CONDUIT CAPITAL GROUP

CONDENSED CONSOLIDATED AUDITED RESULTS FOR THE YEAR ENDED 30 JUNE 2017

CONDUIT CAPITAL LIMITED
Incorporated in the Republic of South Africa
(Registration number: 1998/017351/06)
Share code: CND ISIN: ZAE000073128
("Conduit" or "Conduit Capital" or "the Group" or "the Company")

CONDENSED CONSOLIDATED AUDITED RESULTS FOR THE YEAR ENDED 30 JUNE 2017

LETTER FROM THE CEO TO THE SHAREHOLDERS OF CONDUIT CAPITAL:

Dear Shareholder,

I am pleased to present these condensed consolidated provisional audited results of Conduit Capital for the year ended 30 June 2017.

Our Vision

Conduit Capital is a JSE listed South African holding company that owns subsidiaries involved primarily in the insurance industry. Conduit's vision is to develop a high quality, diversified insurance group supported by a value-oriented, non-insurance investment portfolio over the long-term. Our primary objective is to increase the per share intrinsic value[1] of the Company over the long-term at an absolute rate in excess of the market in general. We intend to achieve this goal by investing in and supporting insurance opportunities that deliver sustainable underwriting profits and generate capital to invest into non-insurance opportunities. The increase in the value of this capital delivers a significant earnings stream for the Group, which in turn develops a larger capital base that supports further premium growth. Our goal is to accelerate this cycle, the ultimate effect of which should be a long-term sustainable increase in the value of the Company.

Measuring Performance

We measure Conduit's performance by the growth in our intrinsic value per share. We use the *percentage change* (not the absolute level, which in our view understates the value of the company) in net asset value ("NAV") per share to estimate the Group's performance. We believe this measure is more appropriate than a standard price to earnings ratio because of the nature of the Group's assets: insurance companies are generally valued in terms of a multiple of NAV, due to normal volatility in insurance profits or losses. Similarly, we measure the investment portfolio in terms of its fair market value, rather than by gains or losses that flow through the income statement.

For the year to 30 June 2017, NAV per share increased 3.9% to 176.1 cents per share. On a headline basis, the Group showed a loss attributable to equity holders of R68.0 million, compared to the headline loss of R17.7 million for the year to 30 June 2016. On a normalised basis (excluding various non-cash impairments and growth expenses), the loss was R36.4 million. We continue to make investments and build capacity to support the growth of the business in a sustainable manner over the long term.

The table below shows the progress we have made since April 2015, when present management took over:

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[1] Intrinsic value refers to the actual value of a company or share determined through fundamental analysis without reference to its market value. Intrinsic value can vary significantly from market value.

Table 1

Date	NAV per share (cents)	% change	Share price (cents)	% change
28 Feb '15 (unaudited)	172.8		165	
30 Jun '15 (audited, restated)	174.8	+1.2%	220	+33.3%
30 Jun '16 (audited, restated)	169.5	-3.0%	275	+25.0%
30 Jun '17 (audited)	176.1	+3.9%	240	-12.7%
Overall		+1.9%		+45.5%

It is important to remember that although *growth in NAV* per share is not a perfect proxy for *growth in intrinsic value*, it should offer a suitable correlation over time.

To accomplish our goal, we will:

- invest in and sustainably develop our insurance businesses;
- grow our investable assets at no cost by achieving combined ratios[2] in our insurance operations well below 100%; and
- pursue value-oriented non-insurance investment opportunities.

Insurance Operations

Our insurance operations comprise Constantia Insurance Company Limited, Constantia Life Limited and Constantia Life & Health Assurance Company Limited, collectively referred to as Constantia. Constantia operates in a decentralised fashion under the guidance of its board of directors and the leadership of its Chief Executive Officer. The company operates within broad niche segments of the insurance market, ranging from accident and health, medical malpractice, niche motor, funeral, guarantee and other lines. Product distribution occurs through internal divisions and through independent Underwriting Management Agencies ("UMAs"). UMAs are generally incentivised on a cost recovery basis (calculated as a percentage of premium) and profit share arrangements (to ensure sufficient and sustainable underwriting quality).

Constantia's mission is to be a trusted brand whose responsive teams provide innovative risk and insurance solutions in niche markets.

In November 2016, the company appointed Volker von Widdern as Chief Executive Officer. Volker joined Constantia from Marsh in July 2016 as the Deputy CEO. Volker possesses the qualities required to deliver on our ambitious growth objectives. His integrity, energy and intelligence have exceeded even our most optimistic expectations. We have full confidence in him and his team's ability to achieve great things with Constantia.

Under Volker's leadership, Constantia is undergoing a revolution. The company has made significant investments in information technology, business infrastructure, growth capacity and the addition of high quality people to ensure it has the right ingredients to meet our demanding expectations over the long term. This is one of the major reasons why Constantia's operating expenses increased from 33.1% of gross written premium in the prior year to 43.9% in the current year – they are building capacity for future earnings. These investments have *materially* increased Constantia's earnings power. This trade-off of upfront costs generating short term accounting losses in exchange for materially higher earnings power into the future is a trade-off that we are happy to make.

[2] The combined ratio is calculated as net claims plus expenses divided by net earned premium.

Constantia's Performance

Constantia increased gross written premium by 6.4% to R1.07 billion (2016: R1.01 billion). Net written premium increased from R376.1 million to R381.9 million. The company makes use of solvency relief reinsurance contracts, which decrease net written premium, but increase the insurer's return on invested capital. These contracts relieve the group of onerous capital requirements by ceding marginally profitable (on a return on capital basis) gross premium in exchange for significantly lower capital requirements. Had we not entered into these agreements, net written premium would have been 17.4% higher at R900.7 million (2016: R767.4 million, which was up from R498.8 million in 2015). Constantia's intention is to retain more business on a net basis over time, but only when they are sufficiently compensated for the risk.

Constantia's gross and net premiums by line, together with the underwriting margin for the period under review and the comparative period, were as follows:

Table 2

	Twelve months to 30 June 2017				Twelve months to 30 June 2016			
	Gross R'000	Net R'000	Net excl. solvency reinsurance R'000	Under-writing result R'000	Gross R'000	Net R'000	Net excl. solvency reinsurance R'000	Under-writing result R'000
Assistance	30 097	29 700	29 700	(5 608)	170 197	169 823	169 823	799
Accident and Health	718 394	171 961	680 751	(48 898)	601 574	125 754	516 890	(29 056)
Guarantee	28 094	15 401	15 401	(395)	24 902	13 492	13 492	11 087
Liability	17 959	9 056	9 056	(15 593)	-	-	-	-
Miscellaneous	36 673	18 245	18 245	(4 951)	60 497	16 075	16 327	(2 042)
Motor	160 975	106 314	116 357	(38 849)	42 751	23 161	23 161	(3 268)
Property	77 602	31 227	31 227	(7 934)	105 665	27 751	27 751	1 899
Unallocated	-	-	-	(12 121)	-	-	-	191
Total	1 069 794	381 904	900 737	(134 349)	1 005 586	376 056	767 444	(20 390)

The underwriting losses Constantia experienced across certain underwriting portfolios were primarily caused by a lack of prior management's appropriate underwriting risk control and a difficult economic environment, both of which also created secondary risk factors. The loss was increased by the impact of higher operating costs to support the growth strategy as detailed above. Material abnormal costs include a R12.1 million write-off of a salvages and recoveries accrual, additional legal provisions, R12.1 million in additional claims incurred but not reported ("IBNR") provisions required in the accident and health book mostly due to growth of these books, and costs and provisions related to various new business initiatives. In the second half of the financial year, the accident and health books stabilised and produced a net underwriting profit.

Last November, Constantia launched South Africa's only local medical malpractice insurance offering: EthiQal Medical Risk Protection. The business covers South African doctors from a complete risk management perspective. The market has been yearning for a trusted local solution and Constantia has capitalised on the opportunity with this multi-decade investment. Medical malpractice insurance requires best in class risk management, underwriting and technical skills and the capital to withstand claims for many years into the future. We will need to build sufficient reserves for several years before realising any accounting profits on this investment – when the profits do however come, they should be worth the wait.

Measuring Constantia's Performance

We use three key performance metrics to test Constantia's progress. These are:

Combined Ratio[3]

The combined ratio measures the sum of the net loss ratio and the expense ratio relative to net earned premium. It is critical because it determines whether the company is writing profitable insurance. The ratio is also a measure of the "cost" of the investable assets that our insurance business produces that are available for investment. A ratio below 100% means our investable assets cost us nothing to generate (compared to, for example, debt financing at prime interest rates). The lower the ratio, the better, as it means we are creating investable assets at no cost. Constantia's combined ratio target is 95% or better. For 2017 Constantia's combined ratio was 109.7%. Last year this ratio was 100.9%. We have no reason to believe Constantia cannot eventually achieve at least a 95% ratio on a sustainable basis well into the future.

Growth in Investable Assets

Insurance companies collect premiums now and pay claims later. They sit on large amounts of money that they are able to invest until claims are paid. This capital is known as "float". Float is calculated as the sum of insurance liabilities and policyholder liabilities, less reinsurance assets.

The simple float calculation does not accurately measure how much capital is available to invest from our insurance operations. We therefore developed our own measure called "investable assets". These are assets generated by the insurance companies that can be freely invested and have "float like" characteristics. Further, we exclude any amounts not meeting these criteria (such as restricted bank balances held in terms of our investment policy). It is therefore more accurate to measure our investable assets rather than our levels of float. Our version[4] of investable assets can be summarised in terms of the following formula:

Investments held at fair value + Cash and cash equivalents - Assets not held in Constantia - Assets required to be held in cash

Our float increased from R65.3 million in 2016 to R130.0 million as at the reporting date, but because this capital was invested in the growth of the insurance operations, it was excluded from the calculation of investable assets. Investable assets decreased materially from last year mainly due to:

1. R66.2 million invested into additional property, plant and equipment, with the bulk of this going into computer software that will form the backbone of our medical malpractice offering;
2. a 61.3% increase in the minimum cash buffer that we keep aside for operating expenses, statutory capital and insurance liabilities; and
3. R42.2 million in additional expenses that are specifically related to our growth and new business initiatives.

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[3] We adjust the combined ratio to exclude up-front costs associated with new business initiatives. We believe the adjusted ratio is more reflective of the underlying performance and avoids a situation where new projects are not funded because they may temporarily negatively affect the combined ratio. The combined ratio before these adjustments was 114.7%.

[4] This formula may change, depending on the types of insurance we write and the types of investments that we make to most accurately measure the change in investable assets.

Although we did not achieve our target of a minimum annual absolute growth in investable assets, we are satisfied with what is happening at Constantia. Our priority, after all, is to first invest in and sustainably develop our insurance businesses.

Return on Insurance Capital Employed

Return on insurance capital employed is the company's return on capital excluding returns generated from non-insurance related activities (such as Constantia's equity portfolio returns). The metric is designed to ensure that capital used by the insurer at least meets our minimum hurdle rate, which is 15%. Constantia did not achieve a 15% return on capital for the year for the reasons described above.

While the underwriting result was disappointing, the investment we are making into Constantia ensures the company has the right people and capacity to reach its ambitious growth targets and realise its tremendous earnings power potential through organic and inorganic growth over the next few years.

Equity Investments

Conduit is a long-term anchor shareholder in a select group of listed companies. Investing in non-insurance businesses is a stated objective of the Group, which bolsters our capital base and, through earnings diversification, allows the insurance operations to focus on profitable growth. Our investment objective is to identify, understand and invest in companies that meet two broad criteria:

a) The company must be available at a price that represents a significant discount to our conservative estimation of fair market value; and
b) There must be a confluence of business factors, centred primarily on the competitive advantage of the business model, which allows the company to increase its underlying intrinsic value at a high rate over time.

In determining companies in which to invest, we spend significant time understanding the business, researching its competitive advantage and getting to know management. We are primarily looking for four key attributes in these companies:

1. Jockey: The company must have an able, competent and energised management team. There is no use running a race if your jockey does not have the capacity to win;
2. Horse: The jockey must have an underlying vehicle that can win the race. The horse is the business. We do not invest in horses that cannot win races. The business must have some durable competitive advantage that will allow it to maintain and grow its economic position over time;
3. Runway: Our broad criteria, outlined above, are dependent on the ability of the companies in which we invest to produce long-term growth in intrinsic value. The company must therefore have a clear path over the next ten or more years to compound its value; and
4. Price: Several companies meet points 1 through 3, but even a great company can be a bad investment at the wrong price. We therefore have the patience and discipline to wait for the "fat pitch".

The listed equities investment portfolio was valued at R800.9 million at 30 June 2017. At year-end, the equity portfolio reflected seven investments, each of which met our strict investment criteria.

The portfolio returned 6.5% for the year (pre-tax). In our opinion, the mark-to-market valuation increase does not accurately reflect the growth of the underlying intrinsic value of the companies. Business value and market price can diverge for long periods of time. Fortunately, we have the patience to wait for the market to realise the inherent values of the companies in which we have invested.

It is worth mentioning that Conduit's net income after tax will be lumpy because stock prices are inherently volatile. As a reminder, growth in net asset value per share is a better proxy for the performance of Conduit's underlying business value.

Look-through Earnings

A measure of the performance of the investment portfolio is "Look-through Earnings". This is Conduit's *pro rata* share of income[5] produced by its investments in other companies. The metric is useful because all profits, whether distributed or not, are valuable to shareholders and can show trends not otherwise observable by share price movements. Only share price movements and dividends are accounted for under accounting standards but there is real value to shareholders of retained earnings. In 2017 Conduit's "Look-through Earnings" increased 229.5%.

The following table compares the Group's look through earnings calculation as at 30 June 2017 with the position as at 30 June 2016:

Table 3

2016				**2017**			
Stock	*Share-holding in entity*	*Share of headline earnings (loss) R'000*	*Share of dividend R'000*	*Stock*	*Share-holding in entity*	*Share of headline earnings (loss) R'000*	*Share of dividend R'000*
S1	1.99%	8 337	982	**S1**	6.94%	37 639	2 296
S2	2.15%	3 801	-	**S2**	13.92%	23 552	-
S3	2.09%	99	401	**S3**	6.73%	(3 711)	-
S4	2.42%	1 512	486	**S4**	6.31%	8 791	-
S5	0.01%	255	88	**S5**	0.00%	-	-
S6	1.55%	3 136	1 508	**S6**	1.68%	3 571	1 759
S7	0.00%	-	-	**S7**	1.02%	1 650	-
S8	2.46%	3 870	-	**S8**	1.11%	(1 539)	-
		21 010	3 465			69 953	4 055

Our investments are valuable intellectual property, in the same way knowledge and data we have built over the years in the insurance business is intellectual property with real value. We therefore do not openly disclose our public equity investments.

Other Investments

Conduit owns 40% of Anthony Richards & Associates ("ARA"), a leading credit recovery specialist. Historically ARA generated an approximate 50% return on capital employed. We received R24.0 million in dividends from the company (R13.6 million in 2016) at a dividend yield of 21.8%. Accounting standards however require us to impair the value of this investment to reflect the difficult trading conditions that consumer credit markets currently experience. The subsequent impairment of R32.8 million, together with a dividend receivable of R12.8 million, resulted in ARA being reflected at R90.0 million as at the year-end, i.e. a net reduction of R20.0 million when compared to the R110.0 million as at 30 June 2016. The impairment negatively affected Conduit's earnings and net asset value, but is excluded from the calculation of headline earnings.

[5] Calculated as the audited headline earnings of each investee company at its most recent fiscal year-end multiplied by Conduit's ownership percentage of the company.

Conduit is an investor in Africa Special Opportunities Capital Proprietary Limited ("ASOC") by way of an interest in the General Partner and an investment into ASOC Fund 1 Limited Partnership. ASOC is building the pre-eminent special situations investment management company in South Africa, which is the "first-to-market" of its kind. Recently enacted Business Rescue legislation has created uncertainty, creating an opportunity for an opportunistic distressed investment firm. During the year, ASOC closed its first two transactions, one in the early education sector and the other in the media industry. Both acquisitions were well considered and acquired on terms we consider extremely favourable to ASOC (they looked at 75 deals and picked 2). If your business is in distress and you are looking for fast, efficient assistance, visit them at www.asocapital.com.

Conduit completed the acquisitions of Midbrook Lane Proprietary Limited ("Midbrook") and Snowball Wealth Proprietary Limited ("Snowball"). These transactions saw Conduit acquire valuable equities portfolios at net asset value (that is, after all liabilities, including the material deferred tax liabilities of each company, meaning we paid less than market value for these positions), in exchange for new shares in Conduit issued at R2.45 per share. A 10% increase in the value of these portfolios by the next financial year-end would generate a R60.9 million increase in pre-tax earnings, or approximately 8.7 cents per share in net asset value.

We are always looking for great investment opportunities that meet our strict criteria and hurdle rates. Feel free to contact us with any opportunities you may have – we promise a quick answer.

Remuneration

With effect from 1 July 2015, the Conduit Remuneration Committee introduced a new remuneration programme for Conduit Executives and CEOs of wholly owned subsidiaries. There has been no change to this programme since. Each Executive and subsidiary CEO is incentivised on areas over which he or she has influence, as well as overall group performance. In our view incentive systems should be clear but demanding and in the best interests of all stakeholders.

Each Executive or subsidiary CEO is paid a fixed salary. Performance bonuses take the form of a short-term cash bonus (earned annually) and a long-term bonus comprising 50% cash and 50% shares. Performance in terms of the long-term bonus is calculated over three years and shares due (if any) are acquired on the open market (no shares are issued so there is no dilutive effect). The magnitude of the short and long-term bonuses is determined by a multiple of the employee's base salary in accordance with a weighted formula, and is capped.

The key performance metrics (with the relevant weightings in brackets) that determine performance remuneration are illustrated in the table below:

	Short Term (1 year)	Long Term (3 year average)
Conduit CEO	Growth in per share NAV (50%), Return on Capital Employed (25%), Return on Equity Investments (25%)	Growth in per share NAV (50%), Return on Capital Employed (20%), Return on Equity Investments (30%).
Other Conduit Executives	Return on Capital Employed (50%), Growth in per share NAV (50%)	Return on Capital Employed (25%), Growth in per share NAV (75%)
Constantia CEO	Combined Ratio (50%), Investable Asset Growth (25%), Insurance Return on Capital Employed (25%)	Combined Ratio (40%), Investable Asset Growth (20%), Insurance Return on Capital Employed (20%), Growth in NAV per share (20%)

The base levels at which performance bonuses begin are:

Growth in per share NAV	10%
Return on Capital Employed	15%
Return on Investments	10%
Combined Ratio	95%
Investable Asset Growth	>0%
Insurance Return on Capital Employed	15%

Further detail on the Group's remuneration policy is contained in the Remuneration Report contained in our 2017 Integrated Annual report. Shareholders will be asked to approve in a non-binding vote the Group's remuneration policy at the forthcoming Annual General Meeting.

Dividend

Conduit has a wide range of opportunities in which to deploy capital at attractive rates and therefore no dividend has been declared. It is unlikely Conduit will pay dividends in the future.

Subsequent Events

On 11 September 2017, Conduit signed an agreement subject to certain conditions to acquire a 51% stake in the master franchisor of the Century21 real estate brand in South Africa. Century21 is the world's largest real estate brokerage and operates approximately 43 high quality franchises around South Africa. The business we acquired is the master franchisor, which provides support, training, national advertising and brand awareness. The business will continue to be run by the capable Harry Nicolaides and his team, under whose leadership we expect solid and sustainable growth in the consolidating real estate brokerage market. We welcome Harry to the Conduit family.

Prospects

The completion of the Snowball and Midbrook transactions has significantly increased the capital base and the earnings potential of the company. The investment made in ASOC has already shown promise. The accounting results of Constantia were disappointing in the first half of the financial year, but much improved in the second half. Conduit is a vastly changed company from this time last year and is a few steps further into the journey of real value creation over time. We are not afraid of big investments for big returns. The only requirement is patience.

People are our greatest asset. We trust and empower our leaders to get the best out of them and all those who work with them. I would like to thank every person who is part of the Conduit ecosystem for his or her effort, energy and enthusiasm. Our business will grow to great heights and it is through your hard work that we will get there. I would also like to thank our board of directors and shareholders for sharing in our long-term vision for Conduit Capital.

Sean Riskowitz

Chief Executive Officer

Johannesburg

27 September 2017

CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

The Condensed Consolidated Statements of Profit or Loss and Other Comprehensive Income have been presented in a manner to make it less complicated to distinguish the Group's underwriting results from other income and expenses. The prior periods' Condensed Consolidated Statements of Profit or Loss and Other Comprehensive Income are presented in a manner similar to that of the current period in order to simplify comparative analysis.

	Audited year ended 30 Jun 2017 R'000	Restated [1] audited year ended 30 Jun 2016 R'000
Gross written premium	1 069 794	1 005 586
Reinsurance premium	(687 890)	(629 530)
Net written premium	381 904	376 056
Net change in provision for unearned premium	(13 862)	(348)
Net premium income	368 042	375 708
Reinsurance commission received	353 965	298 973
Other income	28 826	18 036
Income from insurance operations	750 833	692 717
Total insurance expenses	(885 182)	(713 107)
Net claims and movement in claims reserves	(229 805)	(187 318)
Insurance contract acquisition costs	(179 807)	(180 064)
Administration and marketing expenses	(469 145)	(332 514)
Other expenses	(6 425)	(13 211)
Net underwriting loss	(134 349)	(20 390)
Net non-insurance income (expenses)	47 356	(13 984)
Investment income	64 550	4 470
Other income	310	195
Administration and marketing expenses	(17 492)	(13 638)
Other expenses	(12)	(5 011)
Operating loss	(86 993)	(34 374)
Finance charges	(577)	(924)
Equity accounted (loss) income	(362)	13 153
Other expenses and losses	(80 324)	(11 858)
Loss before taxation	(168 256)	(34 003)
Taxation	31 525	918
Loss for the year	(136 731)	(33 085)
Other comprehensive income	-	-
Total comprehensive loss	(136 731)	(33 085)
Attributable to:		
Equity holders of the parent	(136 695)	(32 854)
Non-controlling interest	(36)	(231)
Total comprehensive loss	(136 731)	(33 085)
Headline loss	(68 026)	(17 740)
Loss per share (cents)		
- Basic	(34.8)	(10.6)
- Diluted	(34.8)	(10.6)
- Headline	(17.3)	(5.7)
- Diluted headline	(17.3)	(5.7)

[1] Refer to Note 2 for further detail.

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Audited 30 Jun 2017 R'000	Restated [1] audited 30 Jun 2016 R'000	Restated [1] audited 30 Jun 2015 R'000
ASSETS			
Non-current assets	989 686	327 345	304 563
- Property, plant and equipment	14 331	10 787	9 067
- Intangible assets	93 701	37 226	35 246
- Loans receivable	5 848	16 783	16 004
- Deferred taxation	37 276	10 790	9 334
- Investment properties	4 431	4 351	5 928
- Investment in associates	2 527	133	124 411
- Investment in joint ventures	-	-	225
- Investments held at fair value	831 572	247 275	104 348
Current assets	715 450	741 905	759 650
- Insurance assets	265 001	267 108	302 672
- Loans receivable	14 299	2 365	1 180
- Trade and other receivables	222 427	182 535	129 962
- Taxation	5 622	17 424	12 904
- Cash and cash equivalents	208 101	272 473	312 932
Assets held for sale	90 000	110 000	-
Total assets	1 795 136	1 179 250	1 064 213
EQUITY AND LIABILITIES			
Capital and reserves	948 823	562 146	448 740
- Stated capital	846 603	323 195	176 704
- Retained earnings	101 910	238 605	271 459
Equity attributable to equity holders of the parent	948 513	561 800	448 163
Non-controlling interest	310	346	577
Non-current liabilities	151 867	52 883	61 281
- Policyholder liabilities under insurance contracts	29 384	25 987	32 606
- Deferred taxation	122 483	26 896	28 675
Current liabilities	694 446	564 221	554 192
- Insurance liabilities	365 562	306 447	354 022
- Trade and other payables	327 366	251 744	191 970
- Taxation	1 518	6 030	8 200
Total equity and liabilities	1 795 136	1 179 250	1 064 213
Net asset value per share (cents)	176.1	169.5	174.8
Tangible net asset value per share (cents)	145.7	137.2	127.5

[1] Refer to Note 2 for further detail.

SEGMENTAL REPORT

SEGMENTAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

	Insurance and Risk R'000	Investments R'000	Total R'000
Income from operations	750 833	-	750 833
Expenses	(885 182)	(2 115)	(887 297)
Operating result	(134 349)	(2 115)	(136 464)
Equity accounted loss	-	(362)	(362)
Investment income	11 900	50 787	62 687
Other	(815)	(41 408)	(42 223)
(Loss) profit before head office expenses and taxation	(123 264)	6 902	(116 362)
Unallocated net head office expenses			(51 894)
Taxation			31 525
Loss for the year			(136 731)
Capital utilised			
Capital employed at end of year	308 595	660 523	948 823
Reallocation	(192 222)	192 222	-
Capital utilised at end of year	116 373	852 745	948 823
Average capital utilised during the year	126 897	461 390	617 930

SEGMENTAL REPORT FOR THE YEAR ENDED 30 JUNE 2016 (RESTATED) [1)]

	Insurance and Risk R'000	Investments R'000	Total R'000
Income from operations	692 717	-	692 717
Expenses	(713 107)	(1 405)	(714 512)
Operating result	(20 390)	(1 405)	(21 795)
Equity accounted income (loss)	(676)	13 829	13 153
Investment income (loss)	14 793	(12 148)	2 645
Other	(2 331)	(5 000)	(7 331)
Loss before head office expenses and taxation	(8 604)	(4 724)	(13 328)
Unallocated net head office expenses			(20 675)
Taxation			918
Loss for the period			(33 085)
Capital utilised			
Capital employed at end of year	291 390	199 998	562 146
Reallocation	(138 969)	138 969	-
Capital utilised at end of year	152 421	338 967	562 146
Average capital utilised during the year	181 826	191 587	450 145

[1)] Refer to Note 2 for further detail.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Audited year ended 30 Jun 2017 R'000	Audited year ended 30 Jun 2016 R'000
Net cash flows from operating activities	(5 299)	(39 253)
- Cash (utilised) generated by operations	(51 661)	(49 008)
- Interest received	13 766	17 157
- Finance charges	(577)	(924)
- Dividends received from investments	26 621	2 529
- Taxation received (paid)	6 552	(9 007)
Net cash flows from investing activities	(45 320)	(145 413)
- Net (acquisition) disposal of associates and joint ventures	(3)	2 041
- Dividends received from associates and joint ventures	-	14 338
- Acquisition of subsidiaries	(433)	-
- Net acquisition of property, plant and equipment	(5 252)	(1 058)
- Acquisition of investment properties	(80)	-
- Net acquisition of intangible assets	(60 854)	(2 797)
- Net disposal (acquisition) of financial investments	21 302	(157 937)
Net cash flows from financing activities	(29 731)	144 207
- Proceeds from new share issue	-	146 491
- Interest bearing borrowings repaid	(13 179)	-
- Net loans repaid by (granted to) third parties	600	(1 964)
- Loans granted to joint ventures, associates and assets held for sale	(15 553)	(320)
- Loans granted to unlisted investments	(1 599)	-
Total cash movement for the year	(80 350)	(40 459)
Cash at the beginning of the year	272 473	312 932
Cash acquired	15 978	-
Total cash at the end of the year	208 101	272 473

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Stated capital R'000	Retained earnings R'000	Non-controlling interest R'000	Total R'000
Balance at 1 July 2015 (as previously reported)	176 704	278 544	577	455 825
Correction of prior period error	-	(7 085)	-	(7 085)
Balance at 1 July 2015	176 704	271 459	577	448 740
Total comprehensive loss for the year	-	(32 854)	(231)	(33 085)
- As previously reported	-	(23 817)	(231)	(24 048)
- Correction of prior period error	-	(9 037)	-	(9 037)
Issue of share capital	150 000	-	-	150 000
Share issue costs	(3 509)	-	-	(3 509)
Balance at 30 June 2016	323 195	238 605	346	562 146
Total comprehensive loss for the year	-	(136 695)	(36)	(136 731)
Issue of share capital	651 319	-	-	651 319
Treasury stock acquired through subsidiaries	(127 911)	-	-	(127 911)
Balance at 30 June 2017	846 603	101 910	310	948 823

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

The accounting policies applied in the preparation of these condensed consolidated provisional audited financial statements for the year ended 30 June 2017 (“Audited Results”) are in accordance with International Financial Reporting Standards (“IFRS”) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council. These accounting policies are consistent with those applied in the annual financial statements for the year ended 30 June 2016. The Audited Results have been prepared making use of reasonable judgements and estimates and reporting is done in terms of IAS 34 – Interim Financial Reporting, the Companies Act, 2008 (Act 71 of 2008), as amended, and the Listings Requirements of JSE Limited (“the JSE”) under the supervision of Mr Lourens Louw, the Financial Director.

2. Prior period error: Restatement of comparative numbers

2.1. In the current year, it was established that an incorrect formula was used to determine the Rand value of foreign premiums receivable during the 2015 and 2016 financial periods, resulting in an overstatement of net assets during those periods.

The error has been corrected by restating each of the affected financial statement line items for the prior periods as follows:

	Ten months ended 30 Jun 2015			**Year ended 30 Jun 2016**		
Impact on equity	Previously reported R’000	Adjustment R’000	Restated R’000	Previously reported [2)] R’000	Adjustment R’000	Restated R’000
Trade and other receivables	149 515	(19 553)	129 962	184 325	(1 790)	182 535
Taxation receivable	10 149	2 755	12 904	16 601	823	17 424
Insurance liabilities	(363 735)	9 713	(354 022)	(295 685)	(10 762)	(306 447)
Deferred tax asset	-	-	-	8 098	2 692	10 790
Net reduction in equity		(7 085)			(9 037)	
Impact on Statement of Profit or Loss and Other Comprehensive Income						
Currency translation (losses) profits	3 999	(9 840)	(5 841)	(251)	(12 551)	(12 802)
Taxation – Current	(7,216)	2 755	(4 461)	(3 150)	822	(2 328)
Taxation – Deferred	-	-	-	543	2 692	3 235
Reduction in profitability		(7 085)			(9 037)	

2) These previously reported numbers include the corrections brought forward from the ten months ended 30 June 2015, where applicable.

2.2. For the year ended 30 June 2017 a number of further minor reclassification entries were also passed in respect of the comparatives for 30 June 2016:

2.2.1. Statement of Profit or Loss and Other Comprehensive Income where:

a. Impairment provisions were reallocated from Administration and Marketing Expenses to Other Expenses;

b. Withholding tax on foreign dividends were reallocated from Taxation to Investment Income;

2.2.2. Statement of Financial Position where:

a. a balance included under Taxation Receivable was reallocated to Deferred Taxation Assets; and

b. a debit balance included under Taxation Payable was reallocated to Taxation Receivable.

3. Changes in share capital (now stated capital)

During the year, the authorised and issued share capital of the Company, comprising ordinary par value shares of one cent each, were converted into ordinary no par value shares. The share capital and share premium accounts were also merged during this process. This was done in conjunction with the acquisitions of Midbrook and Snowball - please refer to note 5 for further details.

In settlement of the Midbrook acquisition, Conduit issued 68 428 980 ordinary no par value shares at 259 cents each for a total consideration of R177.2 million on 2 February 2017. On 30 March 2017 the Company issued a further 189 635 102 ordinary no par value shares at 250 cents each for a total consideration of R474.1 million in settlement of the Snowball acquisition.

Midbrook held 9 811 110 Conduit Capital ordinary shares and Snowball held 41 000 000 Conduit Capital ordinary shares on the respective acquisition dates. These shares are now reflected in the Group accounts as treasury shares.

Details of the shares in issue as at the reporting dates are as follows:

	30 Jun 2017 '000	30 Jun 2016 '000
Number of shares	538 630	331 377
- Shares in issue	589 444	331 380
- Shares held as treasury shares	(50 814)	(3)
Weighted average number of shares on which earnings and diluted earnings per share calculations are based	393 177	310 111
- Shares in issue	407 632	297 363
- Bonus issue for rights offer [1)]	-	12 751
- Shares held as treasury shares	(14 455)	(3)

[1)] The weighted average number of shares has been restated by the Bonus issue amount due to the rights offer that took place on 14 December 2015, as required by IAS 33: Earnings per share.

4. Impairment assessment of associates and assets held for sale

4.1. As a reflection of the difficult trading conditions experienced in consumer credit markets Conduit Capital impaired its investment in ARA by R32.8 million to R77.2 million. The asset is reflected at an overall R90.0 million as at the year-end, as it includes a R12.8 million shareholders' loan issued to ARA during the year. It is still management's intention to dispose of the investment, therefore ARA remains classified under "Assets held for sale" at year-end.

4.2. No associate companies were impaired during the financial year ended 30 June 2017.

5. Acquisition of subsidiaries and impairment of goodwill

5.1. On 19 July 2016 ("the Transaction Date") the Group agreed to acquire all the issued shares in Midbrook and Snowball, subject to a number of conditions that had to be met. Both entities were valued at Net Asset Value ("NAV") at the time (R167.7 million for Midbrook and R464.6 million for Snowball).

5.2. The purchase consideration for each transaction was to be settled in Conduit shares, valued at 245 cents each (i.e. 68.4 million shares were to be issued to Midbrook and 189.6 million shares were to be issued to Snowball on conclusion of the transactions). The rationale behind the transactions was to increase the Group's overall equity investment portfolio, thereby generating additional earnings potential and ultimately more capital for eventual investment into the insurance operations over time.

5.3. The Midbrook and Snowball transactions became unconditional and were implemented on 2 February 2017 and 30 March 2017 ("the Implementation Dates"), respectively. Settlement details are fully described in note 3.

5.4. Due to market movements, the underlying equity portfolios in both Midbrook and Snowball reduced in value between the Transaction Date and the Implementation Dates. This affected the NAV, as well as the fair value of the companies as at the Implementation Dates. Together with the simultaneous increase in the Conduit share price (as reflected in note 3), this resulted in goodwill of R19.8 million and R21.6 million being generated on the Midbrook and Snowball transactions respectively, given that Midbrook, Snowball and the Conduit shares had to be valued at fair (market) value as at the respective Implementation Dates.

5.5. Given the nature of the underlying assets in both companies, the NAV of each company as at its Implementation Date was also its fair value. On that basis, the goodwill paid for each company had no value, as the companies were already fairly valued at NAV. The goodwill associated with the Midbrook and Snowball transactions (R41.4 million in total) was therefore impaired in full.

6. Financial instruments

Fair value estimation

The financial assets valued at fair value through profit and loss in the statement of financial position are grouped into the fair value hierarchy as follows:

Financial assets	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
2017				
Listed investments	800 901	-	-	800 901
Investment properties	-	-	4 431	4 431
Unlisted investments	-	22 631	8 040	30 671
	800 901	22 631	12 471	836 003
2016				
Listed investments	247 275	-	-	247 275
Investment properties	-	4 351	-	4 351
	247 275	4 351	-	251 626

Investment properties have been transferred from Level 2 to Level 3 during the reporting period due to the use of unobservable inputs being used in the valuation. There have been no other transfers between levels 1, 2 and 3 during the reporting period.

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period:

- Financial assets classified in Level 1 have been valued with reference to quoted prices and market rates (unadjusted) in active markets for identical assets or liabilities;

- Financial assets classified in Level 2 have been valued by an independent third party (using the net asset value of the underlying assets in the investment as a basis) to determine at which value the investment could have been liquidated as at the reporting date; and
- The fair value of the financial assets classified in Level 3 has been determined by inputs that are not based on observable market data in that the future expected cash flows from the underlying unlisted entity have been discounted at market related rates.

7. Reconciliation of headline loss

	Audited year ended 30 Jun 2017 R'000	Restated audited year ended 30 Jun 2016 R'000
Loss attributable to ordinary equity holders of Conduit	(136 695)	(32 854)
Net loss on revaluation of investment properties	-	31
Loss on disposal of property, plant and equipment	15	261
Impairment of associates and assets held for sale	32 800	13 075
Impairment of goodwill	41 408	-
Impairment of computer software	1 798	-
Profit on disposal of joint ventures	-	(1 478)
Tax on the items above	(7 352)	3 225
Headline loss	(68 026)	(17 740)

8. Contingent liabilities

8.1. A portfolio acquisition agreement, effective 1 September 2015, exists between the Constantia Insurance Company Limited and Dealers Indemnity Proprietary Limited ("Dealers"). Dealers receives a monthly annuity of R45,000 for the remainder of the vendor's natural life, subject to a minimum payment of R1,500,000 ("the Minimum Payment").

The present value of the annuity payments as at 30 June 2017 amounted to R3,001,012 ("the Maximum Liability") per an actuarial calculation based on published mortality tables. The Group has initially raised a liability to the value of the Minimum Payment, of which R510 000 ("the Outstanding Amount") remains payable. It further confirms that it has a contingent liability of R2 491 012 as at the reporting date. The contingent liability relates to the difference between the Outstanding Amount and the Maximum Liability.

8.2. During the financial year, the Group acquired the Natmed computer software that will be used to manage its medical malpractice business. When it purchases the next version of the software in 2020, the Group will pay to the seller of the software ("the Seller") an additional consideration of 1.65x the annualised gross written premium invoiced on 1 March 2020 to medical malpractice policyholder clients that were introduced by the Seller, excluding those policyholder clients who already agreed to insure with the Group from 1 March 2017.

In addition, the Group will pay to the Seller 5% of the gross written premium generated by medical malpractice policyholder clients introduced to it by the Seller between 1 March 2017 and 28 February 2023, on the condition that the cumulative claims loss ratios of those clients during that period does not exceed 30%.

8.3. A subordination agreement has been entered into between a Group company and AA Broking Services Proprietary Limited ("AABS") whereby the Group company has subordinated an amount up to a maximum of R3 500 000 for the benefit of other creditors of AABS, which would enable the claims of such other creditors to be paid in full.

Of this, R1 599 319 has already been paid to AABS by the reporting date.

8.4. The Group is not aware of any current or pending legal cases that would have a material adverse effect on its results.

9. Directors

9.1. Mr Tyrone Moodley's status changed from "Non-executive" to "Executive" on 20 February 2017; and

9.2. Mr Adrian Maizey was appointed to the Board as a Non-executive Director on 20 February 2017. Mr Maizey chairs the Investment Committee.

10. Dividends

In line with the Group's strategy, the details of which appear in the Letter from the CEO, the Board has not recommended any dividend payment to ordinary shareholders (2016: Nil).

11. Events after reporting period

There were no events that resulted in a material impact on the Group between the reporting date and the date of publication of this report.

12. Audit opinion

Grant Thornton has audited the Group's annual financial statements and their unqualified audit report is available for inspection at the Group's registered office.
The auditor's report does not cover all of the information contained in this announcement/financial report. Shareholders are therefore advised to obtain a copy of the audited Group annual financial information from the registered office of the Company.

13. Directors' responsibility

The directors take full responsibility for the preparation of the provisional report and the financial information has been correctly extracted from the underlying Group financial statements.

The provisional report is extracted from audited information, but is not itself audited.

Directors:

Executive directors:	Sean Riskowitz (Chief Executive Officer), Lourens Louw (Financial Director), Tyrone Moodley, Gavin Toet (Chief Operations Officer)
Non-executive directors:	Ronald Napier (Chairman)*, David Harpur*, Adrian Maizey, Jabulani Mahlangu*, Barry Scott*, Rosetta Xaba*

* Independent

Sponsor:

Merchantec Capital

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