RECM AND CALIBRE LIMITED

Incorporated in the Republic of South Africa
(Registration number 2009/012403/06)
Preference share code: RACP
ISIN: ZAE000145041
("RAC" or "the Company")

AUDITED ABRIDGED GROUP RESULTS

for the year ended

31 March 2013

STATEMENT OF FINANCIAL POSITION

as at 31 March 2013

	31 March 2013 R	31 March 2012 R
ASSETS		
Non-current assets	**322 303 670**	166 722 232
Other financial assets	**322 303 670**	166 722 232
Current assets	**283 849 122**	399 469 856
Other financial assets	**281 793 474**	395 921 833
Trade and other receivables	**556 890**	2 656 139
Current tax receivable	**1 153 402**	–
Cash and cash equivalents	**345 356**	891 884
Total assets	**606 152 792**	566 192 088
EQUITY AND LIABILITIES		
Equity	**59 174 397**	55 624 032
Share capital	**50 000 000**	50 000 000
Reserves	**46 225 052**	27 220 255
Retained income	**(37 050 655)**	(21 596 223)
Liabilities	**546 978 395**	510 568 056
Non-current liabilities	**545 860 718**	507 577 420
Deferred tax	**13 296 442**	6 966 433
Other financial liabilities	**532 564 276**	500 610 987
Current liabilities	**1 117 677**	2 990 636
Trade and other payables	**1 117 677**	1 729 002
Current tax payable	**–**	1 261 634
Total equity and liabilities	**606 152 792**	566 192 088

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2013

	31 March 2013 R	31 March 2012 R
Revenue	**20 834 955**	26 019 116
Operating expenses	**(7 970 802)**	(7 702 149)
Operating profit	**12 864 153**	18 316 967
Other income	**6 763 608**	4 457 699
Fair value adjustment on financial liabilities	**(31 953 289)**	(38 775 707)
Finance costs	**–**	(866)
Loss before taxation	**(12 325 528)**	(16 001 907)
Taxation	**(3 128 904)**	(4 756 287)
Loss for the year	**(15 454 432)**	(20 758 194)
Other comprehensive income:		
Available-for-sale financial instruments adjustment	**24 462 549**	31 892 887
Taxation related to components of other comprehensive income	**(5 457 752)**	(6 826 280)
Other comprehensive income for the year net of taxation	**19 004 797**	25 066 607
Total comprehensive income	**3 550 365**	4 308 413
Total comprehensive income attributable to:		
Ordinary shareholders	**3 550 365**	4 249 329
Non-controlling interests	**–**	59 084
	3 550 365	4 308 413
Earnings and headline earnings per share		
Per share information (ordinary and preference)		
Basic and diluted earnings per share (cents)	**(309)**	(415)
Headline earnings per share (cents)	**(433)**	(504)
Additional information:		
Net asset value per share		
Net asset value per ordinary share (cents)	**1 183**	1 112
Net asset value per preference share (cents)	**1 183**	1 112
Adjusted earnings	**35 503 654**	43 084 120
Adjusted earnings attributable to:		
Ordinary shareholders	**3 550 365**	4 249 329
Preference shareholders	**31 953 289**	38 775 707
Non-controlling interests	**–**	59 084

EARNINGS AND HEADLINE EARNINGS PER SHARE AND NET ASSET VALUE PER SHARE

	31 March 2013 R	31 March 2012 R
Number of shares in issue		
Ordinary shares	**5 000 000**	5 000 000
Preference shares	**45 000 000**	45 000 000
Earnings		
Net loss after tax	**(15 454 432)**	(20 758 194)
Adjusted to headline earnings as follows:		
IAS 16 – Profit on asset disposal	**(6 217 664)**	(4 457 699)
Headline earnings	**(21 672 096)**	(25 215 893)
Basic and diluted earnings per ordinary share (cents)	**(309)**	(415)
Headline earnings per ordinary share (cents)	**(433)**	(504)
Net asset value		
Net asset value attributable to ordinary shareholders	**59 174 397**	55 624 032
Fair value of preference shareholding	**532 564 276**	500 610 987
Net asset value per ordinary share (cents)	**1 183**	1 112
Net asset value per preference share (cents)	**1 183**	1 112

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2013

	Share capital R	Share premium R	Total share capital R	Fair value adjustment assets available-for-sale reserve R	Retained income R	Total share-holders' equity R	Non-controlling interests R	Total equity R
GROUP								
Balance at 1 April 2011	50 000	49 950 000	50 000 000	2 153 648	(838 029)	51 315 619	1 000 000	52 315 619
Changes in equity								
Total comprehensive income for the year	–	–	–	25 007 523	(20 758 194)	4 249 329	59 084	4 308 413
Change in unit trust holders	–	–	–	59 084	–	59 084	(1 059 084)	(1 000 000)
Balance at 1 April 2012	**50 000**	**49 950 000**	**50 000 000**	**27 220 255**	**(21 596 223)**	**55 624 032**	**–**	**55 624 032**
Changes in equity								
Total comprehensive income for the year	**–**	**–**	**–**	**19 004 797**	**(15 454 432)**	**3 550 365**	**–**	**3 550 365**
Balance at 31 March 2013	**50 000**	**49 950 000**	**50 000 000**	**46 225 052**	**(37 050 655)**	**59 174 397**	**–**	**59 174 397**

STATEMENT OF CASH FLOWS

for the year ended 31 March 2013

	31 March 2013 R	31 March 2012 R
Cash flows from operating activities		
Cash from/(used in) operations	**280 729**	(10 376 556)
Interest income	**17 680 235**	24 073 760
Dividends received	**3 154 720**	1 945 356
Finance costs	**–**	(866)
Tax paid	**(4 671 592)**	(5 033 144)
Net cash from operating activities	**16 444 092**	10 608 550
Cash flows from investing activities		
Additions to other financial investments	**(16 990 620)**	(10 696 459)
Net cash used in investing activities	**(16 990 620)**	(10 696 459)
Net cash from financing activities	**–**	–
Total cash movement for the year	**(546 528)**	(87 909)
Cash and cash equivalents at the beginning of the year	**891 884**	979 793
Total cash at the end of the year	**345 356**	891 884

COMMENTARY

OVERVIEW

During the year under review, the Net Asset Value of our company increased by 6,4% to R11,83 per share. Since we listed, in May 2010, our Net Asset Value per share has grown by 6,5% per annum.

Our job is to generate returns that beat inflation, cash rates, as well as the return generated by the average South African listed company. We aim to do so by investing in and partnering with good businesses globally, whether listed or unlisted. One of our important competitive advantages is that our co-investors have entrusted us with a permanent capital base. This has two benefits: we can take genuinely long-term views, without the fear of investors' withdrawals influencing our decision-making process, and we can act as a genuine long term partner to our investee companies.

We have beaten cash and inflation – i.e. your capital is worth more in real terms since we started looking after it – but we are way behind the returns generated by the average listed company.

The main reason we have lagged returns available from the equity market is the slow pace at which we have invested our shareholders' capital, despite the advantage of having permanent capital. Being a large shareholder myself, I share in the frustration caused by our lack of success in finding the right investments. As a reminder, for an investment to be "right" for us, it needs to satisfy all of the following criteria:

1. The target business must be a good one (more on this later);
2. The management of the target business must engender trust with us, and vice versa; and
3. The price we pay for the business must be reasonable.

Meatloaf had a famous song (well, famous in my day) called "Two out of three ain't bad". For us that is not enough – we need all three criteria present to even consider a transaction. And so far, we have struggled to find many opportunities where there is a clear fit. But we are patient. We will not invest just for the sake of deploying capital and deflecting criticism.

We have no doubt that we will close and then significantly reverse this investment performance gap as opportunities emerge that satisfy all of our criteria. For us the incentive is very clear – if we cannot deliver significant returns over time, we do not deserve to be entrusted with a permanent capital base.

PORTFOLIO COMMENTARY

During the past year, we increased the invested position of RAC to 53% of our investable capital base. We have reduced the number of holdings from 23 to 21, but increased the size of our stake in a number of holdings – in some cases substantially. This is in line with our aim of becoming shareholders of reference in our chosen investee companies.

We continue to await the resolution of the Namaqualand Mines transaction, as negotiations to finalize the exact terms of the investment have not yet been concluded.

The 53% of our capital that has been invested is deployed – with one notable exception - in a group of stocks that are either traded on the stock exchange, or over the counter. We call this our "frog portfolio". Basically, we think we might uncover a few princesses if we kiss enough frogs. We have done our fair share of frog kissing over the past few years, and it turns out we have uncovered some princesses-in-waiting. We have consciously become more focused on these, and as a result, our top 7 holdings now make up 60% of our total investment. We hope to get to know these 7 even better over the next few years. Through this process, we will look to increase our stake even further in those princesses who turn out to be more beautiful than we think they currently are.

Taken together, our current portfolio of minority stakes in different businesses is shaping up as a fairly robust grouping. We regard robustness as an important factor in managing risk. As we – like *everyone* else – don't know what the future holds, trying to manage risk by guessing what might happen is not a sensible process. Such a process is commonly known as "forecasting". In our view, a robust portfolio is a much more practical way of managing risk. Robustness is found along two axes: firstly, the margin of safety when we buy a share in a business, and secondly the nature of the underlying business in which we have purchased our part ownership stake.

The first element of robustness, the margin of safety, can be explained as the difference between the price we pay to acquire the part ownership stake, and the intrinsic value of the business. This distinction between price and value is an important one. The business environment today is a tough one. Growth is slow and hard to come by, the regulatory landscape gets more constrictive as time goes by and social friction is becoming a real factor in our day-to-day lives. So while we, along with the management of our investee companies believe in a bright future, we consider it our fiduciary responsibility to manage the downside. By paying less than full value for an asset we can, to a certain extent, protect our shareholders from losses if something should go wrong.

The second element of robustness lies in the nature of the businesses we own. As mentioned, we prefer to own shares in “good” companies. Our definition of “good” includes the following: the company is well managed and it sells goods that its customers actually want and for which they do not mind paying. The possession of barriers to entry is another aspect of a good company. Barriers protect companies against undue competition, and allow them to earn above average profitability on a sustainable basis. Such barriers can exist in the form of branding, licensing, regulation, network effects, sticky customers and localised monopolies.

All these factors together help make the portfolio of business interests we own robust against economic or political headwinds. In coming years, one of our most important jobs will be to continually increase the robustness of this portfolio of businesses we own. We aim to do so by providing advice where needed, capital where sensible, increasing our ownership of existing investee companies and, importantly, by adding stakes in additional companies to the portfolio. We will not attempt to “add value” by telling the management of our investee companies on how they should manage their business. That lies far outside our circle of competence.

The exception to our robust portfolio of minority positions is a partnership interest in a business that buys single family residential units (houses) in Southeast USA, with the aim of renting them out. For various reasons over the past few years, houses in the USA have become very cheap. To give an idea of how cheap this asset class has become, one could buy perfectly good middle class houses in nice areas for less than it would cost to build the house – and the land was free! An alternative measure of cheapness was an initial gross rental yield in the region of 15% to 20%.

When one believes an asset to be undervalued, it always helps to understand why such a situation would exist. In the case of US residential housing one had the classic situation of forced, non-price sensitive selling combined with a lack of natural buyers. The selling came from banks, which had already written down the houses’ value to zero, and just wanted to get them off their books. On the other hand, potential buyers were constrained due to a combination of a poor credit history, and bank insistence on large (i.e. unaffordable) deposits at this stage of the credit cycle. The old saying that banks only have umbrellas for their clients when the sun shines remains true, even in today’s era of so-called sophisticated banking “risk management”. Yet the same people who cannot qualify for mortgage loans, have jobs and can easily afford to rent.

In short, US residential housing looked like a wonderful investment opportunity for RAC. Buying and managing individual houses was obviously not practical for us. Fortunately, we found a good partner in Aaron Edelheit and his company The American Home. They have managed to raise, and invest, almost $200 million in residential housing. RAC has allocated 5% of its capital to this opportunity.

Early signs are that the US housing market has turned for the better. We still carry this investment at book value (in US$) as we await the audited financials for their 31 March 2013 year-end.

Over the past year, we have exited 4 positions. The biggest sale, Dorbyl, was a stock we should never have bought in the first place. We made a handsome profit on its sale, but it is a profit that left us disappointed. We are not asset strippers and we had plans to use the company’s cash flows to build it into a good business. Despite our best efforts we could not turn the business around. Auditors have, as yet, not come up with a way of accounting for heartache, disappointment and time wasted. If they did, our accounts would show that the transaction in Dorbyl generated a negative return.

Overall, our sales generated a combined return of 20% on the capital invested. Not too bad for what were, without exception, mistakes, but far too little to make us feel better about them.

PORTFOLIO VALUATION METRICS

The book value of RAC’s non-cash investments comes to R262,8 million while the market value of these investment stood at R322,3 million as at year end.

At year end, the asset allocation of RAC’s investment portfolio was as follows:

Local listed and unlisted equities	48,0%
Foreign unlisted investments	5,3%
Cash and money market deposits	46,7%

Included in the cash and money market investments line is a balance of R91,2 million earmarked for the funding of RAC’s interest in the Namaqualand Mines transaction. If this balance were included as an equity investment, it would raise the invested portion of the portfolio to 68,6%.

As discussed, we managed to accelerate (off a very low base) our deployment of capital into a select number of attractively priced investments during the course of the year. Importantly, in order to protect our listed investment opportunity set from competition, we generally refrain from disclosing details about our holdings until such a time as we have completed an ownership cycle (i.e. buy, hold and sell).

At year-end the investments in RAC's portfolio were priced at about 64% of our estimate of fair value. Last year we reported a 68% price to fair value. From these numbers it is apparent that we have been able to deploy additional capital into very well priced assets over the past year. We hope this opportunity continues to be available in the year to come.

We present the table below to show some of the salient valuation features of our portfolio:

	March 2013	March 2012
Enterprise Value/Sales	**1,3**	0,4
Enterprise Value/Operating profit	**6,7**	9,0
Price/Earnings	**12,7**	17,5
Price/Net Asset Value	**1,0**	0,6
Price/Net Tangible Asset Value	**1,4**	0,8

At first glance it seems as if valuation metrics for the portfolio have deteriorated (i.e. become more expensive) yet we think on the whole, the portfolio is priced better than a year ago. The reason for his is that the quality of what we own has improved. We own fewer loss making businesses, which has improved the earnings multiples (EV/operating profit and P/E), and returns on equity are better, which explains why the businesses trade at a higher multiple to asset values.

The board continues to recommend that no dividend be paid, in order to maximize the capital available for future investment. Although, as stated, our progress has been slow, the old saying "it never rains, but it pours" is often applicable in the investment world. We aim to be ready when it pours.

PROSPECTS

As of the time of writing this report, global markets continue to digest a problem which came to light during the global financial crisis in 2008 – too much debt. A large portion of this debt has now migrated from private balance sheets to the balance sheets of governments. In so doing, governments worldwide are becoming more interventionist in order to ameliorate their own debt levels. We think the ramifications for the private sector in this regard are significant.

Overall, we continue to think that markets are much too sanguine about how economies will cope with the very high debt levels they are carrying. I hope to be able to continue to report on the robustness of our own investee businesses in this environment. As low interest rates distort pricing and authorities globally exert more control over capital (mainly in the form of a tighter bureaucratic and regulatory environment) we have no doubt that attractive buying opportunities will develop. I look forward to reporting increased commitment to the market and lower cash levels as this unfolds.

Of course you can help us in this regard. If you know of, or own, a business that is for sale, please contact us. In the interests of saving time the proposition should satisfy the following criteria:

1. It must have at least three years' audited financial statements;
2. The business should be profitable;
3. The seller should have a price in mind; and
4. The sales process should not be an auction.

If your business fulfills these conditions, we would like nothing more than hearing from you. We can guarantee that you will receive a very quick answer.

HOUSEKEEPING

During the course of the year Werner Stals resigned as director of the company. He was not replaced. Post year-end, Lonn Potgieter resigned as CFO and Director. Jan van Niekerk has subsequently joined the board of RAC. Jan joined RAC's asset manager, RE:CM, as CEO in April 2013. I welcome Jan to the board, and thank Lonn for his sterling services over the past few years. Jan will take on an executive role as well as the responsibility of CFO for RAC.

In replacing Werner Stals, Jan has joined Theunis de Bruyn and myself as significant shareholders in the ordinary shares of RAC. He is putting a substantial amount of his own money where his mouth is – a very rare thing in financial markets. One of our strongly held views is that owners create more long-term value than hired guns, which is why we do not encourage the use of options as an incentive mechanism in our investee companies. At RE:CM, we do not use them at all. Jan is now a true owner, and therefore partner in the business. We look forward to his contribution to the growth of RAC.

CHAIRMAN'S MEETING WITH SHAREHOLDERS

RAC has two classes of shares; ordinary and preference. Both have exactly the same economic rights, but the ordinary shares are not listed. The ordinary shares control the Company, and have all the voting rights in the normal course of business. Preference shareholders, whose shares are listed, can vote in two instances: firstly, if any declared dividends remain unpaid for six months or longer; or secondly, if any resolution is proposed that will affect their rights. This is more fully discussed in the Memorandum of Incorporation, which are available upon request. As there are no plans in this regard, only ordinary shareholders will be able to attend and vote at the annual general meeting of the Company.

We plan to hold a Chairman's meeting for ordinary and preference shareholders, immediately following the conclusion of the annual general meeting. At this meeting, the investment operations of RAC will be discussed, and there will be an opportunity for as many questions as you like. We encourage all preference shareholders to attend this meeting. There is an invitation enclosed in the annual report and we would appreciate it if you could let us know if you will be attending. Last year our boardroom was almost full; this year we might have to move to a bigger venue. If so, we will let all attendees know well in advance.

BASIS OF PREPARATION

The audited abridged Group results for the year ended 31 March 2013 have been prepared in accordance with the requirements of the JSE Limited Listings Requirements, the presentation and disclosure requirements of IAS 34: Interim Financial Reporting, the requirements of the Companies Act 71 of 2008, the framework, measurement and recognition requirements of International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates. The accounting policies have been applied consistently to all periods presented in the consolidated financial statements, and have been applied consistently by Group entities, except as noted below. The adoption of the new accounting standards and amendments to IFRS only affected disclosure and had no impact on the results of either the current or prior year. The results were prepared by Duncan W Block CA(SA).

CHANGES IN ACCOUNTING POLICY

- The Group has changed its classification of the preference shares to financial liabilities at fair value through profit or loss.
- The Group has early adopted IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and amendments to IAS 27 Consolidated and Separate Financial Statements with a date of initial application 1 April 2012.

  As a result of the adoption of IFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over and consequently whether it consolidates its investees. IFRS 10 introduces a new control model that is applicable to all investees; among other things, it requires the consolidation of an investee if the Group controls the investee on the basis of de facto circumstances.

  In accordance with the transitional provisions of IFRS 10, the Group re-assessed the control conclusion for an investee, being units in a collective investment scheme, at 31 March 2013. As a consequence, the Group has changed its control conclusion in respect of its investment in the RECM Institutional Worldwide Flexible Fund. The directors have determined that it has de facto control over the investee. Accordingly, the Group applied acquisition accounting to the investment. Previously, the investment was accounted for as an available-for-sale financial instrument.

EVENTS AFTER THE REPORTING PERIOD

The directors are not aware of any matter or circumstances arising since the end of the financial year.

AUDIT OPINION

The Group's auditors, BDO South Africa Inc. have audited the Group's financial results for the year ended 31 March 2013. A copy of their unmodified audit report is available for inspection at the Company's registered office. Any reference to future financial performance included in this announcement, has not been reviewed nor reported on by the auditors.

Signed on behalf of the board

PG Viljoen

Cape Town
26 June 2013

Directors: PG Viljoen (Chairman), T de Bruyn, G Pretorius, MVP Davis, JG Swiegers, JC van Niekerk

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