaction – 1 April 2005 (Transaction 3)

On 1 April 2005, the Imvula Trust acquired 10% of Coronation Investment Management (Pty) Limited from Coronation. The acquisition consideration amounted to R148 million and was funded by the issue of redeemable preference shares to a third-party financier. This consideration was based on a price per Coronation share of R3,85.

In terms of the transaction, the beneficiaries are entitled to the net asset value of the Trust on winding up of the Trust. The transaction falls within the scope of IFRS 2 and the expense has been estimated by an independent third party but has not been audited. The estimate of the charge may change if the assumptions are refined.

The assumptions used in estimating the IFRS 2 cost were:

<ul> <li>Transaction term and vesting period</li> </ul>	10 years
– Dividend yield	6,5%
– Forfeiture rate	5,0%
Earnings growth rate sufficient to support the repours	nt of the lightlity over t

- Earnings growth rate sufficient to support the repayment of the liability over the assumed term

# 18. EMPLOYEE BENEFIT INFORMATION (continued)

Share transaction – 15 April 2005 (Transaction 4)

On 15 April 2005, Coronation Investments and Trading Limited offered to Coronation employees 15 000 000 Coronation shares at R1,50 per share. The shares have vesting periods as set out below:

- after 14 April 2008 a third of the shares vests
- after 14 April 2009 a further third of the shares vests
- after 14 April 2010 the final third of the shares vests

The sale of 12 000 000 Coronation shares is restricted and can be sold one year after the employee leaves Coronation. The sale of the balance of these shares is restricted so that only two thirds of all vested shares can be sold while an employee is employed by Coronation. The final third can be sold one year after the employee leaves the employment of Coronation.

The closing Coronation share price on the grant date of 15 April 2005 was R3,95. The compensation benefits which are required to be spread over the vesting period of this offer in terms of IFRS 2 are approximated by the intrinsic value of the offer, being the difference between the market share price and the offer price on grant date. This amounts to R2,45 per share. Employee turnover of 5% per annum has been assumed in estimating the charge.

## Share transaction - 5 and 7 September 2005 (Transaction 5)

On 5 September 2005, Coronation Investments and Trading Limited offered to Coronation employees 6 900 667 Coronation shares at R4,05 per share, called the "direct tranche".

On 7 September 2005, Coronation Investment and Trading Limited offered to a trust, which is not controlled by Coronation, 12 099 333 Coronation shares at R4,05 per share, called the "structured tranche". The trust assigned a number of units equal to the number of shares obtained. The participants, being Coronation employees, in this tranche purchased units in the trust for R4,05 per unit but obtained finance through an external separate legal entity for R2,00 per share.

Both tranches have vesting periods as set out below:

- after 1 February 2007 a third of the shares vests
- after 1 February 2008 a further third of the shares vests
- after 1 February 2009 the final third of the shares vests

The closing Coronation share prices on the grant dates of 5 and 7 September 2005 were R4,81 and R5,01 respectively. The compensation benefits which are required to be spread over the vesting period of this offer in terms of IFRS 2 are approximated by the intrinsic value of the offer, being the difference between the market share price and the offer price on grant date. This amounts to R0,76 per share for the direct tranche and R0,96 per share for the structured tranche. In both cases, employee turnover of 5% per annum has been assumed in estimating the charge.

### Summary: Estimate income statement expense

IFRS 2 requires the cost to be spread over the respective vesting periods. The estimated charge to the income statement in each of the years indicated is as follows:

	Transaction 1 R'000	Transaction 2 R'000	Transaction 3* R'000	Transaction 4 R'000	Transaction 5 R'000	Total R'000
2004	3 569	_	_	_	_	3 569
2005	1 729	7 850	3 459	4 399	527	17 964
2006	1 923	11 850	5 638	9 556	8 156	37 123
2007	910	11 850	5 556	9 556	5 490	33 362
2008	154	8 332	4 293	7 754	2 537	23 070
2009	_	4 070	2 612	4 133	586	11 401
2010	_	948	1 081	1 352	_	3 381
	8 285	44 900	22 639	36 750	17 296	129 870

		South Africa	International	
		operations	operations	Group
		R'000	R'000	R'000
19.	SEGMENT REPORT for the year ended 30 September 2005			
	Primary Segment revenue	517 078	63 107	580 185
	Management and service fees Performance fees, trading income and initial charges Interest income Investment income Other income	258 443 238 939 11 973 647 7 076	54 685 8 027 66 - 329	313 128 246 966 12 039 647 7 405
	Segment operating expenses Interest expense	(258 620) (5 956)	(45 218) (53)	(303 838) (6 009)
	Segment income before tax Income tax expense	252 502 (80 565)	17 836 (3 833)	270 338 (84 398)
	<b>Segment income after tax</b> Share of after-tax profit of associates	171 937 967	14 003	185 940 967
	Segment contribution to net income Minority interest	172 904 (586)	14 003	186 907 (586)
	Segment contribution to attributable earnings Headline earnings adjustment Add: Capital expenses Profit on disposal of investment in associates Loss on disposal of equipment Less: Dividend on convertible cumulative redeemable preference shares	172 318 1 355 (4 934) - (927)	14 003 - - 160	186 321 1 355 (4 934) 160 (927)
	Segment contribution to headline earnings Contributions to headline earnings (%)	167 812 92	14 163 8	181 975 100
	Segment assets	380 531	129 583	510 114
	Segment liabilities	260 067	29 377	289 444
	Shareholders' equity	119 878	100 206	220 084
	Supplementary information Cost to income (%)	51	72	53
	Number of employees	115	25	140
	Capital expenditure	2 013	978	2 991
	Significant non-cash items included in operating expenses – depreciation and amortisation of film investments – loss and disposal of film investment	1 494 1 602	1 269 _	2 763 1 602

	Γ	South Africa	International	
		operations	operations	Group
		R'000	R'000	R'000
19	SEGMENT REPORT (continued)			
	for the year ended 30 September 2004 Primary			
	Segment revenue	323 986	65 039	389 025
	Management and service fees Performance fees, trading income and initial charges	202 454 115 614	60 854 4 351	263 308 119 965
	Interest income	6 683	223	6 906
	Investment income	17		17
	Other income	(782)	(389)	(1 171)
	Segment operating expenses	(179 870)	(39 171)	(219 041)
	Interest expense	(1 440)	(553)	(1 993)
	Segment income before tax	142 676	25 315	167 991
	Income tax expense	(36 320)	(5 250)	(41 570)
	Segment income after tax	106 356	20 065	126 421
	Share of after-tax profit of associates	116	-	116
	Segment contribution to attributable earnings	106 472	20 065	126 537
	Headline earnings adjustment			
	Add: Capital expenses	2 207	-	2 207
	Write-down of investment in associate	1 315	_	1 315
	Loss on scrapping of equipment	-	450	450
	Less: Dividend on convertible cumulative redeemable			
	preference shares	(1 002)	-	(1 002)
	Segment contribution to headline earnings	108 992	20 515	129 507
	Contributions to headline earnings (%)	84	16	100
	Segment assets	258 742	124 312	383 054
	Investment in associates	3 706	_	3 706
	Other assets	255 036	124 312	379 348
	Segment liabilities	119 011	38 312	157 323
	Shareholders' equity	139 731	86 000	225 731
	Supplementary information			
	Cost to income (%)	56	61	56
	Number of employees	117	21	138
	Capital expenditure	1 605	2 967	4 572
	Significant non-cash items included in operating expenses			
	<ul> <li>depreciation and amortisation of film investments</li> </ul>	4 103	1 450	5 553
	– losses on disposal of film investment	15 713	_	15 713

for the year ended 30 September 2005

# **19. SEGMENT REPORT** (continued)

	Institutional R'000	Retail R'000	International R'000	Total R'000
Secondary				
2005				
Segment revenue	346 126	170 952	63 107	580 185
Segment assets	203 821	176 710	129 583	510 114
2004				
Segment revenue	197 556	99 985	91 484	389 025
Segment assets	199 463	59 279	124 312	383 054

# 20. FINANCIAL INSTRUMENTS

# 20.1 Currency risk management

The following currency profile analyses the group's financial assets and liabilities according to the currencies in which they are held at 30 September 2005. The totals are then expressed in the equivalent rand amount (in thousands).

2005					
Currency Exchange rate	ZAR 1,0000	EUR 7,6536	GBP 11,2356	USD 6,3550	Total
<b>Assets</b> Financial investments	60 539	35 391	2 716	23 916	122 562
Long-term receivable	-	-	-	-	-
Securities held at fair value Trade receivables	20 447 79 679	_ 1 701	_ 187	 13 045	20 447 94 612
Other receivables	14 341	.,	1 395	-	15 736
Cash and cash equivalents	197 700	7 899	10 005	30 148	245 752
	372 706	44 991	14 303	67 109	499 109
Liabilities					
Interest-bearing borrowing	148 000	_	_	_	148 000
Trade payables	76 935	4 192	16 240	10 953	108 320
	224 935	4 192	16 240	10 953	256 320
2004					
Currency Exchange rate	ZAR 1,0000	EUR 8,0482	GBP 11,7254	USD 6,4785	Total
Assets	44 700		F 000	41.007	107.0/5
Financial investments Long-term receivable	41 733 1 660	37 553	5 982	41 997	127 265 1 660
Securities held at fair value	14 378	_	_	_	14 378
Trade receivables	54 781	_	446	10 500	65 727
Other receivables	17 208	220	1 579	1 960	20 967
Cash and cash equivalents	122 835	4 391	4 312	12 129	143 667
	252 595	42 164	12 319	66 586	373 664
Liabilities					
Interest-bearing borrowing	-	-	-	38 871	38 871
	0/ /0/	7 250	5 436	29 665	69 046
Trade payables	26 686	7 259	5 4 5 0	27 000	07 040
Trade payables	26 686	7 259	5 436	68 536	107 917

# 20. FINANCIAL INSTRUMENTS (continued)

### 20.2 Credit risk management

Financial assets which subject the group to credit risk consist principally of cash and financial investments. Cash is placed with highly rated creditworthy financial institutions. Care is taken to ensure that the group has no significant concentration of credit risk.

# 20.3 Interest rate risk management

The group is exposed to interest rate risk as it borrows and invests funds. The risk is managed by maintaining an appropriate mix of fixed and floating rate instruments with reputable financial institutions. The terms of maturity are set out below:

	One year or less R'000	One to five years R'000	Due after five years R'000	Non- interest bearing R'000	Total R'000
2005					
Assets					
Financial investments	-	-	57 180	65 382	122 562
Long-term receivable	-	-	_	-	-
Securities held for trading	-	-	_	20 447	20 447
Trade receivables	-	-	_	94 612	94 612
Other receivables	_	-	-	15 736	15 736
Cash and cash equivalents	245 752	-	-	-	245 752
	245 752	_	57 180	196 177	499 109
Liabilities					
Interest-bearing borrowing	_	_	148 000	_	148 000
Trade payables	_	-	_	108 320	108 320
	_	_	148 000	108 320	256 320
2004					
Assets					
Financial investments	_	_	_	127 265	127 265
Long-term receivable	_	1 660	_	_	1 660
Securities held for trading	_	_	_	14 378	14 378
Trade receivables	_	_	_	65 727	65 727
Other receivables	_	_	_	20 967	20 967
Cash and cash equivalents	143 667	_	-	_	143 667
	143 667	1 660	_	228 337	373 664
Liabilities					
Interest-bearing borrowing	_	_	38 871	_	38 871
Trade payables	_	-	_	69 046	69 046
	_	_	38 871	69 046	107 917

for the year ended 30 September 2005

	2005 R'000	2004 R'000
<ol> <li>FINANCIAL INSTRUMENTS (continued)</li> <li>20.4 Fair values         The fair values of all financial instruments are substantially similar to carrying amounts reflected in the balance sheet.     </li> </ol>		
21. POLICYHOLDERS' FUNDS		
Actuarial liabilities under unmatured policies comprise investment contracts issued by Coronation Life Assurance Limited	13 388 419	11 386 588
22. LINKED ASSETS BACKING POLICYHOLDERS' FUNDS Listed investments at market value	12 539 623	10 529 592
Equities other than property Government, public and private sector stock Property companies Other investments	6 467 744 1 980 110 292 936 3 798 833	5 286 594 2 264 563 221 589 2 756 846
Unlisted other investments at directors' valuation	848 796	856 996
	13 388 419	11 386 588

# 23. COMPARATIVES

Where necessary, comparative figures have been reclassified to conform with current year presentation.

The following table summarises the reclassification of the 30 September 2004 amounts:

# Income statement items

	As previously reported R'000	Reclassified R'000	Restated R'000
Operating expenses	217 597	1 444	219 041
Income tax expense	43 014	(1 444)	41 570

RSC levies have been removed from the income tax expense and have been included in operating expenses.

The cash flow statement and segment report have been restated accordingly.

		-		
		Note	2005 R'000	2004 R'000
24.	CORONATION FUND MANAGERS LIMITED INCOME STATEMENT for the year ended 30 September 2005 Revenue		158 967	48 874
	Interest income Investment income		53 154 200	1 48 873
	– subsidiaries – other		153 200 1 000	48 873 –
	Unrealised gains		4 714	
	Operating expenses		(498)	(1 441)
	Auditors' remuneration – prior year underprovision Bank charges Directors' emoluments Interest expense Marketing Personnel expenses Professional fees	26	- (1) (325) (1) - (8) (163)	(659) - (490) - (10) (4) (278)
	Income before tax Income tax expense	27	158 469 (13 190)	47 433 66
	Income attributable to shareholders		145 279	47 499

		2005	2004
	Note	R'000	R'000
24. CORONATION FUND MANAGERS LIMITED (continued) BALANCE SHEET at 30 September 2005			
Assets			
Investment in subsidiary Financial investments	28 29	2 102 512 57 180	1 337 964 _
Non-current assets		2 159 692	1 337 964
Loan to subsidiary Cash and cash equivalents Taxation receivable		52 253 781 149	7 958 311 812
Current assets		53 183	9 081
Total assets		2 212 875	1 347 045
<b>Equity and liabilities</b> Ordinary share capital Preference share capital Share premium Distributable reserves	30 30 30	38 1 1 673 290 391 351	38 1 1 765 036 (418 158)
Total shareholders' equity		2 064 680	1 346 917
Liability to Imvula Trust Deferred tax liability	31 32	147 176 683	
Non-current liabilities		147 859	-
Taxation payable		336	128
Current liabilities		336	128
Total equity and liabilities		2 212 875	1 347 045

		2005	2004
		R'000	R'000
24.	CORONATION FUND MANAGERS LIMITED (continued) STATEMENT OF CHANGES IN EQUITY for the year ended 30 September 2005		
	Equity at beginning of year	1 346 917	1 084 436
	Ordinary share capital		
	Balance at beginning and end of year	38	38
	Preference share capital		
	Balance at beginning and end of year	1	1
	Share premium		
	Balance at beginning of year	1 765 036	1 765 036
	Capital distribution	(91 746)	_
	Balance at end of year	1 673 290	1 765 036
	Distributable reserves		
	Retained income		
	Balance at beginning of year	430	(194)
	Net profit for the year	145 279	47 499
	Dividends paid	(100 318)	(46 875)
	Balance at end of year	45 391	430
	Revaluation reserve		
	Balance at beginning of year	(418 588)	(680 445)
	Revaluation of investment in subsidiary	764 548	261 857
	Balance at end of year	345 960	(418 588)
	Total distributable reserves	391 351	(418 158)
	Equity at end of year	2 064 680	1 346 917

# 

# NOTES TO THE FINANCIAL STATEMENTS

		[		
			2005	2004
		Note	R'000	R'000
24.	CORONATION FUND MANAGERS LIMITED (continued) CASH FLOW STATEMENT			
	for the year ended 30 September 2005			
	Cash utilised by operations Investment income	25.1	(44 584) 154 200	(26 223) 48 873
	Interest income Interest expense		53 (1)	1
	Taxation paid Dividend paid	25.2	(11 844) (100 318)	2 (46 875)
	Net cash outflow from operating activities		(2 494)	(24 222)
	Cash flows from investing activities Increase in financial investments		(52 466)	-
	Cash flows from financing activities			
	Increase in loans from group companies Capital distribution Decrease in loans to subsidiaries		147 176 (91 746) –	- - 24 500
	Net cash inflow from financing activities	-	55 430	24 500
	Net increase in cash and cash equivalents Cash and cash equivalents at beginning of year		470 311	278 33
	Cash and cash equivalents at end of year	25.3	781	311

	2005	2004
	R'000	R'000
<b>25. NOTES TO THE CASH FLOW STATEMENT</b> 25.1 Reconciliation of income before tax to cash utilised by operations		
Income before tax	158 469	47 433
Adjusted for:		
Investment income	(154 200)	(48 873)
Unrealised gains	(4 714)	-
Interest income	(53)	(1)
Interest expense	1	
Operating loss before working capital changes	(497)	(1 441)
Working capital changes		
Increase in loan to subsidiary	(44 295)	(1 481)
Increase/(decrease) in trade payables and loan from subsidiary	208	(23 301)
Cash utilised by operations	(44 584)	(26 223)
25.2 Taxation paid		
Prepaid at beginning of year	812	748
Income statement (charge)/credit	(12 507)	66
Prepaid at end of year	(149)	(812)
Taxation paid	(11 844)	2
25.3 Cash and cash equivalents		
Cash on hand	781	311
26. DIRECTORS' EMOLUMENTS		
Services as directors	8 575	11 368
Paid by subsidiaries	(8 250)	(10 878)
	325	490
27. INCOME TAX EXPENSE		
Tax on income		
South African normal tax		
– current year	-	_
– prior year overprovision	(33)	(66)
South African deferred tax Secondary tax on companies	683 12 540	_
Income tax expense per income statement	13 190	(66)

		2005	2004
		R'000	R'000
27	INCOME TAX EXPENSE (continued)		
27.	Reconciliation of tax rate	%	%
	The tax charge for the year as a percentage of operating profit before tax	8	
	5 5 7 5 7 57		
	Secondary tax on companies	(8)	_
	Dividend income	28	31
	Computed loss utilised	1	-
	Disallowable expenses	-	(1)
	Standard rate of South African tax	29	30
28	INVESTMENT IN SUBSIDIARY		
20.	Unlisted shares – at cost	1 756 552	1 756 552
	– revaluation adjustment	345 960	(418 588)
	Investment in subsidiary at market value	2 102 512	1 337 964
29.	FINANCIAL INVESTMENTS		
	At repurchase price		
	Investment in unit trusts	57 400	
	– securities held at fair value	57 180	
	In terms of a cession and pledge agreement, Coronation ceded all its rights,		
	title and interest in the securities held at fair value to Depfin Investments		
	(Pty) Limited as security for the interest-bearing borrowing (refer note 13).		
	Detaile seconding financial in contracts and instants of the Companying		
	Details regarding financial investments required in terms of the Companies Act are kept at the company's registered office and this information will be		
	made available to shareholders on written request.		
20	SHARE CAPITAL		
30.	Authorised		
	750 000 000 (2004: 750 000 000) ordinary shares of		
	0,01 (2004: 0,01) cent per share	75	75
	7 600 000 (2004: 7 600 000) convertible cumulative redeemable preference		
	shares of 0,01 (2004: 0,01) cent per share	1	1
		76	76
	<b>Issued</b> 382 274 930 (2004: 382 274 930) ordinary shares of		
	0,01 (2004: 0,01) cent per share	38	38
	7 600 000 (2004: 7 600 000) convertible cumulative redeemable preference		
	shares of 0,01 (2004: 0,01) cent per share	1	1
		39	39
		39	57

		2005 R'000	2004 R'000
30.	SHARE CAPITAL (continued)		
	Share premium Balance at beginning of year Capital distribution	1 765 036 (91 746)	1 765 036 _
		1 673 290	1 765 036
	Convertible cumulative redeemable preference shares The terms and conditions of the convertible cumulative redeemable preference shares are set out in the directors' report. These shares rank pari passu with the ordinary shares as to the voting rights. Unissued shares Unissued shares are under the control of the directors until the forthcoming annual general meeting.		
31.	<b>LIABILITY TO THE IMVULA TRUST</b> The Imvula Trust	147 176	_
	The liability to the Imvula Trust is the result of the company's participation in the group's BEE transaction. This liability will be settled through the delivery of Coronation Investment Management (Pty) Limited shares or the issue of Coronation shares at the election of the company. The liability will be settled by no later than 10 years from the effective date of the BEE transaction.		
32.	DEFERRED TAX LIABILITY		
	Temporary differences	683	_
	The deferred tax liability is attributable to the following:		
	Unrealised gains	683	_
33.	FUNDS UNDER MANAGEMENT Fair value of funds under management – by type	R'bn	R'bn
	Institutional	61,4	49,6
	Retail International	13,7 6,9	7,8 6,3
		82,0	63,7
	Fair value of funds under management – by geographical region		
	South Africa International	75,1	57,4
	International	6,9	6,3
		82,0	63,7

# PRINCIPAL SUBSIDIARIES AND ASSOCIATES at 30 September 2005

				Indebtedness
Company	Country of	Functional	Issued	by/(to)
(% of equity capital held)	incorporation	currency	share capital	R'000
Coronation Fund Managers Limited				
100 Coronation Investment				
Management (Pty) Limited	South Africa	ZAR	100	_
(Holding company of operating subsidiaries)				
100 Coronation Life Assurance				
Company Limited	South Africa	ZAR	300	_
(Long-term insurance company)				
100 Coronation Management				
Company Limited	South Africa	ZAR	2 000 000	-
(Collective investment schemes				
management company)				
100 Coronation Asset				
Management (Pty) Limited	South Africa	ZAR	250 000	52 253
(Investment management company)				
100 CFM (Isle of Man) Limited	British Virgin Islands	USD	20 000	-
(Holding company of				
international subsidiaries)				
100 Coronation International Limited	United Kingdom	GBP	1 000 000	_
(Investment management company)				
100 Coronation Fund Managers			404 500	
(Ireland) Limited	Ireland	USD	136 538	-
(Collective investment schemes				
management company)				
51 Coronation Fund Managers				
(Botswana) (Pty) Limited				
(formerly Bojammogo Asset	D. I		400	
Management Company (Pty) Limited)	Botswana	Pula	100	-
(Investment management company)				

The interest of the company in its subsidiaries' aggregate profits and losses after taxation is as follows:

	2005	2004
	R'000	R'000
Profit Losses	201 682 (7 730)	127 911 –
Total	193 952	127 911

	Number of		Number of	
SHAREHOLDER SPREAD	shareholders	%	shares	%
1 – 1 000 shares	1 016	28,66	574 362	0,15
1 001 – 10 000 shares	1 738	49,03	7 592 826	1,99
10 001 – 100 000 shares	578	16,30	16 757 912	4,38
100 001 – 1 000 000 shares	163	4,60	57 088 692	14,93
1 000 001 shares and over	50	1,41	300 261 138	78,55
	3 545	100,00	382 274 930	100,00
	Number of		Number of	
DISTRIBUTION OF SHAREHOLDERS	shareholders	%	shares	%
Banks	44	1,24	24 658 419	6,45
Close corporations	60	1,69	950 699	0,25
Endowment funds	24	0,68	1 838 277	0,48
Individuals	2 560	72,21	40 431 269	10,58
Insurance companies	18	0,51	4 407 389	1,15
Investment companies	7	0,20	2 533 368	0,66
Medical aid schemes	1	0,03	5 572	0,00
Unit trusts	50	1,41	57 034 961	14,92
Nominees and trusts	540	15,23	40 985 269	10,72
Other corporations	42	1,18	1 030 309	0,27
Pension funds	94	2,65	59 117 612	15,46
Private companies	90	2,54	2 076 570	0,54
Public companies	15	0,42	147 205 216	38,51
	3 545	100,00	382 274 930	100,00
	Number of		Number of	
PUBLIC/NON-PUBLIC SHAREHOLDERS	shareholders	%	shares	%
Non-public shareholders	84	2,37	184 143 602	48,17
Directors	5	0,14	9 768 605	2,56
Strategic holdings (more than 10%)	1	0,03	146 800 397	38,40
Restricted shares held by staff	78	2,20	27 574 600	7,21
Public shareholders	3 461	97,63	198 131 328	51,83
	3 545	100,00	382 274 930	100,00

# ANALYSIS OF SHAREHOLDERS Register date: 30 September 2005 Issued share capital: 382 274 930 shares

	Number of		Number of	
GEOGRAPHIC OWNERSHIP	shareholders	%	shares	%
South Africa	3 050	86,04	367 655 981	96,18
International	495	13,96	14 618 949	3,82
	3 545	100,00	382 274 930	100,00
SHAREHOLDERS WITH A BENEFICIAL			Number of	
INTEREST OF 3% OR MORE IN SHARES			shares	%
Coronation Investments and Trading Limited			146 800 397	38,40
Allan Gray Equity Fund			13 221 186	3,46
Rand Merchant Bank Limited			12 735 469	3,32
Ikamva Trust			12 099 333	3,17
Happiness Trust			12 000 000	3,14
Public Investment Corporation			11 572 229	3,03
MAJOR INSTITUTIONAL MANAGERS/			Number of	
DIRECT HOLDERS			shares	%
Allan Gray Limited			86 422 040	22,61
STANLIB Asset Management Limited			23 082 763	6,04
Rand Merchant Bank Asset Management (Pty) Limited			21 390 729	5,60
Notice is hereby given that the 32nd annual general meeting of Coronation Fund Managers Limited will be held in the boardroom of the offices of Coronation Fund Managers Limited at Coronation House, Boundary Terraces, 1 Mariendahl Lane, Newlands, Cape Town on Wednesday, 25 January 2006, at 10:00 for the following purposes:

#### **ORDINARY RESOLUTIONS**

- 1. To receive and consider the audited annual financial statements of the company for the year ended 30 September 2005.
- 2. a) To elect Mr Shams Pather who replaces Mr Eric Molobi as a non-executive director.
  - (b) To elect Mr Louis Stassen who replaces Mr Tony Gibson as an executive director.

A brief curriculum vitae in respect of each director offering himself for election is contained on page 4 of the financial report of which this notice of annual general meeting forms part.

- 3. To authorise the directors to determine the remuneration of the company's auditors.
- 4. To re-appoint KPMG Inc. as the company's auditors.
- 5. To authorise the directors to allot and issue in their discretion all or any portion of the unissued ordinary shares of 0,01 cent each in the capital of the company at such time or times, and upon such terms and conditions as they may determine (subject to sections 221 and 222 of the Companies Act, No. 61 of 1973 ("the Companies Act"), as amended, and the Listings Requirements of the JSE Limited ("JSE")), the aforesaid authority to remain in force until the next annual general meeting of the company.
- 6. To authorise the directors, subject to the requirements of the JSE, for a period of 15 months from the date of this meeting or until the date of the company's next annual general meeting, whichever first occurs, to issue at their discretion all or any of the unissued ordinary shares of 0,01 cent each for cash, other than by way of a rights offer, provided that the number of shares so issued shall not in any one year exceed 15% of the number of ordinary shares in issue in aggregate for the year, and that the issue may not take place at a discount exceeding 10% of the weighted average market value of the shares for the

30 business days prior to the date that the price of the issue is determined or agreed by the directors. Members are advised that in terms of the Listings Requirements of the JSE, a 75% majority is required of votes cast by the shareholders present or represented by proxy to approve the above ordinary resolution. There will be no restrictions in regard to the persons to whom the shares may be issued, provided that such shares are to be issued to public shareholders (as defined in the Listings Requirements of the JSE) and not to related parties. A press announcement giving full details, including the impact on net asset value and earnings per share, will be published at the time of any issue representing, on a cumulative basis within one financial year, 5% or more of the number of shares in issue prior to the issue/s.

- 7. To authorise the directors by way of a specific authority in terms of section 221(2) of the Companies Act, as amended, to, in the event of the company exercising its call option to acquire from the Imvula Trust its 10% shareholding in Coronation Investment Management (Pty) Limited ("CIM"), allot and issue a sufficient number of ordinary shares of 0,01 cent each in the share capital of the company in discharge of the purchase price payable to the Imvula Trust, subject to the Listings Requirements of the JSE. The required number of ordinary shares shall be determined with reference to the value of the 10% stake in CIM and prevailing market price of the ordinary shares in the company at the relevant time.
- 8. To authorise the directors by way of a general authority to make payments to shareholders from time to time in terms of section 90 of the Companies Act, as amended, and in terms of the Listings Requirements of the JSE in such amount and in such form as the directors may in their discretion from time to time determine, provided that:
  - ► This general authority shall be valid only until the company's next annual general meeting or for 15 months from the date of this resolution, whichever period is shorter.
  - Such payment may not, in the aggregate exceed 20% of the company's issued share capital, including reserves, but excluding minority interests and revaluations of assets and intangible assets that are not supported by a valuation of an independent professional expert to the JSE prepared within the last six months, in any one financial year, measured as at the beginning of such financial year.
  - ► Such payments shall be made pro rata to all shareholders.

## NOTICE TO SHAREHOLDERS

► Announcements will be published on SENS and in the press setting out the financial effects of the general payment prior to such payment being effected and complying with Schedule 24 of the Listings Requirements of the JSE.

The directors of the company intend to utilise this authority in terms of this ordinary resolution no. 8 in order to make payment to shareholders, in lieu of a dividend by way of a general payment from the company's share capital or share premium.

#### SPECIAL RESOLUTION

- 9. That the board of directors of the company be hereby authorised, by way of a renewable general authority to approve the purchase of its own ordinary shares or to approve the purchase of ordinary shares in the company by any subsidiary of the company at such price, and in such manner and subject to such terms and conditions as the directors may deem fit, provided that:
  - This general authority shall be valid until the company's next annual general meeting or for 15 months from the date of this resolution, whichever period is shorter.
  - ► The ordinary shares be purchased through the order book of the JSE trading system and done without any prior understanding or arrangement between the company and/or the relevant subsidiary and the counterparty.
  - ► An announcement complying with paragraph 11.27 of the Listings Requirements of the JSE be published by the company (i) when the company and/or its subsidiaries have cumulatively repurchased 3% of the ordinary shares in issue as at the time the general authority was given (the initial number); and (ii) for each 3% in aggregate of the initial number of ordinary shares acquired by the company and/or its subsidiaries.
  - ► The general repurchase by the company of its own ordinary shares shall not in the aggregate in any one financial year exceed 20% of the company's issued share capital of that class, provided that the acquisition of ordinary shares as treasury stock by a subsidiary of the company shall not exceed 10% in the aggregate of the number of issued shares in the company.
  - Repurchases must not be made at a price more than 10% above the weighted average of the market value for the ordinary shares for the five business days immediately preceding the date upon which the transaction is effected.
  - At any point in time, the company may only appoint one agent to effect any repurchase on the company's behalf or on behalf of any of its subsidiaries.

- ► The company will after a repurchase still comply with the provisions of the Listings Requirements of the JSE regarding shareholder spread.
- The company and its subsidiaries will not repurchase ordinary shares during a prohibited period (as defined in the Listings Requirements of the JSE).
- Such repurchase shall be subject to compliance with the Companies Act, the company's Articles of Association and the Listings Requirements of the JSE.

#### REASONS FOR AND EFFECT OF SPECIAL RESOLUTION AND STATEMENT REQUIRED IN TERMS OF PARAGRAPH 11.26 OF THE LISTINGS REQUIREMENTS OF THE JSE

The reason for the special resolution is to grant the board of directors of the company the general authority to contract the company and/or any of its subsidiaries to acquire the shares in the company, should the directors consider it appropriate in the circumstances.

The effect of the special resolution is that the board of directors will be granted the general authority, subject to the provisions set out in the resolution, to acquire shares in the company, should they deem it appropriate in the circumstances and should the company comply with the relevant statutes and authority applicable thereto.

The board of directors, as at the date of this notice of annual general meeting, has no definite intention of repurchasing shares. It is, however, proposed that the directors believe it to be in the best interests of the company that shareholders pass this resolution.

The board of directors shall not make any payment in whatever form to acquire any shares issued by the company as contemplated in special resolution number 9 nor shall it make any general payment as contemplated in ordinary resolution number 8, if, after the directors have considered the effects of any repurchases or payments, there are reasonable grounds for believing that:

- The company and the group are, or will at any time during the period of 12 months after the date of this notice of annual general meeting, be unable, in the ordinary course of business, to repay their debts as they become due.
- The company's consolidated assets, valued according to Generally Accepted Accounting Practice, will not be more than its consolidated liabilities for a period of 12 months after the date of this notice of the annual general meeting.
- ► The ordinary share capital and reserves of the company and the group will not be adequate for ordinary business

purposes for a period of 12 months after the date of this notice of the annual general meeting.

The company and group will not have sufficient working capital to meet its needs for a period of 12 months after the date of this notice of the annual general meeting.

Any repurchases shall comply with the limitations set out in the special resolution and the requirements of paragraph 5.72 of the Listings Requirements of the JSE.

The shareholders are referred to the sections of the financial report listed below to which this notice of the annual general meeting is attached for general information regarding:

- ▶ The company's directors and management (page 4).
- ► Major shareholders (page 70).
- ► Material changes (page 30).
- ► Directors' interests in securities (page 31).
- ► Share capital (page 66).
- ► The directors, whose names are set out on page 4 of the financial report, collectively and individually accept full responsibility for the accuracy of the information contained in this special resolution and certify that to the best of their knowledge and belief that there are no other facts, the omission of which would make any statement false or misleading and that they have made all reasonable queries in this regard and that the notice of the annual general meeting contains all information required by law and the Listings Requirements of the JSE.
- There are no legal or arbitration proceedings (including such proceedings that are pending or threatened of which the company is aware) which may have or have had in the previous 12 months, a material effect on the group's financial position.

#### **VOTING AND PROXIES**

Members who have not dematerialised their shares or have dematerialised their shares, but with own name registration ("entitled members") may appoint one or more proxies to attend, speak and vote or abstain from voting in such members' stead. A form of proxy is attached for the use of those entitled members who wish to be so represented. Members who have already dematerialised their shares (other than those with own name registration) must inform their duly appointed Central Security Depository Participant ("CSDP") or broker, as the case may be, of their intention to attend the annual general meeting and request that their duly appointed CSDP or broker, as the case may be, issue them with the necessary authorisation to attend or provide their duly appointed CSDP or broker, as the case may be, with their voting instruction should they not wish to attend the annual general meeting in person, but wish to be represented thereat.

For the convenience of dematerialised members whose shares are not registered in their own name, and who are unable to attend the meeting but wish to be represented thereat, kindly complete the enclosed proxy form and return it to the transfer secretaries in Johannesburg. The attention of the members is drawn to the fact that, if it is to be effective, the completed proxy form must reach the company's transfer secretaries in Johannesburg at least 48 hours before the time appointed for the meeting (which period excludes Saturdays, Sundays and public holidays).

By order of the board

Jacob Mahlangu Company secretary

9 December 2005

Registered office Coronation House Boundary Terraces 1 Mariendahl Lane Newlands 7700

## SHAREHOLDERS' DIARY

Annual general meeting

Wednesday, 25 January 2006 at 10:00

## CORPORATE INFORMATION

Share code: Ordinary shares: CML ISIN number: ZAE000047353

#### **BOARD OF DIRECTORS**

Gavan Ryan (chairman) Thys du Toit (chief executive officer) Winston Floquet Shams Pather Louis Stassen

#### TRANSFER SECRETARIES

Computershare Investor Services 2004 (Pty) Limited 70 Marshall Street Johannesburg 2001

Postal address PO Box 61051

Marshalltown 2107

**SECRETARY** Jacob Mahlangu

#### Registered address

Coronation House Boundary Terraces 1 Mariendahl Lane Newlands 7700

Postal address PO Box 993 Cape Town 8000

#### AUDITORS

KPMG Inc. MSC House 1 Mediterranean Street Foreshore Cape Town 8001

Postal address PO Box 4609 Cape Town 8000 appointed 9 November 2005 appointed 9 November 2005



Coronation Fund Managers Limited

(Formerly Coronation Investment Services (Pty) Limited) (Incorporated in the Republic of South Africa) (Registration number: 1973/009318/06) (Ordinary share code: CML) (ISIN number: ZAE000047353) ("the company")

## FORM OF PROXY

#### Thirty-second annual general meeting of members

To be completed by certificated shareholders and dematerialised shareholders with "own name" registration only.

I/We	
of (address)	
being a member of the abovementioned company and holding	
ordinary shares entitling me/us to	votes (1 per share)
do hereby appointof	or failing him/her,
of	or failing him/her,
as my/our proxy to vote for me/us on my/our behalf at the annual general of the offices of the company at Coronation House, Boundary Terraces, 1 M fifth day of January 2006 at 10:00 and any adjournment thereof.	
Dated this day of	20
Signature/s	
	Mark with an X whichever is applicable.

	Mark with an X whichever is applicable.						
I/We desire to vote as follows:	Vote for	Vote against	Abstain				
Ordinary resolutions							
1. To receive and consider the audited annual financial statements of the company for the year ended 30 September 2005							
<ol> <li>(a) To elect Mr Shams Pather who replaces Mr Eric Molobi as a non-executive director</li> </ol>							
(b) To elect Mr Louis Stassen who replaces Mr Tony Gibson as an executive director							
3. To authorise the directors to determine the remuneration of the company's auditors							
4. To re-appoint KPMG Inc. as the company's auditors							
5. To place the unissued shares under the control of the directors							
6. To authorise share issues for cash							
7. To provide the directors with a specific authority to issue shares							
8. To provide the directors with a general authority to make payments in such form as the directors may in their discretion determine from time to time							
Special resolution							
9. To provide the directors with a general authority to repurchase up to 20% of the company's issued share capital							

Unless otherwise directed, the proxy will vote or abstain, as he or she thinks fit in respect of the member's total holding. Any member entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend, speak, act and, on poll, vote in his or her stead. The proxy so appointed need not be a member of the company.

#### Members holding certificated shares or dematerialised shares registered in their own name

- 1. Only members who hold certificated shares and members who have dematerialised their shares with "own name" registration may use this proxy form.
- 2. Each member is entitled to appoint one or more proxies (none of whom needs be a member of the company) to attend, speak and, on a poll, vote in place of that member at the annual general meeting, by inserting the name of the proxy or the names of two alternate proxies of the member's choice in the space provided, with or without deleting "the chairman of the meeting". The person whose name stands first on the form of proxy and who is present at the meeting will be entitled to act as the proxy to the exclusion of those whose names follow.
- 3. A member's instructions to the proxy must be indicated by the insertion of the relevant number of votes exercisable by that member in the appropriate box/es provided. Failure to comply with the above will be deemed to authorise the chairman of the meeting, if he is the authorised proxy, to vote in favour of the resolutions at the annual general meeting, or any other proxy to vote or to abstain from voting at the annual general meeting, as he deems fit, in respect of all the member's votes exercisable thereat.
- 4. A member or his proxy is not obliged to vote in respect of all the shares held or represented by him, but the total number of votes for or against the resolutions in respect of which any abstention is recorded may not exceed the total number of votes to which the member or his proxy is entitled.
- Forms of proxy must be lodged and/or posted to the company's transfer secretaries (Computershare Investor Services 2004 (Pty) Limited) at 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown 2107), to be received by the transfer secretaries by not later than 10:00 on Monday, 23 January 2006.
- 6. The completion and return of this form of proxy in accordance with point 5 above will not preclude the relevant member from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such member wish to do so.
- 7. A minor must be assisted by the minor's parent or guardian, unless the relevant documents establishing the minor's capacity are produced or have been registered by the company.
- 8. Any alterations or corrections to this form of proxy must be initialled by the signatory(ies).
- 9. This proxy form must be signed by all joint members. If more than one of those members are present at the annual general meeting either in person or by proxy, the person whose name stands first in the register shall alone be entitled to vote.
- 10. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form of proxy unless previously recorded by the company's transfer office or waived by the chairman of the annual general meeting.
- 11. The chairman of the annual general meeting may reject or accept any proxy form which is completed and/or received other than in accordance with these instructions, provided that he is satisfied as to the manner in which a member wishes to vote.

#### Members holding dematerialised shares

- 12. Members who have dematerialised their shares through a Central Securities Depository Participant (CSDP) or broker (except those members who have elected to dematerialise their shares with "own name" registration) and all beneficial members holding their shares (dematerialised or certificated) through a nominee should provide such CSDP, broker or nominee with their voting instructions in sufficient time to allow them to advise the transfer secretaries of the company of their voting instructions before the closing time with point 5 above.
- 13. All such members wishing to attend the meeting in person may do so only by requesting their CSDP, broker or nominee to issue the member with a letter of representation in terms of the custody agreement. Such letter of representation must also be lodged with the transfer secretaries before the closing time with point 5 above.

## Transformation 2005



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Coronation's Growing Entrepreneurs Programme

This is the second report produced by Coronation Fund Managers detailing the company's progress in terms of achieving sustainable black economic empowerment (BEE) and transformation. It has been structured to provide the reader with specific details on each of the aspects of our strategy, highlighting progress achieved to 30 September 2005.

### INTRODUCTION

he redressing of past inequalities, correcting of imbalances and the normalising of our society will accelerate and secure economic stability through an increase in the number of skilled participants who actively contribute to the country's growth.

Transformation is an integrated component of Coronation's business strategy. We understand its importance in the future success of our business and moreover, the far-reaching benefits it can provide for individuals and communities.

South Africa is a very young democracy and already we as a country have achieved so much. Over the past year alone, there have been a significant number of black economic empowerment (BEE) transactions across many sectors of the economy.

The introduction of the Financial Sector Charter (FSC) has provided a necessary framework for the industry to implement and track the process of BEE and sustainable transformation. Whilst the intention was to have the FSC gazetted in 2004/05, this has been delayed due to a number of parties not having been consulted in its formulation. However, this delay has provided the Charter Council with the opportunity to ensure perfect alignment with the recently released Department of Trade and Industry (DTI) Codes of Good Practice, regarding uniformity of definitions and target measures.

#### **CORONATION AND TRANSFORMATION**

We attribute our success to the strength and diversity of our people. Thus, the natural evolution of our business strategy has transformation as a key driver, building on our greatest asset which is our people.

At Coronation our focus is to ensure that all our transformation initiatives are financially and practically sustainable, be they human resource development, ownership and control, corporate social investment or procurement and enterprise development.

Core to each initiative is that it is developmental in nature and builds capacity. Our aim is to make meaningful changes in people's lives, be they our staff, business partners, suppliers or communities.

At Coronation our approach to BEE and transformation is a logical evolution of growing a successful South African business.

Within this transformation report we focus on the four key areas upon which our strategy has been developed. These are:

- Ownership and control
- Procurement and enterprise development
- ► Human resource development
- Corporate social investment



## MESSAGE FROM THYS DU TOIT, CHIEF EXECUTIVE OFFICER

s one of South Africa's most successful and innovative fund management companies, our aim is to ensure that broad-based black economic empowerment and transformation provide benefits to our business, our people and the economy.

We are a business with a proud history which began in 1993 with a group of young entrepreneurs who believed in their own ability, and who had the foresight to identify the opportunities that lay before them. For Coronation, our inception was a time of great excitement and challenge; emotions that only one year later punctuated the lives of every South African as the first free and fair elections signalled change for the country.

The economic development of South Africa is the responsibility of all who share in her challenges and opportunities. As a business we understand the importance of our role in enabling positive social change. By redressing the inequalities of the past we lay the foundation for a prosperous future.

Our key areas of focus in achieving sustainable black economic empowerment and transformation are to:

- achieve meaningful black influence in the control of the company through our broad-based black economic empowerment partnership with the Imvula Trust, and other future black partners.
- continue to employ talented black individuals who will further enrich the diversity of our staff complement.
- procure services from suppliers who are committed to transformation.
- ▶ focus our corporate social investment on empowering individuals through the acquisition of entrepreneurial skills, thereby uplifting communities and making them sustainable.

The Coronation transformation strategy is a work in progress, with ambitious targets and achievements that make practical business sense for our clients, partners, shareholders and staff.



## A STRONG FOUNDATION OF TRANSFORMATION

he primary foundations to achieving sustainable black economic empowerment and transformation at Coronation Fund Managers were laid in 1993 upon the formation of the company. At that time, our key areas of focus included corporate social investment, enterprise development and employment equity.

We recognise that broad-based sustainable transformation is the route to greater business success and positive social impact and, as a South African company, we have embraced transformation at all levels of our business as we seek equality across lines of race, culture and gender. We actively support increased meaningful participation by black people in the mainstream economy.

To ensure effective and meaningful transformation within Coronation Fund Managers we have a dedicated team comprising senior representatives from across the business tasked with the ongoing development, implementation and measurement of our transformation strategy. We were active participants in the formulation of the Financial Sector Charter, through our involvement with IMASA, the Investment Management Association of South Africa, and continue to be actively involved in its alignment with the DTI Codes of Good Practice.

Coronation's strategy for sustainable black economic empowerment has been constructed with the dual purpose of achieving continued business success and contributing to economic growth in the country.



## BLACK ECONOMIC EMPOWERMENT THROUGH OWNERSHIP

he opportunity to achieve broad-based black participation in the decision making and economic success of our business was realised on the formation of the Imvula Trust. The Trust is the representative body of all current and future permanent black staff who collectively own 10% of Coronation. Currently this number totals 54 individuals (of a total staff complement of 140), 56% of whom are female and 44% male.

We see black participation in the decision making and economic success of the company as one of the most direct means of increasing black participation in the economy, and in selecting our ownership partner we were guided by the following principles:

- ▶ Be true direct economic ownership from the outset.
- Have no dependence on the share price for achieving ownership.
- Ensure that associated control of the company is commensurate with the size of the stake.
- ► Have broad-based black owners.
- ► Be sustainably funded by external financiers.

Rather than bringing in a high-profile outsider, we chose a group of talented individuals who know and understand our business.

In making this commitment to our own people we strengthen the ownership culture upon which Coronation was founded, and lay fresh foundations upon which to create our future success. Our business has always been about empowering our people, and in partnering with our black staff we stay true to this founding characteristic.

This partnership signifies an important milestone in the ongoing development and transformation of Coronation, greatly enhancing our growth prospects for the benefit of shareholders, business partners and staff. It achieves 10% clear, unconditional black direct ownership in, and corresponding control of, the entire business from the outset. The black stakeholders have full voting rights, through the trustees, on the shares they acquire and are represented at Coronation executive management level. These black stakeholders participate fully in dividend flows from the effective date and these dividends will, in part, be utilised to service and redeem the third-party funding.

The deal was concluded at the market price of 385 cents and was 100% externally financed by a third-party financier to the extent of R148 million.

## CONTROL

he control of the strategic direction and day-to-day management of the company is the responsibility of the Coronation board of directors and executive management. The diversity of these teams is critical as we actively seek to increase the participation of black individuals in decision making.

#### **BOARD OF DIRECTORS**

The board of Coronation Fund Managers has full and effective control of the company and is responsible for guiding and reviewing corporate strategy, the consideration of major initiatives and the company's risk policy. Current black representation on the board is 20%.

#### Board members are as follows:

#### Gavan Ryan

#### Chairman, non-executive director

Gavan is an executive director of Coronation Investments and Trading Limited, the investment banking group formerly listed as Coronation Holdings Limited. He was a director of the Coronation Holdings Limited group from 1992, serving as chairman from 1993 to 2001. Prior to joining Coronation, Gavan was involved in investment banking in South Africa for more than 20 years.

#### Shams Pather

#### Non-executive director

Shams has 28 years experience in the asset management industry. From 1974 to 2002 he was with Norwich Union, Colonial Mutual Life Assurance, Southern Life and Real Africa Asset Management. Other directorships include Oceana Group Limited, Sunshine Street Investments 63 (Pty) Limited, The RARE Group (Pty) Limited, Lungisa Industrials (Pty) Limited, Lungisa Technologies (Pty) Limited, Lungisa Investment Holdings (Pty) Limited, as well as the UCT Joint Investment Council.

#### Winston Floquet

#### Non-executive director

Winston is chairman of Flagship Private Asset Management (Pty) Limited, a position he has held for the past four years (2001 to present). Prior to this, he held the position of deputy chairman of Fleming Martin South Africa (now JP Morgan) for seven years (1995 to 2001) and the position of chief executive officer of Martin & Co Inc. for 10 years (1986 to 1995). He is also a former chairman of the Investment Analysts Society and a former member of the Accounting Practices Board.

#### Thys du Toit

#### Chief executive officer, executive director

Thys is one of the founding members of Coronation Fund Managers and was appointed as chief executive officer in 1997. Prior to joining Coronation, he spent four years with Syfrets Managed Assets as a portfolio manager, and six years (three as a director) with George Huysamer & Partners (later bought out by ABN Amro) in the fields of capital and derivative markets, equity research and portfolio management.

#### Louis Stassen

#### Chief investment officer, executive director

Louis is a founder member and chief investment officer of Coronation Fund Managers. He has more than 16 years industry experience and has worked in the investment teams of Allan Gray, Syfrets Managed Assets and Standard Bank in London. Louis joined Coronation in 1993 and from 1999 to 2001 held the position of chief investment officer (South Africa). Until September 2004 he headed up the Absolute Investments Unit which he established in 1999, and became chief investment officer in January 2005.



Supporting the development of niche black stockbrokers.

#### **EXECUTIVE MANAGEMENT TEAM**

Coronation's executive management team is led by the chief executive officer and comprises all key decision makers from within the business. This team is accountable for the day-to-day running of Coronation, the development and implementation of strategy, business plan and policies.

#### Nick Battersby

Nick spent 10 years in general management and director roles within the hospitality industry before joining Coronation in 2001. He progressed through the roles of business development manager and general manager, before being appointed head of operations in January 2004.

#### **Pieter Davis**

Pieter joined Coronation in October 2003 to establish a dedicated client service team. Before this he was head of the fund management team at Investec Asset Management, having spent the previous eight years with Old Mutual Asset Managers.

#### Alan Herman\*

Alan has been with Coronation since its formation in 1993 when he started in a client relationship management role. Since 1996 he was head of our international client service division, and was appointed head of implementation in 2002. In January 2004 he was appointed operations manager of the South African business.

#### Pieter Koekemoer

Pieter joined Coronation Fund Managers in 1998. Prior to which he worked at Coopers and Lybrand for four years, and at Sanlam for three years as senior project manager in the marketing and distribution division. Pieter is head of the retail business.

#### Kagisho Mahura\*

Kagisho joined Coronation in February 2004 from Old Mutual, where he spent the previous seven years. During his time with Old Mutual, Kagisho built up an impressive track record as a marketing specialist, moving through the ranks in a number of roles. Kagisho is head of marketing.

#### John Snalam

John has been the chief financial officer of Coronation Fund Managers since its inception in 1993. Prior to joining Coronation he spent 13 years in the fields of accounting and compliance, both in London and South Africa.

#### Kirshni Totaram\*

Kirshni joined Coronation Fund Managers in June 2000. She is an actuary and, prior to joining Coronation, worked at Metropolitan Life as head of the Aids Research Unit. Kirshni was appointed head of institutional business in April 2003, prior to which she was the manager of the Coronation Property Equity fund.

Chief executive officer, Thys du Toit, and chief investment officer, Louis Stassen, complete the Coronation executive team.

\* Imvula beneficiaries

Coronation's allocation to BEE/Niche stockbrokers.





## BUILDING BLACK BUSINESS

#### PROCUREMENT

It is our belief that preferential procurement is where transformation will have the greatest impact; providing real opportunity for the redistribution of wealth. By exerting influence on our suppliers to enhance their black economic empowerment credentials, and they in turn on their suppliers, we create a cycle of enhanced economic activity and wealth creation. This is a process that will very quickly gain momentum and achieve true redistribution of wealth in a sustainable and developmental manner.

#### OUTSOURCING

Coronation's strategy is to outsource all non-core operations and our procurement policies strongly reflect black economic empowerment as the central criterion.

In our assessment of service providers we utilise B1SA, a web-based system (used by all IMASA members) in establishing the relevant empowerment credentials of suppliers and stockbrokers. Of our total discretionary spend, which consists of discretionary company expenses and discretionary stockbroker commissions, 84% is sourced from BEE-accredited companies.\*

Coronation Fund Managers is committed to raising the percentage of procurement from BEE-accredited companies. In support of this, we conduct regular audits of existing and potential supplier credentials and, when required, exert influence on those whom we deem to be making insufficient transformation progress.

#### STOCKBROKERAGE

As an asset management company, we have responsibility for the procurement of stockbroking services on behalf of our clients. Those stockbroking houses that comprise our list of preferred suppliers are required to "qualify" on a number of criteria, including execution capability, research and black economic empowerment credentials. Over the years, Coronation's allocation to BEE-accredited stockbrokers has increased consistently. For the calendar year to 30 September 2005, 43% (unweighted) of our brokerage was directed to black-owned, black-empowered and black-influenced stockbrokers.

Coronation has been instrumental in developing a number of corporate initiatives which have contributed to the transformation and development of skills in the Southern African asset management industry. Building on this success and our commitment to the promotion of black enterprise development, we have launched an exciting new Business Support Programme that will see Coronation "partner" a niche black stockbroker over the next three to five years.

While not the exhaustive list of criteria by which institutions typically evaluate a stockbroking house, we have assessed potential candidates for the Coronation Business Support Programme on their business plan, dealing capabilities and BEE credentials. These components will allow us to better understand what black-owned stockbrokers are trying to achieve, and thereby enable us to:

- ▶ Provide guidance and direction as the business plan rolls out.
- ► Have ongoing interaction with the companies.
- ► Support the development of product and service ideas.
- Obtain tangible measures on the areas where development is taking place.

Our support of BEE/Niche stockbrokers is firmly based on the belief that by empowering individuals within the supplier's company, we can contribute to economic growth through the empowerment of disadvantaged black people who were previously excluded from the mainstream economy. Our success in this regard will be measured by a steadily increasing percentage of stockbroking services allocated to BEE/Niche stockbrokers based on quality of service and empowerment credentials.

<sup>\*</sup> BEE-accredited companies are black-owned, black-empowered and black-influenced companies (as defined by the Financial Sector Charter) and those companies who have achieved a sufficiently high Balanced Scorecard empowerment rating. Overall procurement from these companies is calculated by weighting the rand spend with each company by the weighting that is relevant to their BEE status as set out in the Financial Sector Charter.

Transformation can only be meaningful if it is people-centred, builds capacity and is treated as a long-term commitment. At Coronation this is a value system which we live each day.

## ENTERPRISE DEVELOPMENT

ince 1993, Coronation Fund Managers has been instrumental in developing a number of new corporate initiatives which have contributed to the transformation and development of skills in the South African asset management industry.

# Our most notable successes are the establishment and development of:

- ► The investment management and unit trust companies of African Harvest during its initial years. In 1997 Coronation formed a strategic alliance with the National Empowerment Corporation Limited with the key objective of achieving redistribution of ownership. This resulted in the launch of the jointly controlled listed company of African Harvest Limited. In the establishment of this business, Coronation provided extensive skills training, marketing and the provision of key management in the form of the then Coronation chief executive officer and a number of key investment individuals.
- The establishment of Namibia Asset Management (Pty) Limited and Namibia Unit Trust Managers Limited in 1997. Through the formation of a strategic partnership with a group of prominent Namibian businessmen, Coronation

provided skills transfer and training of Namibian staff. This partnership continues today and includes management support, client administration and investment management training. We also provide a training incubator for the investment staff of Namibia Asset Management, whereby the research analysts and portfolio managers are trained in the Cape Town office of Coronation Fund Managers.

- ► In early 2002, the quantitative investment management company, Kagiso Asset Management, was launched as a joint initiative with Kagiso Trust Investments. Coronation's involvement in the development of this business included the transfer of skills, the provision of appropriate infrastructure, marketing and unit trust distribution support, as well as client administration.
- ► The formation of Coronation Fund Managers Botswana (Pty) Limited in February 2005. The aim of this business, staffed with Batswana is to become the leading provider of asset management services to the Botswana savings and investment markets, primarily via private sector and public sector institutional clients. Coronation's role is to guide, train and develop the expertise that will make the company a Botswana success story.



## EXCEPTIONAL PEOPLE

he greatest asset of our business is its human and intellectual capital. The smarter and more diverse our people, the greater is our competitive advantage. We therefore seek to employ exceptional individuals and develop their potential to build capacity as a sustainable and successful business. Our integrative, flexible environment prompts staff to question the norm and create new ways of achieving better results, thus maximising the value we derive from the diversity of our staff. We are extremely proud that five of our staff members were recognised by the Western Cape Chapter of ABSIP (Association of Black Securities and Investment Professionals) for their achievements in the industry at an awards dinner held in Cape Town in October 2005.

#### Our ethos comprises 10 key statements:

- ► Know that without clients we have no business.
- ▶ Be the best.
- Act with integrity and always be transparent and professional.
- ► Always question and search for new ideas.
- ► No hierarchy follow guidelines, not rules.
- ► Everyone is accountable.
- ► Achieve with passion and energy.
- ► Work as a team everyone's contribution is important.
- ► Own the bottom line.
- ► Live the culture.

## STRENGTH THROUGH DIVERSITY

here possible, we continue to recruit black candidates; the notable success of which is reflected in our staff demographics.

We continually meet with exceptional black candidates for exploratory interviews with a view to creating openings where the business allows. By taking this approach we do not rely upon staff turnover to transform our staff demographics and at the same time position Coronation as an employer of choice for black talent within the asset management industry.

We follow a strict recruitment and selection process with the emphasis on recruiting, training and retaining talented black professionals. Our steady progress in this regard is reflected in the number of black people integral to the success of our business. Of our 120 South African staff, we currently employ 46% black and 54% white staff.



The diversity of our staff composition spans all levels of management, with a high proportion of black individuals at junior and middle management levels. We continue to attract and appoint talented black individuals at senior level.

	Black				White			
	Male Female			Ν	Male Female			
	%		%		%		%	
Executive management	20		10		70		0	
Senior management	17		8		56		19	
Middle management	28		16		24		32	
Junior management	23		41		2		34	
Other staff	20		60		0		20	
Total	22		24		28		26	

Our South African investment team comprises 36 people, of whom 15 (43%) are black and 6% are black female (as at 30 September 2005).

	В	lack			White			
1	Male	Female		Ν	/lale	Female		
	%		%		%		%	
Portfolio managers	9		0		83		8	
Research analysts	46		18		18		18	
Dealing and implementation	57		0		29		14	
Quantitative analysis	20		0		40		40	

#### **SKILLS DEVELOPMENT**

To increase the number of black professionals and secure the future of the industry, we believe that effective skills transfer and individual skills development are vital. Each company's challenge is to build capacity from within rather than rely on the recruitment of the few black investment professionals who currently exist.

Our role is to recognise the potential in individuals and create the opportunities for their inclusion in the country's economic growth. Once we have employed exceptional candidates we continue to develop them through internal training as well as mentorship and development programmes.

We define training within two distinct groupings. Core training is approved education and training required to do a specific job. It follows specific time frames agreed upon by both the staff member and manager and is monitored through the performance appraisal process. Non-core training may be defined as education and training that is not directly related to a particular job but undertaken by individual employees to further their personal growth.

Financial support is available from the company for those individuals who wish to undertake studies towards achieving a degree, diploma or certificate. Our senior black investment

We seek equality across lines of race, culture and gender.



professionals have attained the CFA (Chartered Financial Analyst) qualification, while many of the junior black investment professionals are currently studying for this sought-after qualification. Training is planned in the performance appraisal process and our training co-ordinator is responsible for sourcing top-quality training and for ensuring that staff are made aware of what is available in the market.

#### **CAREER PLANNING**

Career planning and development are viewed as vital to our culture, where we encourage individuals to partner with their manager in creating a programme to achieve their goals. Our entrepreneurial culture provides staff with the freedom and opportunity to add exceptional value to the business within a loose framework of guidelines. Our commitment to achieving this is to provide all staff with equal opportunities to information and training and to provide regular feedback in the form of performance appraisals.

All vacancies are first advertised internally to encourage staff to develop their careers at Coronation.

#### **MENTORSHIP AND INTEGRATION**

The Coronation Mentorship Programme was introduced to facilitate a nurturing environment where new employees are welcomed and integrated with ongoing support. Suitable mentors are identified and asked to volunteer to ensure a true motivation to develop others. Those volunteers are offered comprehensive training on how to be effective mentors with ongoing support throughout their tenure as mentors.

Mentoring is a specific programme of partnerships where new employees are mentored by experienced employees who support their integration and development. Due to the programme's focus on new staff, it specifically targets black employees who make up the majority of new staff, and currently all mentees in the programme are black. The objective of the programme is to integrate new staff and provide support with career development. This is achieved through the transfer of knowledge and experience by staff knowledgeable in both the asset management industry and with Coronation Fund Managers. Feedback from this programme has been overwhelmingly positive with both mentors and mentees learning from the relationships, particularly with regard to diversity. Mentees are given the advantage of a sounding board who can guide and empower them to develop themselves and find their own answers. Regular mentor and mentee meetings are held to share experiences on how to benefit from this programme which ensures ongoing learning and feedback, and promotes the success of the programme.

Interactive staff inductions are held quarterly to ensure that new starters are familiarised with the business and have the opportunity to spend time with the heads of the various business units.

#### **DIVERSITY MANAGEMENT**

Our aim is to achieve a non-racial, non-sexist environment which is inclusive of all cultures. While our business practices have never been discriminatory, one cannot ignore the legacy of the past and how this has shaped different people in different ways. In creating an environment that provides equal opportunity for training, growth and development regardless of race or gender, we will have built a powerful foundation for future individual and business success.



## GROWING ENTREPRENEURS

or us, social investment is more than just making donations to needy causes. It is about empowering individuals and uplifting communities by establishing sustainable projects which will result in meaningful community and national economic upliftment.

Historically, our corporate social investment programmes have focused on developing human and intellectual capital. This was seen in our association with the Study Trust, the Thabo Mbeki Bursary Crossroads Education Fund, and our involvement in programmes such as Education Alive and the Western Cape Primary Science Programme and many more.

## Give a man a fish and you feed him for a day. Teach a man to fish and you feed him for a lifetime.

Chinese proverb

As a former co-sponsor of the Lim'uvune Programme (2001 and 2002), we supported the need to develop a skills base of black professionals within the asset management and investment banking arenas, and we are proud to have been able to offer positions to all programme participants during our involvement in this programme.

#### **COMMUNITY PROJECTS**

The country faces an enormous challenge in terms of skills development and job creation, and what better way to uplift communities than to provide them with the skills to become true entrepreneurs. By channelling a large proportion of our funding to the development of entrepreneurship across the communities of South Africa, we believe that we can make a meaningful and much needed difference.

In mid-2004, Coronation partnered with the South African Institute for Entrepreneurship to develop an entrepreneurial training module, Coronation's Growing Entrepreneurs Programme, to impart the necessary skills that will create much-needed jobs and assist in further alleviating the frontiers of poverty. The programme promises to educate a range of subsistence farmers in urban and rural areas to transform their hand-to-mouth practices into effective businesses, thereby promoting economic empowerment and sustainable livelihood practices. These small-scale farmers are taught the skills of growing crops to sustain themselves, as well as how to create sustainable businesses and employment. This is the first programme of its magnitude to be undertaken in the country and has the potential to reach over 30 000 individuals.

Uthembeka Makana is just one of the many individuals who is benefiting from Coronation's Growing Entrepreneurs Programme, this is her personal story: Masibambane Community Garden and Nutrition\*, Site B, Khayelitsha, Cape Town.

Kwiminyaka emithathu edlulileyo, ndonyulwa njengomququzeleli nomphathi we Masibambane. Noxa ndingumphathi ndisabandakanyeka ekutyaleni nasekuvuneni. Sinezitiya zemifuno kwizikolo ezine apha e Site B, neofisi yethu ese Sibenza Primary School.

ICoronation Growing Enterpreneurs Programme ibutshintshe kwaphela ubomi bethu. Ukude kube ngoku, mna nabanye abasebenzi sizimase iinkqubo zokololonga ze Agriplanner zantathu kwaye zenze umahluko omkhulu kwimpatho yemihla ngemihla yezitiya zethu. Kokokuqala silujonga ngohlobo olundilisekileyo ulimo lwethu. Ngaphambili besikade silima nje nokuba yintonina esinayo, nanini, nakowuphina umhlaba okhoyo. Izinto ngoku zahlukile.

Phambi kokuba sityale nantonina siqale sicinge ukuba siyityalela ntoni. Sibala ukuba sizakusebenzisa izityalo ezingakanani na thina, izikolo zethu, ze sibale ukuba sizakuthengisa senze inzala engakaninani na. Xa sihlengahlengisa, sijonga ixesha lesivuno (kuxhomekeka kwixesha lonyaka) nokuba zeziphi izityalo ezilandelayo ngokomhlaba. Side sigcine iincwadi zokuba kutyalwe ntoni kowuphi umhlaba, ityalwe nini nokuba kulindeleke ukuba ingavunwa nini. Amalungu ethu ngoku sele eqonda ukuba kutheni singenakuvela siyohlule yonke inzala sigoduke nayo, kufuneka sazi ukuba singabuyisela malini kuMasibabane. Ngoku singoosomashishini abasakhulayo kwaye sinemincili.

Imisebenzi siyohlule ngokulinganayo- abanye bayatyala bavune ngelixesha abanye bethengisa. Sizicwangciso eziphangaleleyo, sinethemba lokuba ngenye imini siyakusebenzisana neevenkile ezinkulu ezifana no Shoprite eSite C, eKhayelitsha.



Ndifunde izakhono ezininzi endithi ndizisebenzise apha kuMasibambane nakwezinye iinkalo zobomi bam. Ndiziva ndinokukwazi ukuqala noluphi na uhlobo lweshishinindingalwenza uhlahlo lwabiwo mali olululo, kwaye kokokuqala ndikwazi ukugcina imali.

Ndiyathemba ukuba uCoronation uzakuqhubekeka nalenkqubo yokulolonga kuba abantu bethu balunxenelwe ulwazi. Ndiwasile amalungu ethu amaninzi kule nkqubo ye Agriplanner kwaye ndibone umahluko omkhulu ebomini bawo ngenxa yolwazi awalufumeneyo.

uMasibambane Community Garden and Nutrition ngumbutho ongezi nzala okhulisa imifuno kwimihlatyana esetyenziswa emakhayeni nokutyisa abantwana abahamba izikolo kulengingqi.

The Coronation Growing Entrepreneurs Programme has changed our lives forever. So far, myself and some colleagues have attended three Agriplanner training sessions which have made a huge difference in the day-to-day management of our gardens. For the first time we have a much more formalised approach to our gardening. Before we were just planting whatever we could, whenever we could, on any plot that was available. Now things are different.

Before we plant anything, we first think about why we are planting it. We calculate how much of the crop we will need for ourselves, our schools and then how much we can sell and the profit we will make. In setting out our plans, we determine when we are going to harvest (based on the season) and what the next crop should be per plot. We even keep records of what was planted in which plot, when it was planted and when we expect to harvest. Our members have also started to understand that we cannot split the profit and take it all home; we need to think about how much to put back into Masibambane. We are now 'small business' people and it's very exciting.

We have also shared out all the responsibilities – some plant and harvest while others sell. And we have great plans, one day we hope to supply supermarkets like Shoprite in Site C, Khayelitsha.

I have learnt so many skills that I use for Masibambane and in many other aspects of my life. I really feel that with what I've learnt I could start any other type of business – I can now

I was appointed co-ordinator and supervisor of Masibambane three years ago, but like most members I still get involved in planting and harvesting. We have vegetable gardens in four schools here in Site B, with our office situated at Sibenza Primary School.

do a proper budget, and for the first time I am able to save some money.

I hope that Coronation will continue with this training because our people need the knowledge. I have sent most of our members for the Agriplanner training and I have seen the huge difference the knowledge has made to their lives.

\* Masibambane Community Garden and Nutrition Garden is a nonprofit organisation which grows vegetables in subsistence plots primarily for home consumption and to feed the children attending schools in the area.

#### **RECOGNISING KEEN MINDS**

We provide bursaries to a number of black students at various universities in South Africa. Funding is awarded on merit and according to the financial need of students studying towards Business Science, Accounting, Finance, Business Economics and Economics degrees. The Coronation bursary programme has been in effect since 1993 with participation from the University of the Free State, University of Cape Town and University of the Western Cape.

We have provided support to the Tswelelopele Bursary Fund which funds black students at the University of the Free State, and we currently have bursars studying at the University of Cape Town, University of the Western Cape, Wits University and Boston College. Our "vac work" programmes are developed to provide students in their second year of study with the opportunity to gain valuable work experience and enhance their understanding and knowledge of the asset management industry.

# Noluthando Matumbu is a bursary student currently studying BAcc at Wits University.

My mother died when I was 16 and I have never known my father, so becoming independent was a necessary goal for me.

For the last few years I have lived with my cousins in East London's largest township Mdantsane. I am determined to be the best I can be and to make my uncle and aunt proud – and especially my mother. I decided to study BAcc at Wits University because I knew it was a ticket that would take me out of these dusty streets and into a better life. I was told that it wasn't going to be easy, but I was ready for the challenge.

When I was called for the bursary interview with Coronation I was quite nervous, but I put on a brave face and tried to appear confident. It was a very thorough and professional interview with lots of questions, but it was also very friendly and quite relaxed. From the moment I left the interview I knew that I would love to work for Coronation one day.

Two months into my bursary, Coronation assigned one of their senior black professionals as my mentor. For a young girl from the Eastern Cape living amongst the bustle of Johannesburg and varsity life I saw this as an incredible opportunity, and I have loved every minute of it. Now I feel like I have an older brother who guides and counsels me. Frank Magwegwe is my mentor and he encourages and motivates me to achieve more than what I thought I was capable of. Coronation is no longer just a faceless company that provides financial support for my studies; I have a personal connection with Coronation and I truly believe that they care.

This year, I did vac work at the Coronation Johannesburg office, which was fantastic. I gained the kind of experience that no amount of lectures could ever impart, so much so that I have now changed my dreams. My plans are to focus my studies on the field of investments, and not to follow the usual chartered accountancy route that many accounting students take.

I am so excited about what the future will bring and I hope that part of that future will be to work at Coronation.



#### **BUILDING COMMUNITIES**

In March 2005 a total of 60 Coronation staff members participated in the Asset Management Industry Blitz Build Challenge in KTC, Nyanga, Cape Town, under the auspices of Habitat for Humanity.

Habitat for Humanity International is a non-profit organisation that builds simple decent affordable housing in partnership with people in need. The programme enables individuals, companies, organisations and groupings to come together and assist those who find themselves living in shacks fashioned out of old boxes and pieces of tin and wood.

Over the course of one week, Coronation staff worked alongside the new homeowner, Joyce, in Nyanga to mix cement, lay foundations, build walls, align window frames, hang doors and celebrate the placing of the roof atop her new home. It was an amazing experience for all involved which culminated in an emotional celebration as Joyce was handed the key to the door of her new home together with gifts of carpeting, curtains, foodstuffs as well as a bed and mattress.

Each new homeowner makes payments on a no-profit mortgage which go into a revolving fund to build new houses for others in need.

#### **EMPOWERING THROUGH KNOWLEDGE**

Coronation Fund Managers has identified the need for a trustee training programme that builds a solid foundation of basic, generically applied financial knowledge as well as addressing more complex technical issues. Together with a specialised external training group, we offer an in-depth education programme specific to South African trustees for all our clients.

A key benefit of our approach is that we use practical examples and experiences which provide trustees with the necessary knowledge to proceed to the more advanced complexities of drafting investment policy statements and making sense of the industry jargon used by fund managers. The training environment is informal, which often allows for the added benefit of improved interaction between members of the same board of trustees. Our trained facilitator works on building investment knowledge as well as building teams.



By supporting the national strategy of broad-based black economic empowerment and transformation we are contributing to a sustainable economy and a nation of people who actively participate in its growth.

As a fund management company we embrace broad-based black economic empowerment and what this means for our staff and our business. To us, transformation can only be meaningful if it is people-centred, builds capacity and is treated as a long-term commitment. This is the sentiment that guides all our initiatives and transformation goals.

This report is a snap-shot in time of Coronation's journey to achieving sustainable transformation and our commitment to a value system which we live each day. Coronation Fund Managers will continue to pursue its transformation strategy with vigour and strive to exceed all its targets.

Critical for the country to prosper is the collective commitment to black economic empowerment and transformation. We pledge our commitment to achieving this goal.

## AD HOC SOCIAL INVESTMENT IN 2005

Bicycling Empowerment Network – Training Academy Association for the Physically Disabled – "Casual Day" St Luke's Hospice – Tree of Lights campaign and donation to Lentegeur Hospital Bandana Day Cycle for Life – Anti-murder Campaign Wola Nani – World Aids Day Circus Workshop for underprivileged children Narconon Drug Education Centre Children of the Wilderness and Peace Parks Foundation – Charity mountain bike race JP Morgan – Cycle for Kids Noah Broking for Good



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