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 REVIEWED RESULTS FOR THE YEAR ENDED 30 JUNE 2018

LETTER FROM THE CEO TO THE SHAREHOLDERS OF CONDUIT CAPITAL:

Dear fellow Shareholder,

Conduit Capital is a Johannesburg Stock Exchange listed insurance investment holding company. Our subsidiaries are primarily involved in the insurance industry. Conduit's vision is to develop a diversified insurance group supported by a value-oriented, non-insurance investment portfolio that will create value for stakeholders for decades to come. Our goal is to increase intrinsic value[1] per share over the long-term at a rate well above the market average and peers.

We invest in and support our insurance operations so that they can deliver sustainable underwriting profits and generate float to invest in non-insurance opportunities. Float is the money an insurance company receives from premiums and that it holds before it has to pay out claims. The increase in float creates value for the Group, which in turn enjoys a larger capital base from which to support insurance premium growth. We intend to accelerate this cycle, the ultimate effect of which is a long-term sustainable increase in the value of Conduit.

Conduit's strategy can be distilled into the following three priorities:

- invest in and sustainably grow our insurance businesses;
- increase float at no cost by achieving insurance combined ratios[2] below 100%; and
- pursue value-oriented, non-insurance investments to enhance the capital base of the insurers.

MEASURING PERFORMANCE

We measure Conduit's performance by the growth in intrinsic value per share. We believe the best way to assess the *change in intrinsic value* per share is to consider the *change in net asset value* per share. The *change in* net asset value per share should however not be confused with the *absolute* net asset value per share. This method is appropriate because of the volatility of the earnings streams of our business: Insurance underwriting and Investments.

For the year ended 30 June 2018, the net asset value ('NAV') per share increased by 12.7% to 198.0 cents. On a headline basis, the Group earned R133.5 million compared to last year's R82.7 million loss. Headline earnings was 21.0 cents per share compared to last year's loss of 20.8 cents per share.

Table 1 below shows our performance per share since the Group's strategy changed in June 2015:

[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.

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

Table 1

Date	NAV (cents)	% change	Float (cents)	% change	Investments held at fair value (cents)	% change	Cash (cents)	% change	Share price per last trade (cents)	% change	JSE All Share Index (incl. dividend yield)	% change
30 Jun '15	174.8		32.7		40.7		122.1		220		51 806.95	
30 Jun '16	169.5	(3.0%)	19.7	(39.8%)	74.6	83.3%	82.2	(32.7%)	275	25.0%	53 735.66	3.7%
30 Jun '17	175.5	3.5%	24.1	22.3%	154.7	107.4%	38.6	(53.0%)	240	(12.7%)	54 664.28	1.7%
30 Jun '18	198.0	12.7%	28.2	17.0%	172.7	11.6%	48.2	24.9%	198	(17.5%)	62 637.27	14.6%
Average annual		4.2%		(4.8%)		61.9%		(26.6%)		(3.2%)		6.5%
Since inception		13.3%		(13.8%)		324.3%		(60.5%)		(10.0%)		20.9%

The impact of the Group's approach of incurring short-term upfront costs in exchange for materially higher earnings power into the future can be seen in the NAV numbers above. It is however clear that Conduit has started to use its capital much more efficiently. In June 2015, we had 207.5 cents per share in NAV and float available of which 162.8 cents (or 78.5%) could be invested, while the remaining 44.7 cents per share was required for operations. By June 2018, the Group had increased its premium income by 62.0% (from an annualised R948.6 million in 2015 to R1.54 billion in 2018) but was still able to invest 220.9 cents (or 97.7%) of the 226.2 cents per share in NAV and float in investments and cash.

We believe that this, together with the quality of the insurance operations, the rate at which that business is growing, and its ability to eventually write premium at sustainable combined ratios of materially less than 100% are the reasons why Conduit should trade at a premium to net asset value.

OUR MAJOR ASSETS

CONSTANTIA

Our insurance business is comprised of Constantia Insurance Company Limited, Constantia Life Limited and Constantia Life & Health Assurance Company Limited (collectively referred to as Constantia). Constantia is our largest investment by revenue and assets. It is the vehicle through which most of our investment capital will be created. Constantia offers a range of niche insurance and risk management solutions, covering areas such as medical malpractice cover, primary health insurance and medical gap cover products, funeral and life insurance, guarantee and indemnity solutions, medical evacuation insurance and niche motor and property lines. We own 100% of Constantia.

Constantia is an independent and decentralised company under the guidance of its own board of directors and Chief Executive Officer, Volker von Widdern. Constantia's products are distributed through internal divisions to brokers or direct-to-market, or through independent Underwriting Management Agencies ('UMAs'). UMAs are generally incentivised on a cost recovery basis (calculated as a percentage of premium) and through profit share arrangements (to ensure sufficient and sustainable underwriting quality). Since Volker was appointed as CEO, Constantia has evolved from a small insurance company into a business with the capacity to write several billion rand in premium in the medium-term. Constantia has become a modern day, dynamic and ambitious enterprise.

Constantia's Performance

Constantia uses solvency relief reinsurance contracts to reduce the amount of capital required to support its written premium. This results in a decrease in net written premium and a simultaneous increase in the insurer's return on invested capital. These solvency relief 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. The net premiums reported in our financial statements therefore materially understate the actual level of net written premiums. It is more accurate to look at the business on a "solvency reinsurance normalised" basis, as Table 2 below illustrates.

The *pro forma* information in Tables 2 and 3 below is presented to demonstrate the effect on the Group's reported results if the net impact of all solvency reinsurance were reflected as a single line item. The solvency reinsurance normalised 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 Listings Requirements and the Revised Guide on Pro Forma Information by SAICA and the accounting policies of the Group as at 30 June 2018. The illustrative solvency reinsurance normalised 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.

Table 2

	Year ended 30 June 2018			Year ended 30 June 2017		
	As reported R'000	Pro forma adjustment R'000	Solvency reinsurance normalised R'000	As reported R'000	Pro forma adjustment R'000	Solvency reinsurance normalised R'000
Gross written premium	1 536 885	-	1 536 885	1 069 794	-	1 069 794
Reinsurance premium[3]	(1 144 341)	880 751	(263 590)	(687 890)	547 932	(139 958)
Net written premium	392 544	880 751	1 273 295	381 904	547 932	929 836
Net change in provision for unearned premium[4]	(716)	(19 962)	(20 678)	(13 862)	(5 633)	(19 495)
Net premium income	391 828	860 789	1 252 617	368 042	542 299	910 341
Reinsurance commission received[5]	532 035	(379 260)	152 775	353 965	(283 600)	70 365
Other income	53 440	-	53 440	28 826	-	28 826
Income from insurance operations	977 303	481 529	1,458,832	750 833	258 699	1 009 532
Total insurance expenses	(1 118 381)	(469 099)	(1 587 480)	(885 182)	(251 126)	(1 136 308)
Net claims and movement in claims reserves[6]	(245 919)	(466 957)	(712 876)	(229 805)	(253 225)	(483 030)
Insurance contract acquisition costs	(257 035)	-	(257 035)	(179 807)	-	(179 807)
Administration and marketing expense[7]	(604 854)	(2 142)	(606 996)	(469 145)	2 099	(467 046)
Other expenses	(10 573)	-	(10 573)	(6 425)	-	(6 425)
Net underwriting loss	(141 078)	12 430	(128 648)	(134,349)	7 573	(126 776)
Cost of solvency reinsurance[8]	-	(12 430)	(12 430)	-	(7 573)	(7 573)
Net insurance result	(141 078)	-	(141 078)	(134,349)	-	(134 349)

On this normalised basis, net written premium was up 41.4% to R1.27 billion. The risk retention rate was 82.8%, compared to 84.2% in 2017. Claims were negatively affected by various once-off losses and increased to 56.9% of net insurance income (2017: 54.4%). Administration and marketing expenses increased by 30.0% to R607.0 million as Constantia aggressively reinvested in capacity to build the business to support much higher levels of premium in the future. Despite the higher claims and expenses, the net underwriting loss remained

[3] Write back solvency reinsurance premium as if the solvency reinsurance structures were not in place.
[4] Reverse unearned premium reserve movements relating to solvency reinsurance.
[5] Write back all commissions and profit commissions received from solvency reinsurers.
[6] Constantia assumes all claims and claims provisions settled by solvency reinsurers.
[7] Profit commission adjustment relating to specific unearned premium adjustments associated with solvency reinsurance.
[8] Account for the cost impact of solvency reinsurance.

flat in nominal terms and improved from 14.4% of net insurance income in 2017 to 10.3% in 2018. Pleasingly, the net underwriting result before indirect operating expenses showed a major improvement from a loss of R66.2 million to a loss of just R17.8 million this year, as can be seen in Table 3.

The second half of fiscal 2018 saw a 48.2% improvement in the net loss before equity investments. The fourth quarter of the fiscal year was profitable on an operating and net income basis (also before equity investments).

Table 3 below reflects Constantia's gross and net premiums adjusted for solvency reinsurance by Line of Business ("LoB"), together with the underwriting margin for the period under review and the comparative period:

Table 3

	Year ended 30 June 2018				Year ended 30 June 2017			
	Gross written premium R'000	Net written premium excl. solvency reinsurance R'000	Under-writing result before indirect operating expenses[9] R'000	Under-writing result R'000	Gross written premium R'000	Net written premium excl. solvency reinsurance R'000	Under-writing result before indirect operating expenses R'000	Under-writing result R'000
Assistance	98 993	98 745	9 895	9 895	30 097	29 700	(5 608)	(5 608)
Accident and Health	836 161	784 603	25 246	(39 231)	718 394	700 271	374	(41 618)
Guarantee	26 236	13 755	6 359	4 336	28 094	15 401	1 247	(395)
Liability	92 290	65 092	(11 168)	(18 284)	17 959	9 056	(14 543)	(15 593)
Miscellaneous	52 865	28 483	(5 809)	(9 885)	36 673	27 824	(2 665)	(4 809)
Motor	298 359	231 644	(29 563)	(52 570)	160 975	116 357	(29 289)	(38 698)
Property	131 981	50 973	(8 953)	(19 130)	77 602	31 227	(3 398)	(7 934)
Unallocated	-	-	(3 779)	(3 779)	-	-	(12 346)	(12 121)
Underwriting result	1 536 885	1 273 295	(17 772)	(128 648)	1 069 794	929 836	(66 228)	(126 776)
Cost of solvency reinsurance				(12 430)				(7 573)
Net insurance result				(141 078)				(134 349)

Qualitative Performance

The qualitative aspects of any company are as critical as the quantitative. These aspects include but are not limited to the intelligence, ethics and ambition of management, the culture of the organisation, or the underlying quality of the people working there. Although Constantia is still loss-making, there has been a major evolution of the business over the past two years. New hires in key positions and improved systems have created the platform for sustainable growth well into the future.

For the long-term, Constantia is now ideally positioned to realise its vision to become the medium-sized insurer of choice.

[9] This column reflects the underwriting result per LoB after the allocation of expenses directly attributable to that LoB, but before the allocation of indirect expenses, e.g. head office expenses.

Measuring Constantia's Performance

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

Combined ratio

The combined ratio measures the sum of the net loss ratio and the expense ratio of an insurance company relative to net earned premium. The ratio determines whether Constantia's insurance book is profitable. It also measures the "cost" of the investable assets (float) produced by our insurance business 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 for the long-term is 95.0% or better. In fiscal 2018, our adjusted[10] combined ratio was 106.4% compared to 109.3% in 2017. Of the 106.4%, a total of 3.2% was incurred by once-off losses in various books. These books have since been terminated or addressed. The remainder of the difference to 95.0% (or better) should be achieved as the business scales. The target is clearly achievable in the near-term and sustainable for the long-term.

Growth in Investable Assets

Insurance companies collect premiums now and pay claims later. They then sit on large amounts of money to invest until claims are paid. This capital is known as float. The float calculation is: add insurance liabilities, policyholder liabilities and deduct reinsurance assets. Float increased by 53.1% from R129.9 million to R198.9 million.

The simple float calculation does not, however, appropriately measure how much unencumbered capital is actually available to invest because some of this capital is reinvested or absorbed by Constantia operations. Accordingly, we developed a more conservative calculation called "investable assets". These are assets generated by the insurance companies that can be freely invested and have "float-like" characteristics. We exclude any amounts not meeting these criteria (such as restricted bank balances held in terms of our investment policy). Our version[11] 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

The value of investable assets increased from R123.4 million on 30 June 2017 to R1.0 billion on 30 June 2018. This was primarily due to the introduction of additional capital into Constantia. Constantia's own contribution to Investable Assets was a negative R180.8 million, as follows:

1. Increase in minimum cash requirement (R49.2 million);
2. Investment in infrastructure (R29.0 million); and
3. Cash utilised by operations (including growth initiatives) (R171.5 million); offset by
4. An increase in float R68.9 million.

While Constantia is in a rapid growth and capacity building phase, we expect Investable Asset growth to be muted.

[10] We adjust the combined ratio to exclude up-front costs associated with new business initiatives. We believe the adjusted ratio is a better reflection of underlying performance. It also 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 111.3% (2017: 114.4%).
[11] This formula may change depending on the types of insurance we write and the types of investments that we make.

Return on insurance capital employed

Return on insurance capital employed is Constantia's adjusted after tax return (excluding up-front costs associated with new business initiatives and returns generated from non-insurance related activities such as the equity portfolio) on capital utilised for insurance purposes. The metric is designed to ensure that the capital used by the insurer for insurance operating purposes at least meets our minimum hurdle rate, which is 15%. Constantia did not achieve a 15% return on capital for the year, but we expect to start testing the return on capital metrics in fiscal 2019.

Although perhaps not obviously apparent from the financial statements, the future earnings power of Constantia has greatly improved. The investments that have been made over the past two years are expected to attract materially higher premium volumes, a sustainable combined ratio of 95% or better, high returns on insurance capital and growth in investable assets over the medium-term.

<u>INVESTMENTS</u>

<u>Our Strategy</u>

Conduit Capital's investment philosophy is value-driven and based on extensive fundamental research (sometimes lasting years) in order to understand a company's competitive position and management. We seek to identify and understand high-quality companies that can compound underlying intrinsic value over the long-term. We invest from a bottom-up perspective with a focus on a company's business model and management team. Conduit invests in a concentrated portfolio of companies. By their nature, the opportunities in which we invest are rare. When a compelling opportunity arises, we are prepared to invest a substantial portion of our assets. As a result, we typically have five to eight "core positions" representing the vast majority of the portfolio.

Conduit aims to be a stable, anchor shareholder in quality companies allowing talented management teams to create value over time. Our investment may be entirely passive. In other instances, we may constructively engage with management to increase value in a supportive fashion. Our activities have included capital support, strategic growth planning and input, and sometimes board involvement. This broad range of support enhances Conduit's ability to find attractive investments and can sustain or enhance underlying company compounding capability.

The Group invests in quality businesses for the long-term. There are no pre-defined "exit" strategies. This long-term perspective is a structural competitive advantage in South Africa. We have little concern about short-term price fluctuations or financial results. A long-term orientation requires discipline and patience. Conduit's disciplined approach to investing requires that an investment is made only when a conservative estimate of the value of a company exceeds its price by a significant margin. This "margin of safety" ensures we are protected on the downside should the intrinsic value estimate be incorrect. We do not short and do not leverage our public equity investments.

At year-end, shareholders had 220.9 cents (2017: 193.3 cents) per share in cash and investments at work.

<u>Public Equity Investments</u>

The listed equity investment portfolio is a platform through which we make long-term investments in high quality, compounder type companies. We are not "trading" the market nor do we have any interest in short-term share price fluctuations. Conduit views its investments as ownership interests in a company as opposed to a bet on share prices. We try to identify, understand and invest in businesses where we have a high level of conviction in their future performance over the next twenty years or more. Conduit's equity investment portfolio returned 44.5% (including dividends) on a weighted basis in 2018, compared to the JSE All Share Index which returned 14.6% over the same period.

Our public equity investments generally exhibit two key criteria:

1. the company has the capability to compound intrinsic value at a high rate over the long-term due to a confluence of factors centred primarily on the competitive advantage of the business model; and
2. the investee company stock can be purchased at a price significantly below the intrinsic value of the company. The probability of permanent capital loss is therefore minimised.

The equity portfolio is designed to complement the activities of the insurance business by creating a larger asset base over time from which the insurers can grow. The portfolio is expected to generate high returns by investing in outstanding businesses for the long-term.

Look-through Earnings

An additional measure of the performance of the public investment portfolio is "Look-through Earnings". This is Conduit's *pro rata* share of income[12] 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 IFRS, but there is real value to shareholders of retained earnings.

The following Table 4 compares the Group's look-through earnings as at 30 June 2018 with the position as at 30 June 2017:

Table 4

2018			
Stock	*Share-holding in entity*	*Share of headline earnings (loss) R'000*	*Share of dividend R'000*
S1	6.58%	13 473	-
S2	12.88%	23 682	-
S3	6.00%	(11 850)	-
S4	5.27%	13 301	2 903
S5	0.82%	2 045	989
S6	0.00%	-	-
S7	0.00%	-	-
		40 651	3 892

2017			
Stock	*Share-holding in entity*	*Share of headline earnings (loss) R'000*	*Share of dividend R'000*
S1	6.94%	37 639	2 296
S2	13.92%	23 552	-
S3	6.73%	(3 711)	-
S4	6.31%	8 791	-
S5	1.68%	3 571	1 759
S6	1.02%	1 650	-
S7	1.11%	(1 539)	-
		69 953	4 055

Core Positions

Conduit has five core equity investments. These companies have been owned for an average of 4 years. Our intention is to be long-term, anchor and supportive owners of these outstanding businesses as they compound their underlying intrinsic value.

Calgro M3 Holdings Limited ("Calgro")

[12] 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.

Calgro is a property company involved in integrated residential developments, memorial parks and rental property. Calgro produces between 3 000 and 4 000 homes per year with a roughly 54 000-unit pipeline. It is a resilient and robust business, designed to mitigate and manage risk along the property development chain. This durability makes Calgro's business model far superior to the average property development company.

Annual new production by the homebuilding industry in South Africa in 2017 was about 68 000 units. The South African population is approximately 54 million people. At 3.375 people per household, the number of properties required is around 16 million homes. The Deeds Registry shows the total number of residences at 5.9 million[13]. Consequently, the total gross housing shortfall in South Africa is in the region of 10 million properties. Despite enormous demand, the barriers to entry in residential construction, such as access to viable land, water and electricity rights, and project financing, are immense.

The table below illustrates the supply deficit of housing in South Africa, segmented by the category of income targeted by Calgro:

Family Monthly Income	Property Value	Number of Households	Number of Actual Homes	Supply Deficit	Calgro 7-9 Year Inventory
< R3.5k	From R195.0k - R223.0k (Government subsidy dependent)	4.0m	1.8m	2.2m	12.8k
R3.5k – R8.0k	R223.0k – R262.5k	3.7m	1.8m	1.9m	14.8k
R8.0k – R15.0k	R262.5k – R391.3k				18.8k
R15.0k - R30.0k	R391.3k – R695.7k				6.5k

Calgro began the year with about 9 000 serviced stands either sold or under top-end (home) construction, making it one of the largest home builders in the country. This number of 9 000 is tiny compared to the ocean of demand. These stands are expected to generate around R500.0 million in net income over the next two to three years, compared to Calgro's market capitalisation of under R1.5 billion. This calculation does not include the remaining R24.0 billion worth of projects that are under simultaneous development. Calgro could reasonably triple the value of its pipeline and still only serve 1% of demand. The company set a target of making all three divisions (residential property, REIT and memorial parks) contribute equally to profits in the medium term, which would imply around R600.0 million in net profits, or a two-to-three year forward price to earnings ratio of 3.3x.

Finbond Group Limited ("Finbond")

Finbond is a financial services provider operating in the South African and North American transaction and instalment loans markets. In South Africa the company owns Finbond Mutual Bank with a 415-branch network, while in North America there are 257 stores and an online lending business. Approximately 70% of revenue and 63% of profit is sourced from the United States and Canada, making Finbond an ideal rand hedge. Finbond makes money through quality underwriting to people who need short-term credit and can afford to pay it back. Finbond keeps all loans on their balance sheet and is not in the business of loan origination and sale. The company does not roll or refinance loans. Finbond earned a 9.2% return on assets and 25.8% return on equity in 2018 (by comparison, Capitec earned 5.6% on assets and 25.4% on equity).[14]

[13] Data in this paragraph is extracted from Statistics South Africa, Calgro M3 2018 Annual Report and internal research.
[14] Per most recent fiscal year.

Finbond obtained the first banking license to be issued in South Africa in 12 years in 2012. There are only 16 banks in South Africa. Access to low-cost diversified deposits is a structural competitive advantage for the company. In November 2016, Finbond acquired lending businesses in North America which greatly enhanced the earnings power of the company.

In 2013, Finbond's headline earnings per share was 3.1 cents. In 2018, they earned 33.7 cents per share, a compound annual growth rate in headline earnings per share of 61.2%. Headline earnings per share increased over ten times since 2013. Earnings per share for fiscal 2019 is expected to increase between 40% and 60%, but the company's historical price to earnings ratio is just 10x. If Finbond traded at US or South African listed competitors' valuations, the share would be somewhere around 90% to 140% higher.

Finbond is a high quality company with ambitious long-term growth aspirations in global markets, managed by a driven, disciplined and intelligent management team. It is just the sort of company with which we want to be long-term partners.

Trustco Group Holdings Limited ("Trustco")

Trustco is a Namibian company listed on the JSE and Namibian Stock Exchange. It owns:

- assets in Namibia and other emerging markets, including residential and industrial property developments;
- the most profitable insurers in Namibia;
- a growing bank (one of only two domestic banks in Namibia);
- a student lending business; and
- two diamond mining concessions in Namibia and West Africa.

The company's compound annual growth rate in shareholder equity over the last 25 years is 49.0%.

Trustco is a business where the qualitative aspects of the company are not immediately obvious from the financial statements. An investor needs to do the work to really understand the brilliance of the business model. Part of this is understanding the culture of the company, the motivations and energy of the people who work there, and the way in which they think. For the last few years, Trustco has been voted either the best or second-best company to work for in Namibia (according to Deloitte). There is an energy about the place and a drive to succeed better than any I have come across. The company is dynamic and opportunistic, creative and ambitious, and has created a vehicle with one of the best capital allocation records of which I am aware.

The residential and industrial property developments provide much needed serviced stands to the Namibian market. The Elisenheim residential development is situated on the northern outskirts of Windhoek and consists of 213 hectares of sellable land. Elisenheim is developed in phases and upon completion is estimated to provide housing to 44 000 individuals. The main target markets are young professionals and first time home owners in the medium income group. The Elisenheim Nature Estate consists of an additional 391 hectares of sellable land which will be developed in future. The Farm Herboths residential development, east of Windhoek, is estimated at approximately 1 660 hectares of sellable land for future development. An adjacent development recently sold out at higher prices than expected. Trustco sells serviced stands and not finished properties, and housing price fluctuations have a limited effect on the selling prices of serviced stands.

The Lafrenz industrial development is situated north of Windhoek. The property was originally purchased for N$1 per square metre and is now selling for N$2 250 per square metre[15]. Two portions of the development

[15] One Namibian dollar is pegged to one South African rand.

have been sold to a developer and are being serviced by Trustco Construction. The remaining 173 hectares of sellable land are available for future development. The City of Windhoek recently approved the application for the establishment of an industrial township which unlocked substantial value in this property.

Total land available for sale is currently 2 469 hectares which is expected to generate future sales revenue of N$43.9 billion over the next 15 to 25 years. Trustco is positioned to grow the property division by acquisition. There is a unique synergy opportunity with Trustco Bank and Trustco's insurance businesses to assist with mortgage financing and credit and life insurance products. The product opportunity per customer in Trustco is much higher than at competitors.

In 2016, Trustco invested in a West African diamond mining concession. Late last year, this concession produced the Meya Prosperity Diamond, a 476-carat type IIa stone (at the time the 29th largest diamond ever found), subsequently sold in Antwerp for $16.5 million to Graff Diamonds plus add-ons (nearly 5% of Trustco's market capitalisation at the time). In their 2018 results Trustco announced the preliminary exploration results indicated at least three million carats and at least $1 billion in value for the single Dyke Zone drilled. The segment generated N$275 million in revenue (from zero last year) with a 50% net profit margin due to extremely high geological efficiencies: grades at Meya are running 3 to 5 times higher than the best special gem quality mines in the world such as Karowe and Letseng. Our research indicates there are likely several dykes of this nature in this concession.

On a sum of the parts analysis at year-end, Trustco's market value was far below what we believe to be a conservative intrinsic value estimate. We expect Trustco will continue to compound underlying value at a very decent rate going forward.

Taste Holdings Limited ("Taste")

Taste is the master license owner of the world's largest pizza business, Domino's Pizza, and the world's largest coffee chain, Starbucks, in South Africa and certain other African countries. In February 2018, Tyrone Moodley stepped down from his executive position at Conduit to take up the position of interim CEO of Taste. Tyrone and the new Taste board are working toward improved store level unit economics, refining the capital allocation process and appointing A-grade people to key positions (so far former executives of Burger King and KFC). There are currently 83 Domino's stores in a market that we think has capacity for 400, and 13 Starbucks stores where we think there is capacity for 150. Taste also owns the Arthur Kaplan and NWJ jewellery brands – solid businesses in their own right but not immune to the present economic cycle.

Taste presents a unique opportunity to deploy capital into the long-term, high return on incremental capital rollout of two of the world's leading brands in their categories. This is the earliest "big market" entry opportunity for these brands in the world. Domino's is the number one or two pizza business in 90 countries worldwide, while Starbucks has achieved success in over 30 countries. In most regions the brands took considerable time and investment to adapt and develop. We plan to support the business through this process.

Taste was valued at just R405.0 million at year-end, and only approximately R250.0 million at the time of writing. The market is sceptical about the ability of the brands to compete, which explains the poor performance of the share price. However, this business, backed by powerful brands and far superior international intellectual property, is all about effective execution. We have tested and retested our hypothesis and reached the conclusion that there is no reason why the brands cannot become number one in their categories in Africa, as has been the case all over the world.

Combined Motor Holdings Limited ("CMH")

CMH is a diversified new and used car dealer across several vehicle brands and is also the owner of the First Car Rental brand in South Africa. CMH has a long history of profitability in the motor vehicle industry. The company operates throughout South Africa from about 50 dealership sites. The First Car Rental brand is the largest South African-owned brand in the market.

The key metric with any car dealership business is the operating margin. CMH has a history of consistently outperforming peers by way of a superior operating margin, which hit a fantastic 4.2% for the year to end February 2018. CMH is able to achieve better efficiencies in its business because it generally holds lower inventory or moves that inventory faster. The business is hugely cash generative, due to an inventory turn that far exceeds their trade payable cycle. The business produced a return on equity of 38.9%, which is an incredible achievement.

Private Investments

Anthony Richards and Associates Proprietary Limited ("ARA")

Conduit owns 40% of ARA, a credit recovery business. The business focuses on credit management and collections for banks, retailers, healthcare providers and micro-lenders throughout South Africa. ARA does not acquire credit books, which allows the company to operate off a low asset base and generate high returns on capital and excellent cash flows. This year, we expect ARA's return on unlevered equity to be around 60% with a pre-tax profit margin of 30%. The dividend received from ARA in the period under review was R8.8 million. Our 40% shareholding, including a shareholder's loan, is valued at R81.2 million (2017: R90.0 million).

Africa Special Opportunities Capital ("ASOC")

Conduit is an investor in ASOC by way of an interest in the General Partner and an investment in ASOC Fund 1 Limited Partnership, launched in 2017. ASOC is a special situations investment management company and the "first-to-market" of its kind. The objective is to capitalise on solvable business problems and reorganise the affairs of the underlying business to unleash its potential and generate a high multiple return over the life of the fund. ASOC has closed three private deals: one in the early education sector, one in the media industry, and another an express courier company. ASOC is led by the team of Shaun Collyer, Richard Ferguson and Paul Birkett – people who are fanatical about what they do, are not afraid to get their hands dirty and can put capital to work.

Century 21 South Africa ("Century 21")

Conduit owns 51% of Century 21, the South African master franchise holder of one of the world's leading brands in real estate brokerage. The balance of the company is owned by management. The Century 21 brand has over 8 000 franchised offices in 80 countries. The system is a superior partner to franchisees with demonstrated success globally. The South African business has 45 offices, giving the brand plenty of room to grow. The brand attracts high quality franchisees that in turn attract structurally higher commissions due to the quality of service, continually updated marketing, administrative technologies and inventory catering to all LSM groups. Sales across the system exceeded R2.0 billion for the year under review, a robust performance in an industry that is seeing lower volumes and values due to poor economic conditions. We are excited to be partners with Harry Nicolaides and his Century 21 team, who are just getting started.

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 over areas which he or she has influence, as well as overall Group performance. In our view, incentive systems should be clear and achievable, 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 (20%), Insurance Return on Capital Employed (30%)	Combined Ratio (40%), Investable Asset Growth (30%), Insurance Return on Capital Employed (30%)

The base levels at which performance bonuses begin are:

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

Further detail on the Group's remuneration policy will be contained in the Remuneration Report in the 2018 Integrated Annual Report. Shareholders will be asked to approve, in non-binding advisory votes, both the Group's remuneration policy and its implementation at the forthcoming Annual General Meeting.

RETURN OF CAPITAL

During the year we repurchased 8.2 million Conduit shares at a total cost of R16.3 million. Repurchased shares are held in treasury and are not included in the calculation of earnings or net asset value per share. Share repurchases are considered in terms of our Group-wide capital allocation framework: should our own shares be the most productive use of capital, we will actively look to engage in on-market repurchases. Repurchases have the benefit of increasing intrinsic value per share, but only when acquired below our estimate of intrinsic value.

Conduit has a range of opportunities in which to deploy capital at attractive rates and therefore no dividend has been declared. Given the long-term investment opportunities available to the Group, it is unlikely Conduit will pay dividends in the foreseeable future. Refer to principle 8 of the Conduit Shareholder Manifesto below for further detail.

PROSPECTS

A tremendous amount of effort has been expended to develop Constantia into a medium-size, innovative and responsive insurer. Improvement is evident in all aspects of the business. We are starting to see the benefits of the interventions made and the evolution is in full swing. Constantia is well positioned to achieve its underwriting targets. The management team has put in place the necessary infrastructure and capacity to scale their operation to become the dominant medium-size, highly profitable insurer in South Africa in the next few years.

The public equity portfolio is materially undervalued and is expected to deliver value to our shareholders over time, notwithstanding the poor state of the South African economy. Our focus is always on the long game. In our view, the upside potential in the quality businesses that we own is material, sustainable and exciting.

Our private investments are building value and are mostly in their own early innings. We thoroughly enjoy the opportunity to partner with exceptional entrepreneurs and welcome the opportunity to make similar investments with like-minded partners in the future.

APPRECIATION

The achievements of the year would not have been possible without our most important asset – our people. I sincerely appreciate the considerable effort of every single person associated with our Group. In particular, I acknowledge the unbelievable energy of Constantia CEO, Volker von Widdern, to overcome the myriad challenges of developing Constantia into a powerhouse insurer. My fellow EXCO and Board Members, thank you for your ongoing support. A big thanks also to each of our subsidiary company and investment company CEOs and management teams, who are relentless in their pursuit to create value for their own shareholders, including Conduit.

Finally, the biggest thanks of all to the thousands of men and women working in or directly associated with our Group, whose dedication and hard work remains the driving force of our ultimate success.

Sean Riskowitz
Chief Executive Officer

Johannesburg
28 September 2018

Conduit Shareholder Manifesto

Conduit Capital shareholders are a unique bunch of investors. We generally adhere to the following principles. If you are (or plan to become) a Conduit shareholder, this guide may help you to better understand our business and culture.

1. **We are business owners with a long-term focus.** Conduit is not a company with which we try to make short-term trading profits. We are long-term owners of a business enterprise.

2. **We measure performance by calculating the increase in intrinsic value per share.** While not a perfect proxy, the *growth* in intrinsic value per share is most closely measured by the *growth* in net asset value per share. We do not measure the performance of Conduit by its size, or financial ratios that are not relevant (such as the PE ratio).

3. **We expect Conduit to increase the intrinsic value per share over the long-term at a rate well above the market averages and peers.** We intend to achieve this goal by maximising Conduit's return on capital employed and average annual growth in normalised earning power per share.

4. **We are partners with management and expect management to have significant skin in the game.** Management should "eat their own cooking" by owning shares in the company.

5. **We recognise that the IFRS reported numbers of the business do not always tell the whole story.** We therefore put in the effort to understand how the business is really performing. We do not pay attention to short-term financial results.

6. **We understand Conduit has a primary focus on insurance but expect the Company to make investments in non-insurance businesses.** We know Conduit will eventually own a diversified set of high quality businesses, both in the insurance and non-insurance industries, and through the public or private markets. We expect management to make investments that meet our key criteria, irrespective of form.

7. **We encourage management to make long-term investments even if they produce short-term losses.** We are not afraid of short-term earning pressure in exchange for sustainable long-term earnings power.

8. **We expect management to retain earnings so long as the market value of every rand retained exceeds one rand over the long-term, and so long as good investment opportunities can be found.** We do not expect dividends in the ordinary course, but do expect share repurchases when the circumstances warrant.

9. **We expect the company to be transparent and report the good news and the bad.** Business has its ups and downs. We demand management to be honest rather than opaque.

10. **We will issue shares only when the value we obtain is greater than the value we give up.** Management should think carefully about when to issue shares. When as much or more value can be obtained by issuing shares, we expect management to capitalise.

<u>Conduit Subsidiary CEO Manifesto</u>

Conduit Capital subsidiary CEOs are empowered to run their organisations in pursuit of their goals. The following principles govern our subsidiary CEO relationships. Conduit aims to be the home of choice for intelligent fanatic, exceptional business managers.

1. **We will support you in the running of your business.** You will be empowered to run the company as if it were your own, in line with Conduit's best-in-class governance.

2. **You will have authority to run the company.** And you will be empowered to build a deep bench of talent to support you.

3. **We believe in delegation.** You choose who you hire, how to execute and how to achieve your objectives.

4. **You will be involved in developing and recommending a succession plan.** This is a function of a high quality deep bench of talent for continuity and ultimate sustainability.

5. **We will jointly set performance targets and key metrics for your business annually.** Your compensation will be directly tied to these metrics.

6. **Your personal compensation and performance metrics will be guided by Conduit.** All other compensation and performance metrics, systems and incentives in your organisation are up to you.

7. **Your long-term goal is and always will be to increase the intrinsic value of the company.** Measured each year and over rolling-three year periods. You will enjoy support from us, but how you get there is up to you.

CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Reviewed year ended 30 Jun 2018 R'000	Restated [1] audited year ended 30 Jun 2017 R'000
Gross written premium	1 536 885	1 069 794
Reinsurance premium	(1 144 341)	(687 890)
Net written premium	392 544	381 904
Net change in provision for unearned premium	(716)	(13 862)
Net premium income	391 828	368 042
Reinsurance commission received	532 035	353 965
Other income	53 440	28 826
Income from insurance operations	977 303	750 833
Total insurance expenses	(1 118 381)	(885 182)
Net claims and movement in claims reserves	(245 919)	(229 805)
Insurance contract acquisition costs	(257 035)	(179 807)
Administration and marketing expenses	(604 854)	(469 145)
Other expenses	(10 573)	(6 425)
Net underwriting loss	(141 078)	(134 349)
Net non-insurance income	345 098	23 356
Investment income	368 843	40 550
Other income	7 359	310
Administration and marketing expenses	(30 912)	(17 492)
Other expenses	(192)	(12)
Operating profit (loss)	204 020	(110 993)
Finance charges	(1 143)	(577)
Equity accounted income	6 619	8 997
Other expenses and losses	(8 191)	(65 683)
Profit (loss) before taxation	201 305	(168 256)
Taxation	(73 831)	28 245
Profit (loss) for the year	127 474	(140 011)
Other comprehensive income	-	-
Total comprehensive profit (loss)	127 474	(140 011)
Attributable to:		
Equity holders of the parent	127 222	(139 975)
Non-controlling interest	252	(36)
Total comprehensive profit (loss)	127 474	(140 011)
Headline profit (loss)	133 548	(82 668)
Profit (loss) per share (cents)		
- Basic and Diluted	20.0	(35.2)
- Headline and Diluted headline	21.0	(20.8)

[1] Refer to Note 2 for further detail.

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Reviewed 30 Jun 2018 R'000	Restated [1] audited 30 Jun 2017 R'000	Restated [1] audited 30 Jun 2016 R'000
ASSETS			
Non-current assets	1 509 178	1 079 686	437 345
- Property, plant and equipment	16 746	14 331	10 787
- Intangible assets	119 465	93 701	37 226
- Loans receivable	-	4 249	16 783
- Deferred taxation	34 413	37 276	10 790
- Investment properties	3 360	4 431	4 351
- Investment in associates	116 941	92 527	110 133
- Investments held at fair value	1 218 253	833 171	247 275
Current assets	892 726	715 450	741 905
- Insurance assets	278 484	265 001	267 108
- Loans receivable	6 330	14 299	2 365
- Investments held at fair value	2	-	-
- Trade and other receivables	263 079	222 427	182 535
- Taxation	4 741	5 622	17 424
- Cash and cash equivalents	340 090	208 101	272 473
Total assets	2 401 904	1 795 136	1 179 250
EQUITY AND LIABILITIES			
Capital and reserves	1 410 280	945 543	562 146
- Stated capital	1 170 713	846 603	323 195
- Retained earnings	225 852	98 630	238 605
Equity attributable to equity holders of the parent	1 396 565	945 233	561 800
Non-controlling interest	13 715	310	346
Non-current liabilities	228 590	155 147	52 883
- Policyholder liabilities under insurance contracts	37 200	29 384	25 987
- Interest-bearing borrowings	304	-	-
- Deferred taxation	191 086	125 763	26 896
Current liabilities	763 034	694 446	564 221
- Insurance liabilities	440 135	365 562	306 447
- Interest-bearing borrowings	307	-	-
- Trade and other payables	317 909	327 366	251 744
- Taxation	4 654	1 518	6 030
- Bank overdraft	29	-	-
Total equity and liabilities	2 401 904	1 795 136	1 179 250
Net asset value per share (cents)	198.0	175.5	169.5
Tangible net asset value per share (cents)	181.0	158.1	158.3

[1] Refer to Note 2 for further detail.

SEGMENTAL REPORT

SEGMENTAL REPORT FOR THE YEAR ENDED 30 JUNE 2018

	Insurance and Risk R'000	Investments R'000	Total R'000
Income from operations	977 303	-	977 303
Expenses	(1 118 381)	(2 991)	(1 121 372)
Operating result	(141 078)	(2 991)	(144 069)
Equity accounted income (loss)	(2 119)	8 738	6 619
Investment income	8 463	358 144	366 607
Other	(1 004)	38	(966)
Profit (loss) before head office expenses and taxation	(135 738)	363 929	228 191
Unallocated net head office expenses			(26 886)
Taxation			(73 831)
Profit for the year			127 474
Capital utilised			
Capital employed at end of year	1 103 285	321 162	1 410 280
Reallocation	(1 003 506)	1 003 506	-
Capital utilised at end of year	99 779	1 324 668	1 410 280
Average capital utilised during the year	119 754	987 232	1 066 025

SEGMENTAL REPORT FOR THE YEAR ENDED 30 JUNE 2017 (RESTATED) 1)

	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 income	-	8 997	8 997
Investment income	11 900	26 787	38 687
Other	(815)	(41 408)	(42 223)
Loss before head office expenses and taxation	(123 264)	(7 739)	(131 003)
Unallocated net head office expenses			(37 253)
Taxation			28 245
Loss for the year			(140 011)
Capital utilised			
Capital employed at end of year	308 595	660 523	945 543
Reallocation	(192 222)	192 222	-
Capital utilised at end of year	116 373	852 745	945 543
Average capital utilised during the year	126 887	461 390	618 447

1) Refer to Note 2 for further detail.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Reviewed year ended 30 Jun 2018 R'000	Restated [1] audited year ended 30 Jun 2017 R'000
Net cash flows from operating activities	(112 778)	(29 299)
- Cash utilised by operations	(127 785)	(51 661)
- Interest received	15 926	13 766
- Finance charges	(1 143)	(577)
- Dividends received from investments	1 845	2 621
- Taxation (paid) received	(1 621)	6 552
Net cash flows from investing activities	(70 812)	(21 320)
- Net acquisition of associates	(8 395)	(3)
- Dividends received from associates	-	24 000
- Acquisition of subsidiaries	(15 257)	(433)
- Net acquisition of property, plant and equipment	(2 761)	(5 252)
- Acquisition of investment properties	-	(80)
- Net acquisition of intangible assets	(9 986)	(60 854)
- Net (acquisition) disposal of financial investments	(34 413)	21 302
Net cash flows from financing activities	315 540	(29 731)
- Proceeds from new share issue	324 110	-
- Interest bearing borrowings repaid	(31)	(13 179)
- Net loans repaid by third parties	9 142	600
- Loans granted to joint ventures and associates	(17 681)	(15 553)
- Loans granted to unlisted investments	-	(1 599)
Total cash movement for the year	131 950	(80 350)
Cash at the beginning of the year	208 101	272 473
Cash acquired	10	15 978
Total cash at the end of the year	340 061	208 101

[1] Refer to Note 2 for further detail.

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 2016	323 195	238 605	346	562 146
Total comprehensive loss for the year	-	(139 975)	(36)	(140 011)
- As previously reported	-	(136 695)	(36)	(136 731)
- Re-presentation of Assets Held for Sale to Investment in Associates	-	(3 280)	-	(3 280)
Issue of share capital	651 319	-	-	651 319
Treasury stock acquired through subsidiaries	(127 911)	-	-	(127 911)
Balance at 30 June 2017	846 603	98 630	310	945 543
Acquisition of interest in subsidiary	-	-	13 153	13 153
Total comprehensive profit for the year	-	127 222	252	127 474
Issue of share capital	340 450	-	-	340 450
Treasury stock acquired through subsidiaries	(16 340)	-	-	(16 340)
Balance at 30 June 2018	1 170 713	225 852	13 715	1 410 280

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

The accounting policies applied in the preparation of these condensed consolidated provisional reviewed financial statements for the year ended 30 June 2018 ("Reviewed 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 2017. The Reviewed 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. Restatement of comparative numbers

2.1. In the current year, the investment in ARA was reclassified from "Assets held for sale" back to "Investment in associates" due to a decision to take the company off the market. In terms of IFRS 5.28 and IAS28.21 the investment has to be recognised using the equity method retrospectively, as if it was never classified as held for sale, and tested for impairment as at each year-end, and the comparative financial statements have to be restated.

This restatement has affected each of the following financial statement line items for the prior periods as follows:

	Year ended 30 June 2017			Year ended 30 June 2016		
	Previously reported R'000	Adjustment R'000	Restated R'000	Previously reported R'000	Adjustment R'000	Restated R'000
Impact on Equity						
Investment in associates	2 527	90 000	92 527	133	110 000	110 133
Assets held for sale	90 000	(90 000)	-	110 000	(110 000)	-
Deferred tax liability	(122 483)	(3 280)	(125 763)	(26 896)	-	(26 896)
Net reduction in equity		(3 280)			-	
Impact on Statement of Profit or Loss and Other Comprehensive Income						
Investment income	64 550	(24 000)	40 550	4 470	-	4 470
Equity accounted income (loss)	(362)	9 359	8 997	13 153	-	13 153
Other expenses and losses	(80 324)	14 641	(65 683)	(11 858)	-	(11 858)
Taxation	31 525	(3 280)	28 245	918	-	918
Reduction in profitability		(3 280)			- [2)]	

[2)] There was no impact on the Statement of Profit or Loss and Other Comprehensive Income during 2016 due to the initial classification to Assets Held for Sale only having taking place on 30 June 2016. The Statement of Profit or Loss and Other Comprehensive Income therefore already reflected the correct position.

2.2. In terms of IAS 33: Earnings per share, the weighted average number of shares in issue and the earnings per share measures have been restated by a factor of 1.0118 to reflect the bonus element of the rights offer that took place on 11 December 2017 (also refer to note 3).

3. Changes in share capital

On 11 December 2017, Conduit raised R350.0 million in cash by issuing 175 000 000 (2017: Nil) ordinary no par value shares by way of a rights offer. Share issue costs of R9.6 million were charged against stated capital.

During the year under review, Midbrook Lane Proprietary Limited ("Midbrook") and Constantia Insurance Company Limited ("CICL"), both wholly-owned subsidiaries, acquired an aggregate 8 189 497 Conduit shares in the market for a total consideration of R16.3 million. The Group accounts reflect these shares as treasury shares.

In the prior financial year, Conduit issued 68 428 980 ordinary no par value shares at 259 cents each for a total consideration of R177.2 million in settlement of the Midbrook acquisition and 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 Wealth Proprietary Limited ("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. The Group accounts also reflect these shares as treasury shares.

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

	30 Jun 2018 '000	30 Jun 2017 '000
Number of shares	705 440	538 630
- Shares in issue	764 444	589 444
- Shares held as treasury shares	(59 004)	(50 814)
Weighted average number of shares on which earnings and diluted earnings per share calculations are based	635 674	397 823
- Shares in issue	686 293	407 632
- Bonus issue for rights offer [1]	2 075	4 646
- Shares held as treasury shares	(52 694)	(14 455)

1) The weighted average number of shares has been restated by the Bonus issue amount due to the rights offer that took place on 11 December 2017, as required by IAS 33: Earnings per share.

4. Impairment assessment of associates

4.1. As a reflection of the difficult trading conditions experienced in consumer credit markets Conduit Capital impaired its investment in ARA by R8.3 million to R77.2 million. The asset is reflected at an overall R81.2 million as at the year-end, as it includes a R4.0 million shareholders' loan issued to ARA during the prior year.

4.2. No other associate companies were impaired during the financial year ended 30 June 2018.

5. Acquisition and disposal of subsidiaries

5.1. On 3 November 2017, the Group acquired 51% of the issued share capital in Deal Design Commercial Property and Business Broking Proprietary Limited ("Deal Design") for a total consideration of R15.4 million. Deal Design has the South African licence for Century 21, the world's largest real estate brand, which offers representation in 80 countries and territories with more than 8 000 offices and 117 000 property professionals globally.

5.2. The purchase consideration was settled in cash and resulted in goodwill of R1.7 million. No goodwill was impaired.

5.3. On 1 July 2017, Constantia sold its shareholding in a dormant subsidiary, The Sportpersons Insurance Broker Proprietary Limited, for a total consideration of R175 000, resulting in a profit of R94 000.

5.4. The reconciliation of assets acquired and sold in subsidiaries to cash paid is as follows:

	The Sportpersons Insurance Broker (100%) R'000	Century 21 (51%) R'000	Total 2018 R'000
Effective date of change of control	*1 Jul '17*	*3 Nov '17*	
Fair value of assets acquired:			
- Property, plant and equipment	-	485	485
- Other intangible assets	-	28,400	28 400
- Investments held at fair value	-	58	58
- Trade and other receivables	(2)	49	47
- Bank balances (overdraft)	(76)	86	10
- Deferred taxation	-	122	122
- Interest bearing borrowings	-	(642)	(642)
- Trade and other payables	3	(1,606)	(1,603)
- Net tax	(6)	(109)	(115)
- Minority interest	-	(13,153)	(13,153)
- Net asset value acquired	(81)	13,690	13,609
- Goodwill acquired	-	1,742	1,742
- Sale price	(81)	15,432	15,351
- Profit on sale	(94)	-	(94)
- Net cash (inflow) outflow on acquisition	(175)	15,432	15,257

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
2018				
Listed investments	1 173 391	-	-	1 173 391
Investment properties	-	-	3 360	3 360
Unlisted investments	-	40 862	4 002	44 864
	1 173 391	40 862	7 362	1 221 615
2017				
Listed investments	800 901	-	-	800 901
Investment properties	-	-	4 431	4 431
Unlisted investments	-	24 230	8 040	32 270
	800 901	24 230	12 471	837 602

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 2018, the fair value of the investment property was determined on the income/investment approach (using the capitalisation of net income) 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 R100 per m2 in the general vicinity of the properties; and
- a capitalisation rate ranging between 9.5% and 10.5%, as used in the market for similar type properties;

whereas the value of the unlisted investments has been determined based on the willing buyer/willing seller methodology.

7. Taxation

CICL, in consultation with its auditors, decided not to increase its deferred tax asset beyond June 2017 levels due to the underwriting loss incurred during the year under review. This resulted in potential tax assets of R27.3 million not being credited to the income statement and not being reflected in assets.

The Group's effective tax rate for the year under review is therefore 36.7%. If the additional deferred tax asset were raised the effective tax rate would have been 23.1%. 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 from equities at the capital gains tax rate, which is an effective 22.4%.

This position will be reviewed on an ongoing basis.

8. Reconciliation of headline profit (loss)

	Reviewed year ended 30 Jun 2018 R'000	Restated audited year ended 30 Jun 2017 R'000
Profit (loss) attributable to ordinary equity holders of Conduit	127 222	(139 975)
Loss on disposal of property, plant and equipment	4	15
Impairment of associates	8 281	18 159
Impairment of goodwill	-	41 408
Impairment of computer software	-	1 798
Profit on disposal of subsidiary	(94)	-
Tax on the items above	(1 865)	(4 073)
Headline profit (loss)	133 548	(82 668)

9. Contingent liabilities

9.1. 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 R1.5 million ("the Minimum Payment").

The present value of the annuity payments as at 30 June 2018 amounted to R2.9 million ("the Maximum Liability") per an actuarial calculation based on published mortality tables. The Group has initially raised a liability to the value of R1.5 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 R2.9 million as at the reporting date.

9.2. During the previous 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 1.65 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.

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%.

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

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

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

10. Directors

On 9 October 2017 the following changes were made to the Board:

10.1. Messrs Gavin Toet and Tyrone Moodley resigned as executive directors;

10.2. Messrs David Harpur and Barry Scott resigned as independent non-executive directors;

10.3. Mr Leo Chih Hao Chou was appointed as a non-executive director; and

10.4. Mr William N. Thorndike Jr. was appointed as an independent non-executive director.

11. 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 (2017: Nil).

12. 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.

13. Review opinion

Grant Thornton has reviewed the Group’s annual financial statements and their review 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.

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.

14. 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 reviewed information, but is not itself reviewed.

Directors:

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

* Independent

Sponsor:

Merchantec Capital
2nd Floor North Block, Hyde Park Office Tower, Cnr 6th Road and Jan Smuts Avenue, Hyde Park, 2196

Company secretary:

CIS Company Secretaries Proprietary Limited
Rosebank Towers, 15 Biermann Avenue, Rosebank, Johannesburg, 2196

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Transfer secretaries:

Computershare Investor Services Proprietary Limited
Rosebank Towers, 15 Biermann Avenue, Rosebank, Johannesburg, 2196