AFRICAN PHOENIX INVESTMENTS LIMITED

(Incorporated in the Republic of South Africa)
(Registration number: 1946/021193/06)
(Ordinary share code: AXL) (ISIN: ZAE000221370)
(Hybrid instrument code: AXLP) (ISIN: ZAE000221388)
("Phoenix" or "the Group" or "the Company")

CONDENSED AUDITED CONSOLIDATED FINANCIAL RESULTS FOR THE YEAR ENDED 30 SEPTEMBER 2018

HIGHLIGHTS

Net asset value per ordinary share: 52.0 cents (FY2017: 48.8 cents)

Cash and financial assets available for investment: R1.96 billion (FY2017: R1.88 billion)

Total equity: R1.87 billion (FY2017: R1.83 billion)

Earnings per share: 3.2 cents (FY2017: 13.0 cents)

Headline earnings per share: 3.7 cents (FY2017: 13.0 cents)

The board of directors ("Board") is pleased to present the Condensed Audited Consolidated Financial Results for the year ended 30 September 2018 ("FY2018"). Whilst the financial performance in the current year is muted compared to the prior year, both the Company and The Standard General Insurance Company ("Stangen") have taken meaningful steps towards achieving their individual strategies as set out below. For further detail to these condensed results, please see the Company website www.phoenixinvestments.co.za for the full Integrated Annual Report for FY2018.

FINANCIAL PERFORMANCE

The Group reported net asset value ("NAV") per share at 30 September 2018 of 52.0 cents (2017: 48.8 cents), an increase of 6.6% for the year and 3.6% for the six months from 31 March 2018 (50.2 cents).

The Group has increased cash and financial assets available for investment from R1.88 billion to R1.96 billion over the period and therefore remains both liquid and solvent. Profit after tax of R46 million for FY2018 is a decrease of 76% from FY2017 of R186 million. The profit after tax for the six-months to 31 March 2018 was R21 million. The decrease in profit after tax for the year was mainly due to:

- The lower Other Income (per the Statement of Profit or Loss), relating to the once off recoveries of fully impaired claims as the business rescue process for Ellerine Holdings Limited and Ellerine Furnishers Proprietary Limited which were not repeated in the current financial year (FY2018: R18 million, FY2017: R47 million);
- The lower amount of actuarial reserves released by Stangen during the current financial year as a result of the increase in expense reserves that relate to new insurance policies (FY2018: R12 million, FY2017: R62 million);
- The increase in operating costs (FY2018: R151 million, FY2017: R93 million), predominantly as a result of Stangen's new business acquisition costs and above-the-line marketing campaigns, and in Phoenix an increase in legal costs attributed to the business rescue matters at Ellerine Group and directors' remuneration due to increase in Board and committee meetings in support of the investment activity and the proposed transaction announced on 7 September 2018; and
- The lower reversal of impairment as the valuation of the Residual Debt Services stub instruments are valued closer to the traded Over-The-Counter traded price compared to FY2017 (FY2018: R2 million, FY2017: R46 million).

Total shareholders' equity as at 30 September 2018 amounted to R1.87 billion (30 September 2017: R1.83 billion).

The Board concluded that the preparation of the financial information on a going concern basis is appropriate. No ordinary or preference dividends were declared in the current year (FY2017: Rnil).

PROPOSED TRANSACTION

As announced on 7 September 2018, the Company advised shareholders of its proposal to implement certain strategic transactions. In summary, the proposed transaction includes: i) a repurchase of preference shares, ii) an acquisition of a limited partnership interest in a private equity fund to be established and managed by a black-owned fund manager ("BFM"), iii) amendments to the MOI to cater for i) & ii) above, and iv) a change in the JSE classification to an investment entity pursuant to section 15 of the JSE Listings Requirements.

Since announcing the transaction, the Company has been engaged with and continues to engage the regulatory authorities, including the JSE, to obtain all the necessary approvals to proceed with the transaction. The Company has received the JSE dispensations require to implement the proposed transaction and the Company expects to publish the circular to shareholders relating to the approvals required to implement the proposed transaction early next year. The notice to the next Annual General Meeting ("AGM") will be published with the circular.

OPERATIONS

In the furtherance of the Company's stated strategy of increasing shareholder value through owning meaningful equity interests in a range of diverse businesses, the Company appointed myself as Chief Executive Officer and Shafiek Rawoot as Financial Director on 1 March 2018 and 1 July 2018 respectively. The Company also employed two investment principals in Kamogelo Mudimbu and Alupheli Sithebe on 1 June 2018 and 1 July 2018 respectively. This investment team has a proven track record of originating, executing and realising investments in line with the Company's strategy. In addition to the investment team, the BFM will include a majority independent non-executive investment committee to assist in vetting all proposed investment acquisitions and disposals. Further details of the investment committee will be included in the circular to shareholders. The Company also moved offices from the space shared with Stangen at the Wanderers Office Park in Illovo, to a new office in Sturdee Avenue in Rosebank.

INVESTING ACTIVITIES

In July 2018 Stangen acquired the infrastructure and staff of the Joshua Trust ("JT") call centre. In September 2018, Stangen acquired the insurance and call centre operations of Different Life ("DL"). As part of the DL acquisition, Stangen increased its stake from 15% to 25% and hence changed from accounting for DL as an investment to associate accounting. Marius Botha (Stangen Managing Director) was appointed as the non-executive chairman of DL.

The investment team has been able to evaluate many investment opportunities in line with the investment strategy of pursuing investments primarily in businesses operating in the mid-market space that are looking for equity risk capital. Since 1 March 2018, the executives and investment team have reviewed thirty three (33) investment opportunities in various sectors including food packaging, automotive trimming, food processing and telecommunications. From that universe of opportunities, the Company declined an opportunity after conducting a commercial and financial due diligence, one conditional offer was declined by sellers after concluding a comprehensive due diligence and five opportunities are still under consideration. The remaining investment opportunities were abandoned by the Company primarily on concerns over challenges in business models, sustainability of earnings and high price expectations.

LEGACY MATTERS

The former management team of Ellerine (before it was placed in business rescue) was incentivised in terms of a scheme known as the PARIS scheme to stay on and build value to enable Ellerine to be sold for a "good price". Before the scheme term expired, the Ellerine Group was placed in business rescue. The PARIS participants (roughly 18 of them in number) then endeavoured to recover their incentive from Ellerine Furnishers and Ellerine Holdings by way of arbitration. This arbitration came to an end as Ellerine Furnishers insisted that Phoenix (then African Bank Investments Limited) be a party to these proceedings. Phoenix agreed to arbitrate before a retired judge. The judgement, in favour of Phoenix, was handed down in December 2017. Ellerine Furnishers took that matter on appeal and the arbitrator found in favour of Phoenix awarding the Company R1.1 million in fees. The matter is now closed.

Phoenix submitted a deed of cession to the Ellerine Holdings business rescue practitioner in relation to the claim for banking facilities, which had been settled in full. The Company lodged a claim for all distribution benefits to which the bank would have become entitled, after April 2016, under the session. The Ellerine Holdings business rescue practitioner disputed the claim and the parties agreed to settle the dispute by arbitration. In August 2018, the arbitrator ruled in favour of Phoenix and a payment of R15.8 million was deposited in the Phoenix account in September 2018.

OUTLOOK

As the legacy matters highlighted above draw to a close, the proposed transaction (if the requisite approvals are obtained from shareholders in due course) allows the Company to simplify the capital structure and offers shareholders a unique opportunity to invest in a vehicle that provides empowerment credentials, growth and replacement equity risk capital to businesses operating in the mid-market without forgoing the liquidity offered by being listed on a public exchange. The fund manager structure will combine the experience of independent non-executive investment committee members and a management team that is aligned with Phoenix shareholders.

There is a compelling opportunity for well capitalised and empowered investment vehicles providing patient capital. In the period since announcing the proposed transactions, the Company has received interest from corporate advisers and medium sized companies looking for an equity partner with a longer investment horizon compared to traditional private equity and a partner that understands the needs of private businesses. The Company is looking forward to pursuing these opportunities in line with the investment policy, through the proposed fund manager structure.

Siya Nhlumayo
Chief Executive Officer

CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 30 September 2018

R thousand	2018	2017
Assets		
Cash and cash equivalents	**1 656 447**	1 881 333
Financial assets	**300 127**	20 000
Other assets	**55 205**	100 530
Reinsurance assets	**637**	326
Investment in associate	**16 462**	–
Taxation	**1 622**	1 230
Deferred tax asset	**18 608**	1 170
Equipment	**5 207**	1 147
Intangible assets	**16 377**	12 585
Total assets	**2 070 692**	2 018 321
Liabilities and equity		
Other liabilities	**40 391**	37 395
Reinsurance creditor	**272**	72
Taxation	**17 186**	3 046
Policyholders' liabilities under insurance contracts	**117 639**	128 182
Borrowings	**23 377**	23 377
Total liabilities	**198 865**	192 072
Ordinary share capital and share premium	**14 649 929**	14 649 929
Reserves	**(13 907 905)**	(13 953 483)
Ordinary shareholders' equity	**742 024**	696 446
Preference shareholders' equity	**1 129 803**	1 129 803
Total equity (capital and reserves)	**1 871 827**	1 826 249
Total liabilities and equity	**2 070 692**	2 018 321
Net asset value per ordinary share (NAV) (cents)	**52.0**	48.8
Tangible net asset value per ordinary share (TNAV) (cents)	**50.9**	47.9
Number of shares in issue (thousand)	**1 427 005**	1 427 005

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME for the year ended 30 September 2018

R thousand	2018	2017
Continuing operations		
Insurance premium and reinsurance income	**66 711**	63 838
Investment income	**155 977**	139 852
Other income	**17 598**	47 078
Net income	**240 286**	250 768
Net insurance claims	**(9 424)**	38 241
Operating and administration expenses	**(151 143)**	(92 933)
Interest expense	**(308)**	(96)
Profit before capital items and equity accounted items	**79 411**	195 980
Capital items	**(5 367)**	46 115
Reversal of impairment of financial instruments	**1 977**	46 115
Impairment of goodwill	**(2 555)**	–
Deemed loss on stepped acquisition of associate	**(4 789)**	–
Share of loss from associate	**(205)**	–
Profit before taxation	**73 839**	242 095
Direct taxation: SA normal	**(28 261)**	(47 410)
Profit for the year from continuing operations	**45 578**	194 685
Loss for the year from discontinuing operations	**–**	(8 563)
Profit for the year	**45 578**	186 122
Other comprehensive income	**–**	–
Total comprehensive income for the year	**45 578**	186 122

RECONCILIATION BETWEEN BASIC EARNINGS AND HEADLINE EARNINGS

R thousand	2018	2017
Profit for the year from continuing operations	**45 578**	194 685
Loss for the year from discontinuing operations	**–**	(8 563)
Profit for the year	**45 578**	186 122
Basic earnings / diluted earnings attributable to ordinary shareholders	**45 578**	186 122
Adjusted for:		
Impairment of goodwill	**2 555**	–
Deemed loss on stepped acquisition of associate	**4 789**	–
Headline earnings / diluted headline earnings	**52 922**	186 122
Weighted number of shares in issue (thousand)	**1 427 005**	1 427 005
Basic earnings per ordinary share (cents)		
Basic earnings per ordinary share – continued operations	**3.2**	13.7
Basic loss per ordinary share – discontinued operations	**–**	(0.6)
Basic earnings / diluted earnings per ordinary share – total	**3.2**	13.0
Headline earnings per ordinary share (cents)		
Headline earnings per ordinary share – continued operations	**3.7**	13.7
Headline loss per ordinary share – discontinued operations	**–**	(0.6)
Headline earnings / diluted headline earnings per ordinary share – total	**3.7**	13.0

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY for the year ended 30 September 2018

R thousand	Ordinary share capital and premium	Accumulated loss	Preference share capital and premium	Total
Balance at 30 September 2016	14 649 929	(14 139 605)	1 129 803	1 640 127
Total comprehensive income for the year	–	186 122	–	186 122
Balance at 30 September 2017	14 649 929	(13 953 483)	1 129 803	1 826 249
Total comprehensive income for the year	–	45 578	–	45 578
Balance at 30 September 2018	**14 649 929**	**(13 907 905)**	**1 129 803**	**1 871 827**

SEGMENT REVENUE AND RESULTS

R thousand	Insurance	Corporate	Total
2018			
Net income	**176 785**	**63 501**	**240 286**
EBITDA	**(57 997)**	**(19 556)**	**(77 553)**
Interest received	**108 276**	**47 701**	**155 977**
(Loss on deemed disposal of stepped acquisition)/ reversal of impairment	**(4 789)**	**1 977**	**(2 812)**
Impairment of goodwill	**(2 555)**	**–**	**(2 555)**
Profit before taxation attributable to shareholders from continuing operations	**45 759**	**28 080**	**73 839**
Total assets	**685 632**	**1 385 060**	**2 070 692**
Total liabilities	**146 619**	**52 246**	**198 865**

R thousand	Insurance	Corporate	Total
2017			
Net income	181 646	69 122	250 768
EBITDA	25 047	67 351	92 398
Interest received	116 152	23 700	139 852
Reversal of impairment	–	46 115	46 115
Profit before taxation attributable to shareholders from continuing operations	151 044	91 051	242 095
Profit before taxation attributable to shareholders from discontinuing operations	(11 893)	–	(11 893)
Total assets	1 548 273	470 048	2 018 321
Total liabilities	139 737	52 335	192 072

CONSOLIDATED STATEMENT OF CASH FLOWS for the year ended 30 September 2018

R thousand	2018	2017
Cash inflow from continuing operations	**72 414**	131 534
Cash receipts from policyholders and investments	**240 159**	250 768
Cash paid to policyholders, suppliers and employees	**(167 745)**	(119 234)
Direct taxation paid	**(31 951)**	(43 532)
Interest paid	**(308)**	(96)
Net cash inflow from continuing operating activities	**40 155**	87 906
Net cash outflow from discontinuing operating activities	**–**	(11 893)
Net cash inflow from operating activities	**40 155**	76 013
Cash flows from investing in continuing operations	**(265 041)**	(27 605)
Acquisition of equipment	**(3 022)**	(239)
Acquisition of intangible assets	**(7 535)**	(13 791)
Acquisition of investment in Different Life	**(1 456)**	(20 000)
Acquisition from business combination	**(4 435)**	–
Other investing activities	**(300 000)**	–
Proceeds from other assets	**51 407**	6 425
(Decrease)/increase in cash and cash equivalents	**(224 886)**	48 408
Cash and cash equivalents at the beginning of the year	**1 881 333**	1 832 925
Cash and cash equivalents at the end of the year	**1 656 447**	1 881 333

BASIS OF PREPARATION

The preparation of this financial information was supervised by Shafiek Rawoot CA(SA).

The financial information contained herein has been prepared in accordance with the framework concepts and the measurement and recognition requirements of the International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board, Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB, IAS 34: Interim Financial Reporting and Financial Reporting Pronouncements as issued by Financial Reporting Standards Council, the requirements of the Companies Act of South Africa (Act 71 of 2008) as well as the Listings Requirements of the JSE Limited.

All accounting policies and their application are in terms of IFRS and are consistent with those used for the group's 2017 annual financial statements.

The directors take full responsibility for the preparation of these financial results and confirm that the financial information has been correctly extracted from the underlying audited financial statement.

AUDITORS' REPORT

The accompanying financial information is extracted from the audited financial statements but is in itself not audited. The auditors have expressed an unqualified opinion on the financial statements of the Group. The financial statements have been audited by Grant Thornton, Johannesburg Partnership. The full audit reports are available for inspection at the company's registered office. The auditors' report does not necessarily report on all of the information contained in these financial results. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditors' engagement they should obtain a copy of the auditors' report together with the accompanying financial information from the issuer's registered office.

Johannesburg
29 November 2018

SPONSOR

Merchantec Capital

BOARD OF DIRECTORS

Independent non-executives: M Mthombeni (Chairman); A Conrad; M Kabi; O Mabandla; R Mathura; N Siyotula

Non-executive: S Sithole

Executives: S Nhlumayo (CEO); S Rawoot (FD)

Changes to the Board of Directors are detailed in the Integrated Annual Report available on the Company website.

REGISTERED OFFICE

3rd Floor, Global House
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COMPANY SECRETARY

Acorim Proprietary Limited

SHARE TRANSFER SECRETARIES

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WEBSITE

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