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")

CONDENSED CONSOLIDATED REVIEWED RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

LETTER FROM THE CEO TO THE SHAREHOLDERS OF CONDUIT CAPITAL:

Dear fellow Shareholder,

Comment on 2020 Interim Results

Conduit is an investment holding company, primarily invested in the insurance industry in South Africa through our wholly owned subsidiary Constantia Insurance Group ("Constantia" or "the Insurance Group"). Conduit supports the insurance business through capital and capacity investments to create a platform for Constantia to grow into a diversified insurance business over the long-term. In addition to Constantia, Conduit is invested in the real estate brokerage market through Century 21 South Africa ("Century 21") and in the distressed investing group, Africa Special Opportunities Capital ("ASOC").

During the period under review, we made major strides toward our goal of improving the insurance business. Three key developments took place:

- Peter Todd was appointed as Chief Executive Officer ("CEO") of Constantia. Peter joined Constantia as a non-executive director in 2018 and became a Conduit shareholder in 2019 when Conduit acquired Leymic Holdings Proprietary Limited, his insurance solutions and technology holding company. Peter has over 20 years' experience in the insurance industry.
- After period-end, Conduit announced a transaction to acquire the business of Legal Shield Holdings Limited ("Legal Shield"), a subsidiary of Trustco Group Holdings Limited ("Trustco"). Legal Shield will reverse list into Conduit. Legal Shield is valued at R10.4 billion. After the transaction is completed, the combined entity will have an intrinsic value of approximately R12.4 billion, assets of approximately R7.5 billion and equity of about R2.2 billion. Conduit shareholders who participate in the transaction stand to gain between R1 billion and R1.7 billion in value depending on the Conduit share price. The combined entities will have much greater scale and access to capital to achieve their respective long-term goals. Peter Todd will ultimately report to Trustco, via Conduit.

  Legal Shield is a diversified financial services company that owns the largest insurance brands in Namibia (by policyholder numbers, with over 280 000 covered members), one of only two domestic banks in Namibia (Trustco Bank), a student lending and education institution and a large, high-value property investment portfolio. More detail about Legal Shield is contained in Volume 2 and Volume 4 of Trustco's 2019 Integrated Annual Report.[1] Shareholders are also referred to the presentation to shareholders for further detail on this transaction.[2] The long-term future of Conduit is in good hands in partnership with Trustco.

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[1] https://www.tgh.na/wp-content/uploads/2019/07/INS_PROP_IAR-2019-1.pdf and https://www.tgh.na/wp-content/uploads/2019/07/TBN_FIN_IAR-2019.pdf
[2] https://www.conduitcapital.co.za/presentations.php

- We announced a transaction to immediately boost the capital base of Constantia by injecting about R1 billion of new capital into the Insurance Group. Constantia will sell a 32.2% stake (subject to adjustment) in the Insurance Group to Legal Shield in exchange for ownership of the Herboth's Blick property development in Namibia ("Herboths"). This development expands over 1 660 hectares of prime sellable land east of the capital city of Windhoek. It has been zoned for full township development. There is an estimated shortage of approximately 700,000 housing units in Namibia, where serviced (water, electricity, sewage) land is grossly undersupplied. The addition of this asset to the capital of Constantia increases its solvency capital on a Solvency Capital Requirement ("SCR") basis to approximately 1.85x, well above the regulatory minimum requirement (1.00x). This transaction allows the business to access new markets and grow its premiums substantially. Shareholders are referred to the aforementioned presentation for further detail on this transaction.[2]

Constantia

We have made significant improvements at Constantia. Unnecessary projects and discretionary cash expenditure have been curtailed or stopped altogether. Our liquidity position has stabilised, operating expenses have reduced to a sustainable level and focus has been directed to ensuring superior underwriting processes. Cutting costs and stabilising the business are the priority mandates, after which we will move forward with using our enhanced capital base through the Herboths and Legal Shield transactions to build the efficient, productive and highly profitable insurance business that we and our future majority owners, Trustco, expect. The next phase will include organic and inorganic growth initiatives.

Insurance Operating Result

The overall insurance operating result was disappointing, but masks the strong results achieved in medical malpractice, health (excluding one problematic book) and property and casualty ("P&C") (excluding motor). As discussed in our 2019 Integrated Annual Report, motor book issues, limited to a small number of books, pushed the overall result negative. These problem books have either been cancelled or aggressively remediated over the past six months. In terms of insurance regulation, cancellations require a notice period and so we were still "on risk" for between thirty and ninety days, where the undesirable risks remained in our book. Our goal is to write only good P&C risks, and manage the operating expense base appropriately. Constantia is very much interested in building a profitable and innovative P&C business, but now in a more measured and selective manner. Early indications are that on a run-rate basis into March 2020, the loss ratio in our motor books has stabilised at acceptable levels.

The *pro forma* information reflected in the table below reflects Constantia's gross and net premiums adjusted for solvency reinsurance by line, together with the net underwriting margin for the period under review. This *pro forma* information is the responsibility of the Group's Board of Directors and is presented for illustrative purposes only. Due to the nature of this information, it may not fairly present the Group's financial position, changes in equity and results of operations or cash flows. The *pro forma* information has been compiled in terms of the JSE Limited ("JSE") Listings Requirements and the Revised Guide on Pro Forma Information by SAICA and the accounting policies of the Group as at 31 December 2019. The illustrative information has been derived from the Group's reviewed financial information and has been reported on in an independent Reporting Accountant's assurance report, which can be found on the Group's website at www.conduitcapital.co.za.

Line of business	Gross premium income R'000	Net earned premium R'000	Net underwriting result R'000
Assistance	87 205	58 552	(9 989)
Accident and Health	490 345	491 424	17 278
Liability (incl. Medical Malpractice)	103 637	93 143	18 973
Property and Casualty	433 720	394 585	(36 281)
Total	1 114 907	1 037 704	(10 019)

For the six months to 31 December 2019 our average loss ratio was 59.1% and the combined ratio was 110.3%. Our combined ratio would have been around 99.0% assuming various initiatives (remediation efforts in our limited problem books, and adjusting for operating cost expense reductions) had taken place at the start of the period. The combined ratio is skewed higher by the P&C books, demonstrating that the medical malpractice and health books are performing well. We have plenty of growth opportunities but have now shifted our focus to properly executing on our good ideas.

Our expectation is for the loss ratio in the motor books to normalise, bringing the Group's overall loss ratio down for the rest of the fiscal year. Our business operating model has been thoroughly redesigned. We expect operating cost savings in the region of up to R50 million on an annualised basis, before solvency reinsurance cost savings, which could add another R40 million (annualised) in savings with an improved capital structure in place.

COVID-19 Impact

The COVID-19 epidemic has wreaked havoc to an extent not before seen in modern times. Financial markets are in turmoil, unemployment is expected to increase, and many businesses now face significant liquidity risks that were not apparent just a few months ago. Our equity portfolio has come under pressure in line with broader financial market trends, resulting in what we view as temporary impairments to the carrying value of these investments. Our estimate remains that the portfolio trades at between 20% and 30% of fair value. Our insurance exposure to COVID-19 related claims is low in the health business. Lower economic activity may result in some premium churn, but this may in turn be offset by lower claims due to reduced activity. We have some exposure to business interruption insurance claims where some policies do not have pandemic exclusions, but this exposure is not expected to be significant.

We express our sincere appreciation and thanks to our employees and partners who have had to manage, in difficult circumstances, to keep the business operating at a high standard. While the outbreak is by no means defeated, we believe the serious action taken by government and the efforts of all members of society will overcome this threat in the not too distant future.

Major Recapitalisation

At 31 December 2019 our solvency capital was below the minimum regulatory level. This was primarily as a result of poor underwriting results in some of our motor books, coupled with an unprecedented (and in our view, irrational) decrease in the value of our equity investments. We consider this situation to be temporary but have nevertheless moved to restore liquidity and capital into the business in line with the initiatives and transactions detailed above.

The transaction to acquire the Legal Shield business is a major step forward in the evolution of our business. Trustco has a 25-year history of creating wealth for shareholders through their insurance, banking, property, and resources businesses. The transaction gives Trustco control of Conduit and therefore Constantia. It is designed to bring together Trustco's existing financial services assets (Trustco Bank, the student lending business through Trustco Finance and Institute of Open Learning, 4 000 hectares of prime developable land, and two of the largest insurance businesses in Namibia) into a combined entity with Constantia. Conduit will become part of a much larger, more diversified financial services organisation, with an estimated R7.5 billion in assets and R2.2 billion in equity. The financial stability and entrepreneurial leadership that will now be introduced into Constantia positions the business exceptionally well for long-term growth. In our opinion the combination with Trustco and Legal Shield is an opportunity to create more value together than what each company would be able to achieve independently.

Other Investments

Our 40% interest in Anthony Richards and Associates Proprietary Limited was sold for cash just after period-end. Century 21 continues to defy the general property market trends and reported a milestone of 50 franchises and sales increase of 18% year-on-year to the end of February 2020. ASOC, our distressed investing partner, made significant progress on their largest investment and established visibility for exits on their two other investments.

The Future

Our announced transactions with Legal Shield are the next step in the evolution of Conduit from a sleepy company to a well-resourced and entrepreneurially run business able to compete at the next level. Scale and capital are important in insurance, but so too is a long-term orientation and an owner-driven mindset. Legal Shield and Trustco are far better equipped to create significant long-term wealth through the platforms we have established. We look forward to being supportive minority shareholders in a much bigger, more diversified financial services business that will be well placed to make inroads in the South African insurance market over the long term.

Sean Riskowitz
Chief Executive Officer

Johannesburg
31 March 2020

INTERIM RESULTS CALL

Shareholders are advised that management will be hosting an investor call at 15:00 CAT on 1 April 2020 to provide commentary in terms of the interim results for the six months ended 31 December 2019.

The call will focus on the Interim Results Announcement and Transaction Presentation, which is available on the Group's website at https://www.conduitcapital.co.za/financial-information.php, and how it contributed towards our long-term vision and growth strategy.

Please send an email, by close of business on 31 March 2020, to results@conduitcapital.co.za to pre-register for the call.

CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Reviewed six months ended 31 Dec 2019 R'000	Unaudited six months ended 31 Dec 2018 R'000	Audited year ended 30 Jun 2019 R'000
Gross written premium	1 114 907	898 366	2 050 653
Reinsurance premium	(946 239)	(735 533)	(1 662 784)
Net written premium	168 668	162 833	387 869
Net change in provision for unearned premium	4 678	(4 553)	(21 598)
Net insurance income	173 346	158 280	366 271
Reinsurance commission received	322 656	218 404	484 456
Other income	22 228	18 040	30 708
Rental income	396	-	980
Income from insurance operations	518 626	394 724	882 415
Total insurance expenses	(644 934)	(521 637)	(1 169 925)
Net claims and movement in claims reserves	(78 893)	(49 487)	(157 535)
Insurance contract acquisition costs	(161 290)	(135 662)	(295 322)
Administration and marketing expenses	(409 745)	(328 606)	(697 248)
Other income (expenses)	4 994	(7 882)	(19 820)
Net underwriting loss	(126 308)	(126 913)	(287 510)
Net non-insurance (loss) income	(195 133)	173 180	(384 302)
Investment (loss) income	(184 747)	187 198	(363 795)
Other income	15 579	5 258	11 669
Administration and marketing expenses	(25 972)	(19 241)	(32 254)
Other income (expenses)	7	(35)	78
Operating (loss) profit	(321 441)	46 267	(671 812)
Finance charges	(3 849)	(296)	(3 181)
Equity accounted income	3 070	1 923	2 971
Other expenses and losses	(26 315)	-	(34 662)
(Loss) profit before taxation	(348 535)	47 894	(706 684)
Taxation	41 338	(25 692)	53 888
(Loss) profit for the year	(307 197)	22 202	(652 796)
Other comprehensive income	-	-	-
Total comprehensive (loss) income	(307 197)	22 202	(652 796)
Attributable to:			
Equity holders of the parent	(307 369)	23 135	(651 665)
Non-controlling interest	172	(933)	(1 131)
Total comprehensive (loss) income	(307 197)	22 202	(652 796)
Headline (loss) earnings	(297 814)	23 135	(622 938)
(Loss) earnings per share (cents)			
- Basic and Diluted	(43.8)	3.3	(92.8)
- Headline and Diluted Headline	(42.4)	3.3	(88.7)

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Reviewed 31 Dec 2019 R'000	Unaudited 31 Dec 2018 R'000	Audited 30 Jun 2019 R'000
ASSETS			
Non-current assets	946 953	1 695 595	1 214 908
- Property, plant and equipment	86 010	18 234	88 537
- Intangible assets	172 566	114 660	161 046
- Reinsurers' share of policyholder liabilities	17,292	-	21 661
- Deferred taxation	11 457	47 618	7 922
- Investment properties	3 470	3 360	3 470
- Investment in associates	38 951	116 561	89 166
- Investments held at fair value	617 207	1 395 162	843 106
Current assets	1 008 713	1 010 510	1 069 417
- Insurance assets	458 255	397 803	437 041
- Inventory	2 553	-	-
- Loans receivable	492	-	500
- Investments held at fair value	-	2	-
- Insurance, trade and other receivables	431 353	370 844	436 769
- Taxation	253	2 509	334
- Cash and cash equivalents	115 807	239 352	194 773
Assets held for sale	32 920	-	-
Total assets	1 988 586	2 706 105	2 284 325
EQUITY AND LIABILITIES			
Capital and reserves	447 919	1 422 095	745 825
- Stated capital	1 170 538	1 163 605	1 162 575
- (Accumulated losses) Retained income	(733 424)	248 987	(426 055)
Equity attributable to equity holders of the parent	437 114	1 412 592	736 520
Non-controlling interest	10 805	9 503	9 305
Non-current liabilities	188 779	268 344	237 886
- Policyholder liabilities under insurance contracts	59 336	31 494	67 924
- Interest bearing borrowings	2 059	306	-
- Lease liabilities	55 549	-	58 210
- Deferred taxation	71 835	236 544	111 752
Current liabilities	1 351 888	1 015 666	1 300 614
- Insurance liabilities	633 832	544 627	622 863
- Interest-bearing borrowings	4 728	309	-
- Insurance, trade and other payables	709 025	468 032	671 325
- Taxation	4 303	2 698	2 255
Total equity and liabilities	1 988 586	2 706 105	2 284 325
Net asset value per share (cents)	61.7	201.4	105.1
Tangible net asset value per share (cents)	37.3	185.1	82.1

SEGMENTAL REPORT

SEGMENTAL REPORT FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

	Insurance and Risk R'000	Investments R'000	Total R'000
Income from operations	518 626	-	518 626
Expenses	(644 934)	(2 056)	(646 990)
Operating result	(126 308)	(2 056)	(128 364)
Equity accounted income (loss)	-	3 070	3 070
Investment (loss) income	2 747	(187 909)	(185 162)
Other	(3 452)	(26 530)	(29 982)
Loss before head office expenses and taxation	(127 013)	(213 425)	(340 438)
Unallocated net head office expenses			(8 097)
Taxation			41 338
Profit for the period			(307 197)
Capital utilised			
Capital employed at end of period	411 379	9 335	447 919
Reallocation	(371 846)	371 846	-
Capital utilised at end of period	39 533	381 181	447 919
Average capital utilised during the period	52 773	516 876	599 635

SEGMENTAL REPORT FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

	Insurance and Risk R'000	Investments R'000	Total R'000
Income from operations	394 724	-	394 724
Expenses	(521 637)	(2 259)	(523 896)
Operating result	(126 913)	(2 259)	(129 172)
Equity accounted income (loss)	(1 460)	3 383	1 923
Investment income	7 260	179 334	186 594
Other	(176)	(1 335)	(1 511)
Profit (loss) before head office expenses and taxation	(121 289)	179 123	57 834
Unallocated net head office expenses			(9 940)
Taxation			(25 692)
Profit for the period			22 202
Capital utilised			
Capital employed at end of period	1 078 031	395,584	1 422 095
Reallocation	(815 059)	815 059	-
Capital utilised at end of period	262 972	1 210 643	1 422 095
Average capital utilised during the period	309 541	958 663	1 227 407

SEGMENTAL REPORT FOR THE YEAR ENDED 30 JUNE 2019

	Insurance and Risk R'000	Investments R'000	Total R'000
Income from operations	882 415	-	882 415
Expenses	(1 169 925)	(2 963)	(1 172 888)
Operating result	(287 510)	(2 963)	(290 473)
Equity accounted income (loss)	(3 375)	6 346	2 971
Investment (loss) income	13 041	(378 396)	(365 355)
Other	(12 124)	(26 993)	(39 117)
Loss before head office expenses and taxation	(289 968)	(402 006)	(691 974)
Unallocated net head office expenses			(14 710)
Taxation			53 888
Loss for the year			(652 796)
Capital utilised			
Capital employed at end of year	700 301	14 577	745 825
Reallocation	(599 730)	599 730	-
Capital utilised at end of year	100 571	614 307	745 825
Average capital utilised during the year	224 623	856 224	1 119 923

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Reviewed six months ended 31 Dec 2019 R'000	Unaudited six months ended 31 Dec 2018 R'000	Audited year ended 30 Jun 2019 R'000
Net cash flows from operating activities	(106 838)	(94 454)	(106 937)
- Cash utilised by operations	(106 430)	(102 587)	(114 342)
- Interest received	2 870	7 864	13 461
- Finance charges	(3 849)	(296)	(3 181)
- Dividends received from investments	1 122	420	764
- Taxation (paid) received	(551)	145	(3 639)
Net cash flows from investing activities	33 535	2 146	(18 700)
- Net acquisition of associates	(1 000)	-	(1 625)
- Dividends received from associates	2 894	3 600	6 000
- Loans granted to associates	(2 950)	-	-
- Acquisition of subsidiary	(108)	-	-
- Net movement in loans to third parties	8	-	-
- Net acquisition of property, plant and equipment	(2 469)	(3 150)	(15 847)
- Net acquisition of intangible assets	-	(309)	(3 797)
- Net disposal (acquisition) of financial investments	37 160	2 005	(3 431)
Net cash flows from financing activities	(7 004)	(8 401)	(19 651)
- Treasury stock acquired	-	(7 108)	(8 138)
- Net movement in interest bearing borrowings	(1 430)	4	-
- Net movement in loan funding: Leases	(5 574)	-	(3 461)
- Net movement in loans to third parties	-	-	(438)
- Loans granted to associates	-	(1 297)	(7 614)
Total cash movement for the period	(80 307)	(100 709)	(145 288)
Cash at the beginning of the period	194 773	340 061	340 061
Cash acquired	1 341	-	-
Total cash at the end of the period	115 807	239 352	194 773

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Stated capital R'000	(Accumulated losses) Retained earnings R'000	Non-controlling interest R'000	Total R'000
Balance at 1 July 2018	1 170 713	225 852	10 436	1 407 001
Total comprehensive income (loss) for the period	-	23 135	(933)	22 202
Treasury stock acquired through subsidiaries	(7 108)	-	-	(7 108)
Balance at 31 December 2018	1 163 605	248 987	9 503	1 422 095
IFRS 16 adjustment to retained earnings [a)]	-	(242)	-	(242)
Total comprehensive loss for the period	-	(674 800)	(198)	(674 998)
Treasury stock acquired through subsidiaries	(1 030)	-	-	(1 030)
Balance at 30 June 2019	1 162 575	(426 055)	9 305	745 825
Total comprehensive (loss) income for the period	-	(307 369)	172	(307 197)
Issue of share capital	7 963	-	-	7 963
Acquisition of non-controlling interest	-	-	1 328	1 328
Balance at 31 December 2019	1 170 538	(733 424)	10 805	447 919

a) Only during the second half of the 2019 financial year did Conduit decide to early-adopt IFRS 16. As a result, the December 2018-interim results were drafted in terms of IAS 17 and the IFRS 16 adjustment to prior year retained earnings was only brought to book during the second half of the 2019 financial year. Due to the IFRS 16 adjustments for that period being immaterial, the interim results for December 2018 were not restated.

NOTES TO THE CONDENSED CONSOLIDATED REVIEWED RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

1. Basis of preparation

The accounting policies applied in the preparation of these condensed consolidated reviewed results for the six months ended 31 December 2019 ("Interim Results") are in accordance with International Financial Reporting Standards ("IFRS") 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 2019. The Interim 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 (Act 71 of 2008), as amended, and the Listings Requirements of JSE Limited ("the JSE") under the supervision of Mr Lourens Louw, the Chief Financial Officer.

2. Changes in accounting policies

During the current financial year, Conduit and the Group adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

2.1 IAS 28: Investments in Associates and Joint Ventures

Long-term interest in Associates and Joint Ventures

Clarification was provided that an entity should apply IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture, but to which the equity method is not applied.

The adoption of this standard did not have any material impact on the results of the Group.

2.2 IFRIC 23: Uncertainty over Income Tax Treatments

The new standard specifies as to how an entity should reflect the effects of uncertainties in accounting for income taxes.

The adoption of this standard did not have any material impact on the results of the Group.

As highlighted above, Conduit early adopted IFRS 16: Leases during the 2019 financial year. This standard replaced IAS 17: Leases, and introduced a single lessee accounting model. The adoption of the standard has had a material impact on the results of the Group from April 2019 and onward, and has resulted in different classification and disclosure than would have previously been provided in the financial statements. Conduit opted for the transitional arrangements of adjusting opening retained income instead of restating prior year comparatives.

3. Changes in stated capital

During the period under review, the Group utilised 7 962 500 of its treasury shares to pay for part of the 58.5625% stake that it acquired in Leymic. These shares were transferred at R1.00 per share. Also refer to note 5 below.

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

	31 Dec 2019 '000	31 Dec 2018 '000	30 Jun 2019 '000
Number of shares	708 569	701 309	700 607
- Shares in issue	764 444	764 444	764 444
- Shares held as treasury shares	(55 875)	(63 135)	(63 837)
Weighted average number of shares on which earnings and diluted earnings per share calculations are based	701 948	703 410	702 100
- Shares in issue	764 444	764 444	764 444
- Shares held as treasury shares	(62 496)	(61 034)	(62 344)

4. Impairment assessment of associates and transfer to assets held for sale

During January 2020 the Group disposed of two of its non-core investments in associates:

- Anthony Richards and Associates Proprietary Limited ("ARA") was sold for R26.00 million; and
- Jasure Financial Services Proprietary Limited ("Jasure") was sold for R6.92 million.

Accordingly, both these entities were reflected as held for sale as at the reporting date.

During the period under review ARA was impaired by R26.56 million, while a prior period impairment of R5.14 million relating to Jasure was reversed in order to fair value these investments prior to reclassification date. Subsequently these assets were transferred to non-current assets held for sale. Given the economic realities under which ARA currently has to operate, management and the Board consider the R26.56 million impairment to be reasonable.

No other associate companies required impairment.

5. Acquisition and disposal of subsidiaries

5.1 The Group acquired 58.5625% of the issued share capital in Leymic for a total consideration of R13.25 million. Leymic owns a number of companies that provide services in the insurance adjacent market, specifically relating to claims management, repairs and investigations.

The purchase consideration was settled through a combination of cash and shares and resulted in goodwill of R18.94 million. At acquisition date the fair value of the liabilities in Leymic exceeded the fair value of the assets. The purchase consideration was based on the valuation performed on Leymic. This was in excess of the net assets and liabilities at acquisition, giving rise to the goodwill. There was no requirement for any of the goodwill to be impaired.

5.2 Constantia sold its shareholding in a dormant subsidiary, Hurriclaim Proprietary Limited, for a total consideration of one rand, resulting in no profit or loss.

5.3 Further details of the acquisition and the disposal are as follows. Please note that numbers reflected below are subject to change as some of the values have been obtained from provisional accounts:

Group	Leymic	Hurriclaim	Total
Effective date of change of control	1 December 2019	31 August 2019	
Fair value of assets acquired:			
- Property, plant and equipment	857	-	857
- Other intangible assets	9	-	9
- Inventory	2 603	-	2 603
- Trade and other receivables	8 303	(4)	8 299
- Cash and cash equivalents	1 343	(2)	1 341
- Deferred taxation	17	(3)	14
- Interest-bearing borrowings	(3 489)	-	(3 489)
- Trade and other payables	(13 632)	41	(13 591)
- Taxation	(626)	46	(580)
- Non-controlling interest	(1 070)	-	(1 070)
- Net asset value (disposed of) acquired	(5 685)	78	(5 607)
- Goodwill acquired [1]	18 936	-	18 936
- Purchase price	13 251	78	13 329
- Non-cash payments			
▪ Increase in non-controlling interest [2]	(258)	-	(258)
▪ Future cash payment	(5 000)	-	(5 000)
▪ Equity shares issued	(7 963)	-	(7 963)
- Net cash outflow on acquisition	30	78	108
Profit after tax since acquisition date, included in the consolidated results for the six months			332
Turnover since acquisition date, included in the consolidated results for the six months			2 897
Group loss after tax had the business combination been included for the entire six months			(308 142)
Group revenue had the business combination been included for the entire six months			1 172 667

[1] Goodwill was paid in order to obtain the majority shareholding in a group of companies with cutting edge systems and technology in their field of business, a number of large, high profile clients and excellent medium to long-term growth prospects in the insurance adjacent market.

[2] Non-controlling interest will be reflected on the proportionate share basis.

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
31 December 2019				
Listed investments	568 387	-	-	568 387
Investment properties	-	-	3 470	3 470
Unlisted investments	-	48 820	-	48 820
	568 387	48 820	3 470	620 677
31 December 2018				
Listed investments	1 351 861	-	-	1 351 861
Investment properties	-	-	3 360	3 360

Financial assets	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
Unlisted investments	-	42 405	898	43 303
	1 351 861	42 405	4 258	1 398 524
30 June 2019				
Listed investments	794 447	-	-	794 447
Investment properties	-	-	3 470	3 470
Unlisted investments	-	48 659	-	48 659
	794 447	48 659	3 470	846 576

There have been no 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 entities have been discounted at market related rates.

In carrying out the valuation of financial assets classified in Level 3 on 30 June 2019, the directors determined the fair value of the investment property using the income/investment approach (by way of the capitalisation of net income), based on the work done in June 2018 by R.A. Gibbons (AEI (ZIM), FIV (SA)) from Mills Fitchet Magnus Penny Proprietary Limited, an independent valuator, after taking the following factors into consideration:

- location, size and nature of the building;
- supply, demand and ability to let of similar properties in the area;
- market rentals ranging between R60 and R170 per m^2 in the general vicinity of the properties; and
- a capitalisation rate ranging between 9.5% and 11.0%, as used in the market for similar type properties.

7. Taxation

Due to the continued underwriting losses incurred during the period under review Constantia Insurance Company Limited ("CICL"), in consultation with its auditors, did not raise any deferred tax assets, other than those assets that resulted from provisions and accruals. This resulted in potential tax assets of R41.96 million (Dec 2018: R20.65 million) not being credited to the income statement and a cumulative R179.96 million not being reflected in assets.

The Group's effective tax rate for the year under review is therefore 11.9% (Dec 2018: 53.6%). If the additional deferred tax assets were raised the effective tax rate would have been 23.9% (Dec 2018: 10.5%). The difference between this rate and the standard company income tax rate of 28.0% can mostly be attributed to the fact that tax is provided on the Group's investment income and losses from equities at the capital gains tax rate, which is an effective 22.4%.

This position will be reviewed on an ongoing basis.

8. Related party transactions

Other than what was already disclosed elsewhere in this document, the Group concluded the following related party transactions during the period under review:

	R'000
Transactions with associates	
Anthony Richards and Associates Proprietary Limited	
- Dividend received	2 800
ASOC Managemenet Company Proprietary Limited	
- Dividend received	94
Mobility Insurance Underwriting Managers (Pty) Limited	
- Interest received	132
- Management fees paid	(6 075)
- Balance due by	142
Jasure Financial Services Proprietary Limited	
- Loan issued	1 780
- Loan impaired	(880)
Rikatec Proprietary Limited	
- Interest received	1 038
Transactions with directors, directors' companies and key management	
Riskowitz Value Fund LP, a USA based investment partnership to which Protea Asset Management LLC is the investment adviser and to which Riskowitz Capital Management LLC is the General Partner:	
- acquired some shares from the Conduit Group in what was classified as a "small related party transaction".	34 323

9. Reconciliation of headline earnings

	Reviewed six months ended 31 Dec 2019 R'000	Unaudited six months ended 31 Dec 2018 R'000	Audited year ended 30 Jun 2019 R'000
(Loss) income attributable to ordinary equity holders of Conduit	(307 369)	23 135	(651 665)
(Profit) loss on disposal of property, plant and equipment	(246)	-	677
Impairment of associates	21 421	-	33 985
Profit on revaluation of investment property	-	-	(450)
Tax on the items above	(11 684)	-	(5 485)
Non-controlling interest on the items above	64	-	-
Headline earnings	(297 814)	23 135	(622 938)

10. Statutory capital below regulatory requirements

The Prudential Authority ("PA") that governs the South African assurance companies came into effect on 1 July 2018, following the promulgation of the Insurance Act No 18 of 2017. This also brought about the Financial Soundness Standards that govern all insurers. These financial soundness standards necessitated a change to Constantia's SCR calculation.

The Financial Soundness Standards defines two levels of capital that an insurer is required to comply with at all times:

- The prescribed minimum capital requirement ("MCR") that refers to the absolute minimum level of eligible own funds that an insurer must hold to protect all its policyholders. The minimum MCR is 1.00; and
- The prescribed SCR, which refers to the level of eligible own funds that an insurer must hold to ensure that the value of its assets will exceed the technical provisions and other liabilities at a 99.50% confidence level over a one-year time horizon. The minimum SCR is 1.00.

The SCR model requires an additional surplus of assets (buffer) above liabilities to take account of potential adverse outcomes of both the inherent risk of underwritten portfolios and the future cost of claims of these portfolios and should the insurer not have a sufficient buffer in place (i.e. the SCR is below 1.00), the PA has various rights of response and intervention, commencing with closer supervision of the insurer.

As at 31 December 2019, CICL had an SCR ratio of 0.59, primarily as a result of unrealised losses in the listed equity portfolio, as well as underwriting losses incurred within the P&C business during the period under review. CICL's MCR on the same date was 2.35.

As at 31 December 2019, Constantia Life & Health Assurance Company Limited ("CLAH") had an SCR ratio of 0.58, primarily as a result of underwriting losses incurred during the period under review. CLAH's MCR on the same date was 1.06.

CICL and CLAH's ongoing correspondence with the PA includes various action plans to restore the SCR above 1.00 and to add an additional safety margin (refer to note 14 below). It should however be noted that, notwithstanding the substantive remediation efforts already underway, should the planned initiatives not be successful, the companies' SCR may not be restored to a minimum level of 1.00 in the short term.

11. Contingent liabilities

11.1. A portfolio acquisition agreement, effective 1 September 2015, exists between CICL 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 R1.50 million ("the Minimum Payment").

The present value of the annuity payments as at 31 December 2019 amounted to R2.73 million ("the Maximum Liability") per an actuarial calculation based on published mortality tables. The Group has initially raised a liability to the value of R1.50 million, which was the minimum amount payable. This amount has now been paid in full. The Group therefore confirms that it has a contingent liability of R2.73 million as at the reporting date.

11.2. During the 2017 financial year, the Group acquired the Natmed computer software that will be used to manage its medical malpractice business. Should it purchase the next version of the software in 2020, the Group will pay to the seller of the software ("the Seller") an additional consideration of 1.65 times 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.

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

12. Directors

12.1 On 8 November 2019 Mr Jabulani Mahlangu resigned as an independent non-executive director of the company.

12.2 On 20 March 2020 Ms. Zukie Siyotula was appointed as an independent non-executive director of the company.

13. Dividends

In line with the Group's strategy, the Board has not recommended any dividend payment to ordinary shareholders (2019: Nil).

14. Events after reporting period

14.1 On 11 February 2020 Conduit Capital announced via the Stock Exchange News Service ("SENS") the acquisition by Constantia of 100% of the issued ordinary shares and all loan accounts (if any) of Herboths Property Development Proprietary Limited ("Herboths") in consideration for Constantia issuing shares to Trustco Property Holdings Proprietary Limited, the 100% owner of Herboths ("Transaction 1"). Transaction 1 intends to bolster the statutory capital in Constantia's various insurance subsidiaries, but is still subject to a number of suspensive conditions as at the date of publication of this report.

Please visit http://www.overend.co.za/download/sesns20200211s426530.pdf for more detail.

14.2 On 27 March 2020 Conduit Capital announced via SENS the acquisition of 100% of the issued ordinary shares of Legal Shield in consideration for Conduit issuing shares to Trustco and Riskowitz Value Fund LLP, the combined 100% owners of Legal Shield ("Transaction 2"). Transaction 2, which is still subject to a number of suspensive conditions as at the date of publication of this report, will result in a reverse takeover of Conduit and Conduit will become part of the Trustco group of companies.

Please visit http://www.overend.co.za/download/sens-20200327-s428839.pdf for more detail.

14.3 COVID 19 is treated as a 'non-adjusting subsequent event', and therefore forecasts, projections and associated assumptions used in the condensed consolidated reviewed results has not taken into account the COVID 19 impact.

Please refer to the section titled *COVID 19 Impact* in the letter from the CEO contained in this report for further information.

15. Review opinion

These condensed consolidated financial statements for the six months ended 31 December 2019 have been reviewed by BDO South Africa Incorporated, who expressed an unmodified review conclusion. The review report contained the following Emphasis of Matter paragraph:

"We draw attention to Note 10 to the financial statements, which refers to Constantia Insurance Company Limited and Constantia Life and Health Assurance Company Limited not meeting their minimum solvency capital requirement (SCR) of 1.00 as prescribed in terms of the Insurance Act No 18 of 2017. As explained in Note 10, should the planned initiatives not be successful, the SCR of these companies may not be restored to a minimum level of 1.00 in the short term. Our opinion is not modified in respect of this matter."

A copy of the auditor's review report is available on request, together with the financial statements identified in the auditor's report. Please email results@conduitcapital.co.za to request a copy. The auditor's report does not necessarily report on all of the information contained in this announcement. Shareholders are therefore advised that, in order to obtain a full understanding of the nature of the auditor's engagement, they should obtain a copy of the auditor's report together with the accompanying financial information from the issuer's registered office.

The illustrative solvency reinsurance normalised tables as contained in the CEO's letter have been derived from the reviewed financial information and has been reported on in an independent Reporting Accountant's assurance report which can be found on the Group's website at www.conduitcapital.co.za. This information has been prepared for illustrative purposes only and is the responsibility of the Group's Board of Directors.

Directors:

Executive directors:	Sean Riskowitz (Chief Executive Officer), Lourens Louw (Chief Financial Officer)
Non-executive directors:	Ronald Napier (Chairman)*, Leo Chou, Adrian Maizey, Zukie Siyotula*, William Thorndike*, Rosetta Xaba*

* Independent

Sponsor:
Merchantec Capital

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