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

CONDENSED CONSOLIDATED UNAUDITED RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

Review of Results

Conduit Capital is a holding company owning subsidiaries primarily involved in the insurance industry. Conduit's ambition is to develop a high quality, diversified insurance group complemented by a value-oriented, non-insurance investment programme. The Group's objective over the long term is to compound underlying business value per share at rates greater than the market in general.

For the six months ended 31 December 2017, headline earnings were R53.3 million, compared to the restated loss of R34.4 million for the six months ended 31 December 2016 ("the prior period"). The net asset value per share increased to 188.5 cents, which translates into an annualised 14.1% improvement when compared to the results for the year ended 30 June 2017 (and an increase of 18.4% when compared to the prior period). Shareholders should bear in mind that, due to the short-term volatility associated with insurance underwriting results and the mark-to-market changes in the market value of the investment portfolio, it is management's opinion that the change in net asset value per share more accurately reflects the change in underlying business value, compared to the change in headline earnings per share.

At 31 December 2017, the Group's total equity was R1.35 billion compared to R527 million in the prior period, reflecting an increase of 155.4%. Total assets increased to R2.22 billion compared to R1.30 billion in the prior period, reflecting an increase of 70.7%. Equity in the insurance operations (including the value of equities investments held by the insurers) is R1.05 billion, up more than 4 times from the same time last year. Shareholders have R2.10 per share in investments (excluding operating businesses) working for them.

Constantia Insurance Group ("Constantia")

Constantia comprises a group of insurance and related companies wholly owned by Conduit. The three separate insurance subsidiaries[1] are each governed by their own boards of directors and managed centrally by Constantia's management team. Conduit delegates as much authority as possible down to subsidiaries. The results of Constantia are assessed on an "all in" basis i.e. not individually, but rather as a group.

Constantia identifies itself as *"your trusted insurer whose responsive teams provide innovative risk and insurance solutions in niche or selected markets".*

Premium and underwriting result

Compared to the prior period, Constantia's gross written premium increased by 40.4% to R725.8 million. Net written premium, adjusted for solvency reinsurance, increased by 33.3% to R595.6 million. Constantia uses solvency reinsurance to reduce the statutory capital that it is required to hold against certain lines of business. While this facility reduces the required amount of statutory capital, it also reduces the reported level of net premium. Therefore, net written premium on an adjusted basis is provided for better period on period

[1] Constantia Insurance Company Limited ("CICL"), Constantia Life and Health Assurance Company Limited ("CLAH") and Constantia Life Limited ("CLL").

comparison (a reconciliation is provided below). Constantia’s reinsurance policy is continually evolving and may shift away from high Quota Share and Solvency reinsurance programs depending on the risks to be written.

Constantia’s gross and net premium by line, and underwriting margin for the period under review and the prior period, were as follows:

Table 1

	Six months to 31 December 2017				Six months to 31 December 2016			
	Gross R’000	Net R’000	Net excl. solvency reinsurance R’000	Under-writing result [1] R’000	Gross R’000	Net R’000	Net excl. solvency reinsurance R’000	Under-writing result [1] R’000
Motor	136 521	56 380	109 044	(48 882)	60 780	34 906	38 662	(7 918)
Property	69 631	18 128	27 919	(5 542)	33 413	13 775	13 775	383
Accident and Health	413 585	18 685	386 490	(6 094)	384 059	86 647	366 180	(29 748)
Guarantee	13 245	7 159	7 159	633	12 921	6 255	6 255	(2 641)
Miscellaneous	28 128	7 818	14 205	(1 843)	11 194	7 530	7 530	(202)
Liability	36 540	22 643	22 643	(29 735)	-	-	-	-
Assistance	28 186	28 186	28 186	3 275	14 594	14 544	14 544	(1 126)
Unallocated	-	-	-	(4 763)	-	-	-	(1 966)
Total	725 836	158 999	595 646	(92 951)	516 961	163 657	446 946	(43 218)

[1] Including head office expenditure allocation

The premium increase was the result of general increases across niche books of business (47.9%), as well as the introduction of new books of businesses into the system (52.1%). The latter includes the new medical malpractice business called EthiQal that we launched in January 2017.

The Health-related portfolio comprising medical gap cover, primary health, medical evacuation and medical malpractice is fast approaching R1.00 billion in annual premium. It is anticipated that, once sufficient reserves have been built up in the medical malpractice book, the Health-related portfolio will contribute to underwriting profits. By all indications, this portfolio is well-positioned to achieve an excellent turnaround when compared to the prior two years.

The Life/Assistance operations reflected in excess of 200% growth in revenue and are also expected to contribute to underwriting profits.

Constantia’s combined ratio[2] target is 95% or better. The lower the ratio, the better, as it means we are creating investable assets at no cost. The actual combined ratio for the period was 115.7%. Adjusted for new ventures and start-up losses (which includes our conservative reserving of medical malpractice premiums), the ratio was 109.7%, with underwriting results’ contribution being 60.1% and net expenses 49.6%. The comparative numbers for the prior period were 108.9% and 106.8% respectively (underwriting contributed 62.3% and net expenses 44.5%). The six-month period was similar to the numbers for the year ended 30 June 2017 of 114.7% and 109.7% respectively, but then underwriting contributed 63.1% and net expenses 46.6%. The impact of the expenses incurred during the past 12 months to build additional capacity in Constantia can clearly be seen in the growth in expenses’ contribution to the ratios above. It is anticipated that this contribution to the combined ratio will reduce over time, as the expected further increase in

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

premiums materialises. It is also pleasing to see that the corrective action taken on the underwriting portfolios has started to yield results and expectation is that Constantia will achieve its 95% target in 2019.

Included in the adjusted combined ratio of 109.7% for the period under review are several noteworthy losses, mostly of a once-off nature, which negatively affected the result:

Table 2

Description	Amount (R'000)	Impact on combined ratio	Reason for non-performance	Action taken
Motor insurance broking partnership	22,741	4.0%	Interest of broker and insurer not aligned	Mutually agreed termination
Heavy commercial vehicle book	8,567	1.5%	Lack of scale in book	Implemented corrective action on non-performing brokers; negotiations to introduce substantial scale to the book
Various motor and property	10,079	1.8%	Incorrect underwriting and claims management procedures	Corrective action on underwriting and claims; restructure of mandate to correct underwriting and claims protocols
Foreign currency loss	4,413	0.8%	Strengthening ZAR negatively impacted USD-based assets	Appropriate currency hedging schemes are being investigated

Adjusted for the corrective action taken above the combined ratio reduces to 101.6%. The remainder of the difference to realise a 95% combined ratio is expected to be achieved through further growth and efficiency initiatives. The R1.05 billion capital in Constantia, together with the additional capacity generated by its increased expense base and its credit rating that improved to an A [Stable] (2017: A- [Stable]) will allow it to grow beyond R2.50 billion in gross premium income. This, together with further corrective action taken on the remainder of the business, should allow Constantia to attain its targets.

Taxation

Due to the underwriting loss incurred during the period under review CICL, in consultation with its auditors, decided not to increase its deferred tax asset beyond June 2017 levels. This resulted in potential tax assets of R19.2 million not being credited to the income statement and not being reflected in assets.

In the context of the next two to three years, there is a meaningful opportunity for Constantia to become South Africa's leading highly responsive middleweight insurer. There remains much work to be done, but Constantia is now firmly on the way to achieve this goal.

Equity investments

The Group's equity portfolio produced a pre-tax return of 20.8% over the period (41.7% annualised). The equity portfolio is split between two subsidiaries at holding company level, and portfolios owned by the insurance businesses. The subsidiaries outside of the insurance operation are not subject to insurance regulation. During the period under review, Snowball Wealth Proprietary Limited was transferred to into Constantia to capitalise the insurer well ahead of the insurer's expected growth.

The Group's strategy is to own a concentrated portfolio of *compounding* type businesses *permanently.* The Group invests in high conviction ideas where the risk of loss is limited and the upside potential uncapped due to the durability of the underlying company's competitive advantage. The Group invests in outstanding businesses that have the capacity to compound their value at a high rate for a long time. Conduit is not a trading operation with quick ins and outs and a short-term focus; rather it makes select long-term investments in businesses it knows well. This is a key differentiator, which allows the Group to focus on the long-term ownership of quality businesses.

Deep, fundamental research is conducted before considering any investment. Conduit seeks to invest in companies that have excellent management, a sustainable competitive advantage and a long runway growth opportunity, all available at a price that ensures a large margin of safety and an attractive return.

The top five investments at 31 December 2017 represented approximately 99.2% of equity invested capital. This reflects the interplay between conviction and investment sizing, which has been consistent over the years.

A brief update on the Group's publicly disclosed top five investments follows:

Taste Holdings Limited ("Taste") is a custodian of the world's leading brands in their categories. Taste is rolling out the Starbucks and Domino's Pizza brands in South Africa and owns Arthur Kaplan and NWJ jewellers. In February 2018, Tyrone Moodley, formerly an executive director of Conduit, was appointed as Interim Chief Executive Officer of Taste. Conduit participated in the recent Taste rights offer and followed its rights in full for an investment of R22.1 million.

Trustco Group Holdings Limited ("Trustco") is a Namibian based company operating in the financial services, property and mining sectors. Trustco's diamond mine discovered a 476-carat high quality diamond, which was sold for $16.5 million plus add-ons. After period end, Trustco's flagship industrial property in Windhoek, Namibia achieved approvals for the development of the remaining phases, which should generate over R4 billion in property sales. Trustco Bank Namibia now provides mortgage loans to the company's property buyers, who are also insured by Trustco Insurance and Trustco Life.

Finbond Group Limited ("Finbond") is a South African and North American provider of short-term credit and financial services products. The company is focused on quality underwriting of mainly unsecured credit products to the unbanked and underbanked customer. Finbond does not refinance, reschedule or roll loans, does not offer very long-term loans and has exceptionally high rejection rates on products.

Calgro M3 Holdings Limited ("Calgro") is an integrated housing developer. The company serves the middle and low-income end of the South African market. Calgro has more than 8,000 serviced stands available out of a project pipeline of R26 billion in a market where the housing shortfall is estimated at over 2.1 million units.

Combined Motor Holdings Limited ("CMH") is a nationwide retailer of new and used cars and the owner of the First Car Rental brand. CMH is a cash generative business and offers a wide range of vehicles through a network of approximately 55 dealerships.

The Group's view is that the equity portfolio valuation is significantly below a conservative estimate of the underlying business value and consequently, we believe the portfolio is well positioned for a high rate of future return.

Private Investments

Conduit concluded the acquisition of 51% of Deal Design Commercial Property and Business Broking Proprietary Limited ("Deal Design"), the holding company of the Century 21 realty master license in South Africa. Century 21 is a global leader in real estate brokerage worldwide with approximately 7,700 franchise offices and more than 117,000 independent sales associates located in 78 countries and territories. Deal Design does not own any stores but rather provides agents with the license to trade under the Century 21 name, including access to the global marketing power and best in class systems of Century 21. The brand has solid growth potential in the South African market.

Conduit owns 40% of Anthony Richards and Associates Proprietary Limited ("ARA"), a credit recovery specialist. The company is recovering from a period of weak performance and recent results show that the turnaround is in progress. ARA is reflected as an "Asset Held for Sale" in the financial statements since the June 2016 year-end, and accordingly ARA's results have not been included in the results for the six months to 31 December 2017.

Africa Special Opportunities Capital ("ASOC") is an investment firm that provides companies with tailored solutions to facilitate necessary restructuring or recapitalisation during times of distress. There are over R100 billion in non-performing loans in the South African banking sector and almost no distressed investment entities like ASOC. Conduit invested in ASOC's first fund and is also a shareholder in the ASOC management company, which entitles Conduit to a share of the revenue stream generated by ASOC's management company, including incentive fees earned on the performance of the investments in the current and future underlying funds. ASOC has completed two transactions, having considered more than 100 opportunities over the course of the last year. ASOC Fund I has received total funding commitments from investors of R202.0 million, with Conduit's share being R50.0 million. R17.6 million of the R50.0 million commitment has been drawn to date.

Prospects

Constantia is expected to achieve breakeven underwriting results in 2019 and has been suitably equipped for strong growth thereafter. Shareholders are however advised that underwriting is volatile by nature, especially in the context of the rapid business evolution underway at Constantia. The private investment portfolio has been expanded to include attractive opportunities with highly valued partners. The equity portfolio is, in management's view, materially undervalued and contains several excellent companies with solid long-term prospects – however, it cannot be predicted when these valuations may materialise. Conduit is well-positioned to access the sustainable value creation mechanisms inherent in the portfolio of businesses it owns.

Sean Riskowitz

Chief Executive Officer

Johannesburg

9 March 2018

CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Unaudited six months ended 31 Dec 2017 R'000	Restated [a] unaudited six months ended 31 Dec 2016 R'000	Audited year ended 30 Jun 2017 R'000
Gross written premium	725 836	516 961	1 069 794
Reinsurance premium	(566 837)	(353 304)	(687 890)
Net written premium	158 999	163 657	381 904
Net change in provision for unearned premium	(5 615)	(7 578)	(13 862)
Net insurance income	153 384	156 079	368 042
Reinsurance commission received	247 931	179 445	353 965
Other income	24 428	15 433	28 826
Income from insurance operations	425 743	350 957	750 833
Total insurance expenses	(518 694)	(394 175)	(885 182)
Net claims and movement in claims reserves	(116 012)	(84 889)	(229 805)
Insurance contract acquisition costs	(113 346)	(94 041)	(179 807)
Administration and marketing expenses	(275 653)	(215 245)	(469 145)
Other expenses	(13 683)	-	(6 425)
Net underwriting loss	(92 951)	(43 218)	(134 349)
Net non-insurance income (expenses)	189 645	(2 592)	47 356
Investment income	203 142	9 749	64 550
Other income	1 858	38	310
Administration and marketing expenses	(15 355)	(12 379)	(17 492)
Other expenses	-	-	(12)
Operating profit (loss)	96 694	(45,810)	(86 993)
Finance charges	(431)	(173)	(577)
Equity accounted (loss) income	(84)	(255)	(362)
Other income (expenses and losses)	4 364	(16)	(80 324)
Profit (loss) before taxation	100 543	(46 254)	(168 256)
Taxation	(44 183)	11 760	31 525
Profit (loss) for the year	56 360	(34 494)	(136 731)
Other comprehensive income	-	-	-
Total comprehensive income (loss)	56 360	(34 494)	(136 731)
Attributable to:			
Equity holders of the parent	56 368	(34 382)	(136 695)
Non-controlling interest	(8)	(112)	(36)
Total comprehensive income (loss)	56 360	(34 494)	(136 731)
Headline earnings (loss)	53 265	(34 370) [b]	(68 026)
Earnings (loss) per share (cents)		Restated [b]	Restated [b]
- Basic	10.0	(10.3)	(34.4)
- Diluted	10.0	(10.3)	(34.4)
- Headline	9.5	(10.3)	(17.1)
- Diluted headline	9.5	(10.3)	(17.1)

[a] The December 2016 headline loss was restated by way of the reversal of an adjustment for business combination expenses that was included in error. Also refer to notes 2 and 7.
[b] As required by IAS 33: Earnings per share, basic and headline earnings per share for the prior periods were restated due to the rights offer on 11 December 2017. Also refer to notes 2 and 3.

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Unaudited 31 Dec 2017 R'000	Unaudited 31 Dec 2016 R'000	Audited 30 Jun 2017 R'000
ASSETS			
Non-current assets	1 207 742	342 661	989 686
- Property, plant and equipment	15 369	12 863	14 331
- Intangible assets	103 557	38 291	93 701
- Loans receivable	9 080	18 297	4 249
- Deferred taxation	39 260	18 557	37 276
- Investment properties	4 431	4 351	4 431
- Investment in associates	13 543	2 376	2 527
- Investments held at fair value	1 022 502	247 926	833 171
Current assets	924 711	850 051	715 450
- Insurance assets	232 770	332 869	265 001
- Loans receivable	7 149	2 365	14 299
- Trade and other receivables	228 133	237 860	222 427
- Taxation	5 528	25 165	5 622
- Cash and cash equivalents	451 131	251 792	208 101
Assets held for sale	90 000	110 000	90 000
Total assets	2 222 453	1 302 712	1 795 136
EQUITY AND LIABILITIES			
Capital and reserves	1 345 733	527 652	948 823
- Stated capital	1 185 463	323 195	846 603
- Retained earnings	158 278	204 223	101 910
Equity attributable to equity holders of the parent	1 343 741	527 418	948 513
Non-controlling interest	1 992	234	310
Non-current liabilities	196 419	61 647	151 867
- Policyholder liabilities under insurance contracts	29 384	25 987	29 384
- Interest bearing borrowings	638	-	-
- Deferred taxation	166 397	35 660	122 483
Current liabilities	680 301	713 413	694 446
- Insurance liabilities	394 438	401 784	365 562
- Trade and other payables	282 431	311 324	327 366
- Taxation	3 432	305	1 518
Total equity and liabilities	2 222 453	1 302 712	1 795 136
Net asset value per share (cents)	188.5	159.2	176.1
Tangible net asset value per share (cents)	169.5	126.5	145.7

SEGMENTAL REPORT

SEGMENTAL REPORT FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

	Insurance and Risk R'000	Investments R'000	Total R'000
Income from operations	425 743	-	425 743
Expenses	(518 694)	(1 620)	(520 314)
Operating result	(92 951)	(1 620)	(94 571)
Equity accounted loss	-	(84)	(84)
Investment income	3 067	199 238	202 305
Other	(368)	93	(275)
Profit (loss) before head office expenses and taxation	(90 252)	197 627	107 375
Unallocated net head office expenses			(6 832)
Taxation			(44 183)
Profit for the period			56 360
Capital utilised			
Capital employed at end of period	1 051 257	265 620	1 345 733
Reallocation	(869 135)	869 135	-
Capital utilised at end of period	182 122	1 134 755	1 345 733
Average capital utilised during the period	94 387	862 309	890 428

SEGMENTAL REPORT FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

	Insurance and Risk R'000	Investments R'000	Total R'000
Income from operations	350 957	-	350 957
Expenses	(394 175)	(765)	(394 940)
Operating result	(43 218)	(765)	(43 983)
Equity accounted loss	-	(255)	(255)
Investment income	6 304	2 201	8 505
Other	(189)	-	(189)
Loss before head office expenses and taxation	(37 103)	1 181	(35 922)
Unallocated net head office expenses			(10 332)
Taxation			11 760
Loss for the period			(34 494)
Capital utilised			
Capital employed at end of period	261 847	141 796	527 652
Reallocation	(135 343)	135 343	-
Capital utilised at end of period	126 504	277 139	527 652
Average capital utilised during the period	142 585	263 798	477 007

SEGMENTAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Unaudited six months ended 31 Dec 2017 R'000	Unaudited six months ended 31 Dec 2016 R'000	Audited year ended 30 Jun 2017 R'000
Net cash flows from operating activities	(77 794)	(6 433)	(5 299)
- Cash (utilised) generated by operations	(81 700)	(14 201)	(51 661)
- Interest received	3 906	7 550	13 766
- Finance charges	(431)	(173)	(577)
- Dividends received from investments	765	7 370	26 621
- Taxation received (paid)	(334)	(6 979)	6 552
Net cash flows from investing activities	(14 837)	(12 734)	(45 320)
- Net acquisition of associates	(5 500)	(2 498)	(3)
- Acquisition of subsidiary	(15 432)	-	(433)
- Net acquisition of property, plant and equipment	(1 723)	(2 688)	(5 252)
- Acquisition of investment properties	-	-	(80)
- Net acquisition of intangible assets	(1 380)	(1 432)	(60 854)
- Net disposal (acquisition) of financial investments	9 198	(6 116)	21 302
Net cash flows from financing activities	335 575	(1 514)	(29 731)
- Net proceeds from new share issue	340 573	-	-
- Treasury stock acquired	(1 713)	-	-
- Interest bearing borrowings repaid	(4)	-	(13 179)
- Net loans repaid by (granted to) third parties	2 319	(1,514)	600
- Loans granted to associates and assets held for sale	(5 600)	-	(15 553)
- Loans granted to unlisted investments	-	-	(1 599)
Total cash movement for the year	242 944	(20 681)	(80 350)
Cash at the beginning of the year	208 101	272 473	272 473
Cash acquired	86	-	15 978
Total cash at the end of the year	451 131	251 792	208 101

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 period	-	(34 382)	(112)	(34 494)
Balance at 31 December 2016	323 195	204 223	234	527 652
Total comprehensive loss for the period	-	(102 313)	76	(102 237)
Issue of share capital	651 319	-	-	651 319
Treasury stock acquired through subsidiaries	(127 911)	-	-	(127 911)
Balance at 30 June 2017	846 603	101 910	310	948 823
Total comprehensive income (loss) for the period	-	56 368	(8)	56 360
Issue of share capital	350 000	-	-	350 000
Share issue costs	(9 427)	-	-	(9 427)
Acquisition of non-controlling interest	-	-	1 690	1 690
Treasury stock acquired through subsidiaries	(1 713)	-	-	(1 713)
Balance at 31 December 2016	1 185 463	158 278	1 992	1 345 733

NOTES TO THE CONDENSED CONSOLIDATED UNAUDITED RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

1. Basis of preparation

The accounting policies applied in the preparation of these condensed consolidated unaudited results for the six months ended 31 December 2017 ("Interim Results") are in accordance with International Financial Reporting Standards ("IFRS") and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council. These accounting policies are consistent with those applied in the annual financial statements for the year ended 30 June 2017. The Interim Results have been prepared making use of reasonable judgements and estimates and reporting is done in terms of IAS 34 – Interim Financial Reporting, the Companies Act (Act 71 of 2008), as amended, and the Listings Requirements of JSE Limited ("the JSE") under the supervision of Mr Lourens Louw, the Chief Financial Officer. The Group's auditors have not audited or reviewed the Interim Results.

2. Restatement of comparative numbers

2.1 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 (also refer to note 3).

2.2 The headline loss for the six months ended 31 December 2016 was restated through the reversal of an adjustment for business combination expenses to the value of R5.1 million that was included in the original calculation in error. The effect of the restatement is that the headline loss for the period increased from R29.3 million to R34.4 million (also refer to note 7).

3. Changes in stated 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 R9.4 million were charged against stated capital.

During the period under review Midbrook Lane Proprietary Limited ("Midbrook") and Constantia Insurance Company Limited ("CICL"), both wholly owned subsidiaries, acquired an aggregate 818,908 Conduit shares in the market for a total consideration of R1.7 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:

	31 Dec 2017 '000	31 Dec 2016 '000	30 Jun 2017 '000
Number of shares	712 811	331 377	538 630
- Shares in issue	764 444	331 380	589 444
- Shares held as treasury shares	(51 633)	(3)	(50 814)
Weighted average number of shares on which earnings and diluted earnings per share calculations are based	562 618	335 292	397 822
- Shares in issue	609 417	331 380	407 632
- Bonus issue for rights offer [1)]	4 115	3 915	4 645
- Shares held as treasury shares	(50,914)	(3)	(14 455)

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

4. Impairment assessment of associates and assets held for sale

4.1. As at the reporting date Conduit's overall investment in ARA remains at R90.0 million (2017: R90 million). This amount comprises a R81.2 million valuation of the investment (2017: R77.2 million) and a R8.8 million shareholders' loan (2017: R12.8 million). Negotiations to dispose of the investment are ongoing, therefore ARA remains classified under "Assets held for sale" at period-end.

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

5. Acquisition 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 78 countries and territories with more than 7 700 offices and 117 000 property professionals globally.

5.2. The purchase consideration was settled in cash and resulted in goodwill of R13.7 million. No goodwill was impaired.

6. Financial instruments

Fair value estimation

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

Financial assets	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
31 December 2017				
Listed investments	994 488	-	-	994 488
Investment properties	-	-	4 431	4 431
Unlisted investments	-	22 875	8 040	30 915
	994 488	22 875	12 471	1 029 834
31 December 2016				
Listed investments	247 526	-	-	247 526
Investment properties	-	-	4 351	4 351
Unlisted investments	-	400	-	400
	247 526	400	4 351	252 277
30 June 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 entity have been discounted at market related rates.

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 period under review. This resulted in potential tax assets of R19.2 million not being credited to the income statement and not being reflected in assets.

The Group's effective tax rate for the period under review is therefore 43.9%. If the additional deferred tax asset were raised the effective tax rate would have been 24.9%. 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 income from equities at the capital gains tax rate, which is an effective 22.4%.

This position will again be reviewed at the June 2018 year-end.

8. Reconciliation of headline earnings (loss)

	Unaudited six months ended 31 Dec 2017 R'000	Unaudited six months ended 31 Dec 2016 R'000	Audited year ended 30 Jun 2017 R'000
Income (loss) attributable to ordinary equity holders of Conduit	56 368	(34 381)	(136 695)
Net loss on revaluation of investment properties	-	16	-
Loss on disposal of property, plant and equipment	1	-	15
(Part reversal of) impairment of associates and assets held for sale	(4 000)	-	32 800
Impairment of goodwill	-	-	41 408
Impairment of computer software	-	-	1 798
Tax on the items above	896	(5)	(7 352)
Headline earnings (loss)	53 265	(34,370)	(68 026)

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 R1,500,000 ("the Minimum Payment").

The present value of the annuity payments as at 30 June 2017 amounted to R3,001,012 ("the Maximum Liability") per an actuarial calculation based on published mortality tables. The Group has initially raised a liability to the value of the Minimum Payment, of which R240 000 ("the Outstanding Amount") remains payable. It further confirms that it has a contingent liability of R2 761 012 as at the reporting date. The contingent liability relates to the difference between the Outstanding Amount and the Maximum Liability.

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:

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

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

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

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

11. Dividends

In line with the Group's strategy, the Board has not recommended any dividend payment to ordinary shareholders (2016: Nil).

12. Events after reporting period

No events occurring between the reporting date and the date of publication of this report resulted in a material impact on the Group.

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

Company secretary:

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

Registered address:

Unit 9, 4 Homestead Avenue
Bryanston, 2191
PO Box 97, Melrose Arch, 2076
Telephone: (+27 10) 020 3460
Facsimile: (+27 86) 522 8742

Transfer secretaries:

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