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")

REVIEWED CONDENSED CONSOLIDATED PROVISIONAL RESULTS FOR THE YEAR ENDED 30 JUNE 2020

LETTER FROM THE CEO TO THE SHAREHOLDERS OF CONDUIT CAPITAL:

Dear fellow Shareholder,

Conduit Capital is an investment holding company that invests primarily in insurance assets for the long-term. Our company is divided into two segments: Insurance and Investments. The Insurance segment wholly owns Constantia Insurance Group, a diversified insurance business. The Investment segment comprises public and private investments designed to support the capital base of the insurance group.

Impact of Coronavirus

We are pleased to report a limited infection rate among our employees due to strict protocols and work from home mandates which were implemented at an early stage of the onset of the pandemic. The teams were successful in immediately shifting to a work from home environment. The Constantia office is gradually reopening in a phased manner in line with regulatory and government guidelines. The pandemic has had mixed effects on our businesses, with some seeing positive financial effects and others being negatively affected. We remain cautious in our expectations of the future impacts of the virus on our Group.

Constantia

The Constantia Insurance Group is comprised of Constantia Insurance Company Limited ("CICL"), Constantia Life Limited ("CLL") and Constantia Life & Health Assurance Company Limited ("CLAH"). We are one of the few companies in the market with access to multiple insurance licences. Constantia offers insurance and risk management solutions covering areas such as medical malpractice, primary health insurance and medical gap cover products, funeral and life insurance, guarantee and indemnity solutions, medical evacuation insurance, property and casualty (including motor), heavy commercial vehicle, small business and other niche lines. Constantia's products are distributed through underwriting management agencies ("UMAs"), administrator managed (binder based) broker distribution and direct broker relationships.

In February 2020 we announced a change in leadership of Constantia. Immediate action was required to bring parts of our insurance book up to our underwriting standards. Since this change, the organisational structure of Constantia has been redesigned, the workforce optimised and approximately R25 million in annual costs eliminated. The business has been stabilised by reducing our exposure to loss-making books, resulting in cumulative underwriting profits and operating profits on a normalised basis since February 2020 and into the new financial year, as well as cumulative positive cash generation in excess of R50 million. The operating loss of the business improved by 39.8% from the prior year. We expect the positive trend to continue as we focus on further operational efficiencies.

The following table[1] sets out the performance of Constantia in the first half and second half of fiscal 2020[2] as well as for Q3 and Q4 2020:

Table 1

	Year ended 30 June 2020					Year ended 30 June 2019
	1H2020			2H2020	FY2020	
	Total	3Q2020	4Q2020	Total	Total	
Gross premium income	1 114 907	507 892	487 168	995 060	2 109 967	2 050 653
Net premium income ("NPI")	168 668	73 197	68 573	141 770	310 438	387 869
NPI (excl. solvency reinsurance)	1 044 766	485 808	461 563	947 371	1 992 137	1 948 862
Underwriting result before direct operating expenses	9 374	26 249	76 048	102 297	111 671	(11 232)
Operating loss as reported	(321 441)	(324 228)	37 662	(286 566)	(608 007)	(671 812)
Operating loss (excl. investment losses)	(136 694)	(42 298)	(35 924)	(78 222)	(214 916)	(308 017)
Combined ratio	111.3%	104.8%	104.6%	104.7%	108.2%	114.0%

Table 2 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 and the comparative period:

Table 2

	Year ended 30 June 2020			Year ended 30 June 2019		
	Gross R'000	Net excl. solvency reinsurance R'000	Net under-writing result R'000	Gross R'000	Net excl. solvency reinsurance R'000	Under-writing result R'000
Assistance	130 377	99 674	(18 606)	76 225	59 779	(30 470)
Accident and Health	1 013 791	1 013 678	22 386	936 403	921 785	6 937
Aviation	48 088	11 096	(4 648)	16 302	3 128	(2 403)
Guarantee	33 477	17 260	10 883	30 031	18 342	3 999
Liability	204 956	194 257	30 840	181 607	160 158	27 538
Miscellaneous	12 693	8 596	(3 478)	4 621	3 898	(2 794)
Motor	489 638	476 114	(99 817)	583 008	567 071	(181 140)
Property	172 110	166 744	6 423	215 916	208 254	(35 566)
Transport	4 837	4 718	(2 008)	6 540	6 447	(3 658)
Unallocated head office expenses	-	-	(76 290)	-	-	(41 855)
Total	2 109 967	1 992 137	(134 315)	2 050 653	1 948 862	(259 412)
Cost of solvency reinsurance	-	-	(38 794)	-	-	(28 098)
Net insurance result	2 109 967	1 992 137	(173 109)	2 050 653	1 948 862	(287 510)

[1] The pro forma information in Tables 1 and 2 above 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 2020. 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.

[2] Constantia uses solvency relief reinsurance contracts to reduce the amount of capital required to support its gross 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 lower capital requirements. The net premiums reported in our financial statements therefore understate the actual level of net written premiums. It is more accurate to look at the business on a "solvency reinsurance normalised" basis.

Big strides have been made by the new leadership to position Constantia for organic and inorganic growth over the long-term. Our objective is to build Constantia from a solid footing eventually into a large insurance business across Africa.

Transactions

Shareholders are referred to the transactions announced on SENS on 11 February 2020 and 27 March 2020 and are advised that these transaction processes are ongoing.

INVESTMENTS

Our Strategy and Investment Philosophy

Conduit's investments are intended to create a growing capital base from which to expand the insurance business. Conduit is an investor in businesses run by able and intelligent people, irrespective of whether the businesses are public or private. Conduit's investment philosophy is value-driven and based on extensive fundamental research. We seek to identify companies that can compound underlying intrinsic value at a high rate over the long-term. We invest from a bottom-up perspective with a focus on a company's business model and management team. When a compelling opportunity arises, we are prepared to invest a substantial portion of our assets. As a result, we typically have a low number of investments that we know well. We pay little attention to market speculation and instead focus on facts to inform our perspective and decision-making.

Equity Investment Portfolio

Conduit's listed equity investment portfolio returned a negative 52.4% (including dividends) on a weighted basis in 2020, compared to the JSE All Share Index which returned a negative 6.6% over the same period. At year-end, shareholders had 78.0 cents (2019: 149.1 cents) per share in cash and investments (at market value) at work compared to our share price of 20 cents per share as at the date of this letter.

The equity portfolio is marked to market. Our portfolio produces large swings (up or down) over short time periods. We cannot predict short-term fluctuations. In our view, the equity portfolio trades at approximately 30% of its fair market value. If the portfolio was privately valued, we would expect an increase of approximately R600 million in our capital base (and earnings). The lack of interest in listed South African small and medium capitalisation companies is well-known in the market, and until confidence in South African assets is restored, it is not expected that a major recovery of asset prices will occur in the short-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 headline earnings[3] produced by its investments in other listed 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.

[3] 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.

The following table compares the Group's Look-through Earnings as at 30 June 2020 with the position as at 30 June 2019 and 30 June 2018:

Table 3

	2020			2019			2018		
Stock	*Share-holding in entity*	*Share of headline earnings (loss) R'000*	*Share of dividend R'000*	*Share-holding in entity*	*Share of headline earnings (loss) R'000*	*Share of dividend R'000*	*Share-holding in entity*	*Share of headline earnings (loss) R'000*	*Share of dividend R'000*
S1	3.21%	40 955	-	5.61%	33,621	-	6.58%	13 473	-
S2	14.22%	322	-	13.27%	(5,966)	-	12.88%	23 682	-
S3	3.64%	(7 586)	-	6.02%	(14 035)	-	6.00%	(11 850)	-
S4	4.74%	4 512	-	5.57%	7 666	5 213	5.27%	13 301	2 903
S5	0.00%	-	-	0.00%	-	-	0.82%	2 045	989
		38 203	-		21 286	5 213		40 651	3 892

Private Investments

Century21 is the South African master franchisor of the Century21 real estate brokerage, the world's largest real estate brand. Century21 reported an excellent year despite the lockdown, off the back of a record 2019. August 2020 produced an all-time record total sales number.

Africa Special Opportunities Capital (known as "ASOC") is an investor in distressed South African assets. Conduit owns 25% of the ASOC management company and has an investment in their first fund. We believe the counter-cyclical nature of a distressed fund is an ideal asset to own in difficult economic circumstances.

The Leymic Group owns or part-owns a number of insurance adjacent businesses that provide, amongst other, claims related services to a number of South Africa's most prominent insurance companies.

Anthony Richards and Associates ("ARA") was sold for cash in January 2020.

Share Repurchases

During the year we repurchased 3.1 million Conduit shares at a total cost of R1.9 million. Since the year-end we have repurchased 17.1 million shares for a total cost of R10.0 million. We intend to continue to repurchase our own shares for as long as we deem the share price to be trading well below intrinsic value, which is quite clearly the case as of this writing.

Principles

We recognise that the reported wealth of shareholders has decreased significantly over the last few years as our share price dropped. As the largest shareholder group of the company, we share your experience. The reasons for the decrease are a mix of self-inflicted mistakes and forces outside of our control. However, what we will not do is change our principles that have guided us so successfully since we began in business – that is, the focus on being rational, long-term business owners *despite* all the short-term pressure that may come our way. It is clear that the market value of our company is absurd compared to the hard value being unlocked in our transactions, and on a rational base assessment of the value of our businesses (the value of our share portfolio exceeds our market capitalisation by a factor of two times – you are getting Constantia, Century21, ASOC and half of our equity portfolio for free). We have been clear about the explicit value created by our transactions in the hands of Conduit shareholders and make no apologies for why the market price does not reflect this value. We recommend patience and a level head; no fortune was built overnight, but all success stories compress into a one hour retelling.

Annual General Meeting

Due to the Coronavirus our 2020 Annual General Meeting will be held by way of virtual meeting this year. Further details will be provided in due course.

Sean Riskowitz
Chief Executive Officer
Johannesburg
1 November 2020

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.

Conduit Subsidiary CEO Manifesto

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

	Note	Reviewed year ended 30 Jun 2020 R'000	Audited year ended 30 Jun 2019 R'000
Gross written premium		2 109 967	2 050 653
Reinsurance premium		(1 799 529)	(1 662 784)
Net written premium		310 438	387 869
Net change in provision for unearned premium		3 899	(21 598)
Net premium income		314 337	366 271
Reinsurance commission received		719 201	484 456
Other income		36 137	31 688
Income from insurance operations		1 069 675	882 415
Total insurance expenses		(1 242 784)	(1 169 925)
Net claims and movement in claims reserves		(171 359)	(157 535)
Insurance contract acquisition costs		(301 378)	(295 322)
Administration and marketing expenses		(747 619)	(697 248)
Other operating expenses		(22 428)	(19 820)
Net underwriting loss		(173 109)	(287 510)
Net non-insurance loss		(434 898)	(384 302)
Investment loss		(393 091)	(363 795)
Other income		43 426	11 669
Cost of sales		(7 242)	-
Administration and marketing expenses		(75 886)	(32 254)
Other operating (expenses) income		(2 105)	78
Operating loss		(608 007)	(671 812)
Finance charges		(8 329)	(3 181)
Equity accounted income		3 244	2 971
Other non-operating expenses and losses		(28 930)	(34 662)
Loss before taxation		(642 022)	(706 684)
Taxation		71 393	53 888
Loss for the year		(570 629)	(652 796)
Other comprehensive income		-	-
Total comprehensive loss		(570 629)	(652 796)
Attributable to:			
Equity holders of the parent		(568 696)	(651 665)
Non-controlling interest		(1 933)	(1 131)
Total comprehensive loss		(570 629)	(652 796)
Headline loss	7	(547 332)	(622 937)
Loss per share (cents)			
- Basic and Diluted		(80.7)	(92.8)
- Headline and Diluted headline		(77.6)	(88.7)

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Reviewed 30 Jun 2020 R'000	Audited 30 Jun 2019 R'000
ASSETS		
Non-current assets	816 864	1 214 908
- Property, plant and equipment	72 850	88 537
- Intangible assets	106 083	161 046
- Reinsurers' share of policyholder liabilities	12	21 661
- Deferred taxation	12 252	7 922
- Insurance, trade and other receivables	166 547	-
- Investment properties	-	3 470
- Investment in associates	39 972	89 166
- Investments held at fair value	419 148	843 106
Current assets	861 160	1 069 417
- Insurance assets	439 212	437 041
- Loans receivable	632	500
- Inventory	2 033	-
- Insurance, trade and other receivables	269 408	436 769
- Taxation	664	334
- Cash and cash equivalents	149 211	194 773
Assets held for sale	11 779	-
Total assets	1 689 803	2 284 325
EQUITY AND LIABILITIES		
Capital and reserves	175 460	745 825
Stated capital	1 168 594	1 162 575
Accumulated losses	(994 751)	(426 055)
Equity attributable to owners of the parent	173 843	736 520
Non-controlling interest	1 617	9 305
Non-current liabilities	132 511	237 886
- Policyholder liabilities under insurance contracts	34 990	67 924
- Lease liabilities	52 767	58 210
- Deferred taxation	44 754	111 752
Current liabilities	1 381 832	1 300 614
- Insurance liabilities	629 958	622 863
- Lease liabilities	5 317	4 171
- Loans payable	11 014	-
- Insurance, trade and other payables	732 583	671 325
- Taxation	2 881	2 255
- Bank overdraft	79	-
Total equity and liabilities	1 689 803	2 284 325
Net asset value per share (cents)	24.6	105.1
Tangible net asset value per share (cents)	9.6	82.1

SEGMENTAL REPORT

SEGMENTAL REPORT FOR THE YEAR ENDED 30 JUNE 2020

	Insurance and Risk R'000	Investments R'000	Total R'000
Income from operations	1 069 675	36 989	1 106 664
Expenses	(1 242 784)	(48,082)	(1 290 866)
Operating result	(173 109)	(11 093)	(184 202)
Equity accounted income	-	3 244	3 244
Investment loss	(9 515)	(384 012)	(393 527)
Other	(7 167)	(30 075)	(37 242)
Loss before head office expenses and taxation	(189 791)	(421 936)	(611 727)
Unallocated net head office expenses			(30 295)
Taxation			71 393
Loss for the year			(570 629)
Capital utilised			
Capital employed at end of year	140 836	495	175 460
Reallocation	(136 953)	136 953	-
Capital utilised at end of year	3 883	137 448	175 460
Average capital utilised during the year	47 433	344 896	432 254

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

	Note	Reviewed year ended 30 Jun 2020 R'000	Audited year ended 30 Jun 2019 R'000
Net cash flows from operating activities		(112 679)	(106 937)
- Cash utilised by operations		(118 077)	(114 342)
- Interest received		5 490	13 461
- Finance charges		(1 443)	(3 181)
- Dividends received from investments		1 556	764
- Taxation paid		(205)	(3 639)
Net cash flows from investing activities		75 091	(26 314)
- Net disposal (acquisition) of associates		31 920	(1 625)
- Loans granted to associates		(4 125)	(7 614)
- Dividends received from associates		3 175	6 000
- Acquisition of subsidiaries (net of cash acquired)	4.3	(4 314)	-
- Net acquisition of property, plant and equipment		(5 789)	(15 847)
- Net acquisition of intangible assets		(512)	(3 797)
- Net disposal (acquisition) of financial investments		54 736	(3 431)
Net cash flows from financing activities		(8 053)	(12 037)
- Shares repurchased		(1 944)	(8 138)
- Net movement in lease liabilities		(11 183)	(3 461)
- Net loans received from third parties		5 178	-
- Net loans granted to third parties		(104)	(438)
Total cash movement for the year		(45 641)	(145 288)
Cash at the beginning of the year		194 773	340 061
Total cash at the end of the year		149 132	194 773

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Stated capital R'000	(Accumulated loss) 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
Adjustment from adoption of IFRS16	-	(242)	-	(242)
Total comprehensive loss for the year	-	(651 665)	(1 131)	(652 796)
Treasury stock acquired through subsidiaries	(8 138)	-	-	(8 138)
Balance at 30 June 2019	1 162 575	(426 055)	9 305	745 825
Movement as a result of acquisition of minorities	-	-	(5 755)	(5 755)
Total comprehensive loss for the year	-	(568 696)	(1 933)	(570 629)
Net treasury stock disposed of through subsidiaries	6 019	-	-	6 019
Balance at 30 June 2020	1 168 594	(994 751)	1 617	175 460

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

The accounting policies applied in the preparation of these reviewed condensed consolidated provisional financial statements for the year ended 30 June 2020 ("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 2019, except for the adoption of the amended IAS 28: Investments in Associates and Joint Ventures and IFRIC 23: Uncertainty over Income Tax Treatments. There was no material impact to the Group on adopting the amendments and the interpretation.

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 Chief Financial Officer.

2. Changes in share capital

During the year under review CICL, Midbrook Lane Proprietary Limited ("Midbrook") and CLL, all wholly-owned subsidiaries, acquired an aggregate 3 122 420 Conduit shares in the market for a total consideration of R1.9 million. The Group accounts reflect these shares as treasury shares.

The Group further used 7 962 500 of the treasury shares owned by Midbrook to part-settle the acquisition of a majority interest in Leymic Holdings Proprietary Limited ("Leymic") – refer note 4 below.

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

	30 Jun 2020 '000	30 Jun 2019 '000
Number of shares	705 447	700 607
- Shares in issue	764 444	764 444
- Shares held as treasury shares	(58 997)	(63 837)
Weighted average number of shares on which earnings and diluted earnings per share calculations are based	705 081	702 100
- Shares in issue	764 444	764 444
- Shares held as treasury shares	(59 363)	(62 344)

3. Impairment assessment of associates

As a reflection of the difficult trading conditions experienced in consumer credit markets Conduit Capital impaired its investment in ARA by a further R26.7 million before disposing of it for a consideration of R26.0 million. The investment in the ASOC management company was impaired by R1.5 million to reflect lower expected management fees due to the difficult trading environment experienced by some of the investments in the underlying fund, particularly under the Covid-19 pandemic. These impairments were partially offset by the reversal of a prior period impairment of the investment in Jasure Financial Services Proprietary Limited when the company was disposed of for a profit of R6.7 million.

4. Acquisition and disposal of subsidiaries

4.1. On 1 December 2019 the Group acquired 58.5625% of the issued share capital in Leymic for a total consideration of R13.6 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 R18.2 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. It is hereby confirmed that the acquisition accounting is complete.

Due to, amongst others, the impact of the Coronavirus on its near-term business prospects, R4.5 million in goodwill relating to one of the cash generating business units in Leymic has subsequently been impaired.

4.2. On 31 August 2019, Conduit Ventures sold its shareholding in a dormant subsidiary, Hurriclaim Proprietary Limited ("Hurriclaim"), for a total consideration of one Rand, resulting in a loss of R71 977.

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

	Hurriclaim (100%) R'000	Leymic (58.5625%) R'000	Total 2020 R'000
Effective date of change of control	*31 Aug '19*	*1 Dec '19*	
Fair value of assets acquired:			
- Property, plant and equipment	-	983	983
- Other intangible assets	-	7	7
- Loans receivable	-	28	28
- Inventory	-	2 603	2 603
- Trade and other receivables	(154)	5 555	5 401
- Funds at call, bank balances and cash	(2)	1 343	1 341
- Deferred taxation	(3)	17	14
- Loans payable	-	(5 836)	(5 836)
- Trade and other payables	41	(14 425)	(14 384)
- Net tax	46	(626)	(580)
- Minority interest [1]	-	5 755	5 755
- Net asset value	(72)	(4 596)	(4 668)
- Goodwill acquired [2]	-	18 214	18 214
- Loss on disposal	72	-	72
- Purchase consideration	-	13 618	13 618
- Settled with equity	-	(7 963)	(7 963)
- Net cash consideration	-	5 655	5 655

Loss after tax since acquisition date, included in the consolidated results for the year	(1 835)
Turnover since acquisition date, included in the consolidated results for the year	16 578
Group loss after tax had the business combination been included for the entire year	(571 096)
Group revenue had the business combination been included for the entire year	2 203 293

1) Non-controlling interest will be reflected on the proportionate share basis.

2) 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.

5. 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
2020				
Listed investments	350 806	-	-	350 806
Unlisted investments	-	-	68 342	68 342
	350 806	-	68 342	419 148
2019				
Listed investments	794 446	-	-	794 446
Investment properties	-	-	3 470	3 470
Unlisted investments	-	-	48 659	48 659
	794 446	-	52 129	846 575

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 using inputs other than quoted market prices (included within Level 1) that are observable for the asset and liability, either directly or indirectly; 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 2020, the directors:

- relied on the valuation performed by an independent third party that used the net asset value of the underlying assets in the investment, adjusted for the impact of expected future earnings, as a basis to determine an unlisted fund's value at R49.8 million; and;
- relied on the valuation performed by an independent third party that used the expected free cash flows of the underlying assets in an unlisted investment to determine its value at R18.5 million.

6. Taxation

Due to the continued underwriting losses incurred, CICL decided in 2019 to reverse all its deferred tax assets raised in prior years. This resulted in tax assets of R40.7 million being reversed during 2019 and potential tax assets of R67.4 million not being credited to the income statement during that year. The amount that was not credited to the income statement during 2020 totalled R70.0 million and to date a cumulative R211.7 million is not being reflected by CICL in deferred tax assets.

The Group's effective tax rate for the year under review is therefore 11.1% (2019: 7.6%). If the additional deferred tax asset were raised the effective tax rate would have been 22.0% (2019: 22.9%).

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 losses from equities at the capital gains tax rate, which is an effective 22.4%.

This position will be reviewed on an ongoing basis.

7. Reconciliation of headline loss

	Reviewed year ended 30 Jun 2020 R'000	Audited year ended 30 Jun 2019 R'000
Loss attributable to ordinary equity holders of Conduit	(568 696)	(651 665)
(Profit) loss on disposal of property, plant and equipment	(124)	677
Impairment of computer software	6 404	-
Impairment of associates	21 468	33 985
Impairment of goodwill	4 514	-
Profit on revaluation of investment property	-	(450)
Loss on disposal of subsidiary	72	-
Tax on the items above	(11,038)	(5 485)
Non-controlling interest on the items above	68	-
Headline loss	(547 332)	(622 938)

8. 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 CICL's solvency capital requirement ("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 30 June 2020, CICL reported an SCR ratio of 0.33 in its quarterly return to the PA ("QRT"), primarily as a result of unrealised losses in the listed equity portfolio, as well as underwriting losses incurred within the property and casualty business during the previous two years. CICL's reported MCR on the same date was 1.26. Due to audit adjustments that were processed after submission of the QRT it is expected that the ratios to be reported in the annual return to the PA will reflect lower levels than those previously reported.

As at 30 June 2020, CLAH reported an SCR ratio of 0.94 in its QRT, primarily as a result of unrealised losses in the listed equity portfolio, as well as growth related expenses incurred during the financial year. CLAH's reported MCR on the same date was 1.20.

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. These plans include, but are not limited to:

- Continued intervention to improve the cash generative ability of each company, including the sale of equities in the short term, underwriting and operational interventions and improved risk management processes;
- Increased and improved efforts in cost reduction and maintenance;
- The continued sustained turnaround of CICL's property and casualty business through focused remediation initiatives already in progress;
- Continued optimisation of the use of reinsurance structures to transfer some insurance risk to reinsurers; and
- Per SENS announcements released on 11 February 2020 and 27 March 2020, details of transactions with certain entities within Trustco Group Holdings Limited were disclosed. Through these transactions the net equity value of the Group, and in turn the solvency capital of entities within the Constantia Insurance Group, will increase substantially, thereby enabling the Constantia entities to consolidate their existing businesses, grow premium volume significantly and pursue new organic and inorganic growth opportunities. The finalisation of these transactions is still subject to certain suspensive conditions, as follows:
  - the transaction announced on 11 February 2020 whereby Constantia acquires a 100% interest in Herboths Property Development Proprietary Limited is subject to final shareholder approval (which in terms of current expected timelines should be granted at a general meeting of shareholders anticipated to be held in January 2021) and approval from the PA (who has given no indication as to when a formal decision will be announced); and
  - the transaction announced on 27 March 2020 whereby Conduit Capital acquires Legal Shield Holdings Limited ("LSH") by way of a reverse merger with LSH is subject to final shareholder approval (which in terms of current expected timelines should be granted at a general meeting of shareholders anticipated to be held during February or March 2021) and a number of regulatory approvals for which no formal timelines have been given.

  Further SENS announcements relevant to these transactions will be made available, as and when appropriate.

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.

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 2020 amounted to R2.7 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 R2.7 million as at the reporting date.

9.2. The Group will pay to the seller of the Natmed computer software that is currently being used to manage its medical malpractice business ("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%. The cumulative claims ratio was 44.8% as at the reporting date, giving rise to no potential liability as at the reporting date.

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

10. Directors

10.1 On 8 November 2019 Mr Jabulani Mahlangu, an independent non-executive director, resigned as a director of the Company due to an increased workload in respect of his other commitments.

10.2 On 24 March 2020 Ms Nonzukiso Siyotula was appointed as an independent non-executive director and as a member and Chair of the Group's Risk and Audit Committee.

11. Dividends

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

These reviewed condensed consolidated provisional financial statements for the year ended 30 June 2020 have been reviewed by BDO South Africa Incorporated, who expressed an unmodified review conclusion. The auditor's report contained the following Emphasis of Matter paragraph:

"We draw attention to Note 8 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 8, 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 conclusion is not modified in respect of this matter."

A copy of the auditor's review report is available for inspection at the company's registered office, together with the financial statements identified in the auditor's report. 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.

14. Directors' responsibility

The directors take full responsibility for the preparation of the provisional report.

Directors:

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

* Independent

Sponsor:
Merchantec Capital
13th Floor, Illovo Point, 68 Melville Road, Illovo, 2196

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

Registered address:
Building B, Nicol Main Office Park, 2 Bruton Road, Bryanston, 2191
PO Box 97, Melrose Arch, 2076
Telephone: +27 (0)11 686 4200
Facsimile: +27 (0)86 522 8742

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