african phoenix

investments limited

CONDENSED CONSOLIDATED UNAUDITED RESULTS

FOR THE SIX MONTHS ENDED 31 MARCH

2020

SALIENT FEATURES

NET ASSET VALUE PER SHARE
47.4 cents
(30 September 2019: 90.1 cents per share)

OPERATING LOSS OF
R8.8 million
(30 September 2019 of 57,1 million)

FINALISATION OF STANGEN SALE
R140 million

SALE OF LEGACY INVESTMENTS
R44 million

TOTAL EQUITY
R666 million
(30 September 2019: R1 286 million)

CAPITAL REDUCTION DISTRIBUTION
R591 million
being 42 cents per share paid on 13 January 2020

EPS AND HEPS OF
(0.96) cents
30 September 2019 of (5,53) cents)

DATE OF GENERAL MEETING TO VOTE ON DELISTING
8 June 2020

COMMENTARY

Introduction

African Phoenix is an investment holding company whose ordinary shares are listed on the Johannesburg Stock Exchange ("JSE").

Investments

The sale of The Standard General Insurance Company Limited ("Stangen") which was the Company's only trading subsidiary, for R140 million, was concluded during the period. The Company also sold its investments in Residual Debt Services Limited (in curatorship), Ellerine Holdings Limited (in business rescue) and the RDS senior stub instruments for R44 million.

As announced on SENS on 20 January 2020, following engagement with various shareholders, African Phoenix decided not to appoint a replacement general partner after the removal of API Capital Proprietary Limited ("API Capital"). The API Capital Fund has accordingly been dissolved in accordance with the partnership agreement and the B ordinary shares held by API Capital have been cancelled. African Phoenix acquired all shares and shareholders' loans in API Capital, for R54 million, which effectively internalised management of investments. The purchase of API Capital is not considered a business combination but was treated as the settlement of an onerous contract, with a R35 million impact on profit for the year.

Gilt Edged Management Services Proprietary Limited ("GEMS"), remains a dormant wholly-owned subsidiary.

Change in year-end

On 13 January 2020, shareholders were advised that African Phoenix had changed its financial year end from 30 September to 30 June.

Preference share appraisal rights

The Company received objection notices in terms of section 164(3) of the Companies Act, 71 of 2008 (the "Companies Act") from three preference shareholders holding in aggregate 1 252 598 preference shares. The Company received a notice of motion in which a dissenting shareholder made an application to court in terms of section 164(14) of the Companies Act for, among others, a determination of the fair value of the preference shares held by the dissenting shareholder. The board of directors of African Phoenix ("the board") considered the application and filed a notice to oppose the application on 2 August 2019 and filed an answering affidavit on 11 September 2019. As required in terms of the Companies Act, the remaining dissenting shareholders must be joined to the main court application and this was done on 5 December 2019.

The remaining dissenting shareholders filed an answering affidavit on 3 February 2020. The applicant dissenting shareholder has not yet filed a replying affidavit to the section 164(14) application. However, in February 2020 the applicant dissenting shareholder delivered to the Company, a notice of motion for an interlocutory application to compel certain documents ("the interlocutory application"). The Company has filed an answering affidavit to the interlocutory application.

Directors

With effect from 18 February 2020, L Ngakane and RR Masebelanga were appointed as independent non-executive directors.

Firm intention by Legae Peresec Proprietary Limited to make an offer to acquire AXL shares and the delisting of African Phoenix

Shareholders are referred to the announcement released on SENS on 23 April 2020, wherein shareholders were advised that:

- The board had resolved that, subject to securing the requisite approval from its shareholders in a General Meeting and the JSE approving the Company's delisting application, it would be in the best interests of the Company to seek a delisting of the Company's shares from the JSE (the "delisting").
- In compliance with the JSE Listings Requirement, the delisting must be accompanied by an offer (the "offer"), (that must be fair, to holders of all the Company's listed securities, being the A ordinary shares (the "AXL shares"). The Company has procured a commitment from Legae Peresec Proprietary Limited ("Legae Peresec") in terms of which, subject to the delisting being approved, Legae Peresec will make a general offer to acquire all AXL shares from any shareholder who, post the approval of the delisting, either cannot or does not wish to continue to hold AXL shares in an unlisted structure.
- The delisting and the offer will be implemented on the basis that shareholders will be afforded an opportunity to either monetise their investment in African Phoenix shares at a fair price or to continue to hold shares in African Phoenix in an unlisted environment.
- The offer will be made in compliance with the relevant provisions of the JSE Listings Requirements and Chapter 5 of the Companies Act and the Takeover Regulations promulgated thereunder (the "Takeover Regulations").

A circular detailing the delisting and including a combined offer circular (containing full details in respect of the offer and incorporating the independent board's view of the offer, the offer consideration and the fair and reasonable opinion prepared by Mazars) was distributed to African Phoenix shareholders on Friday, 8 May 2020.

Shareholders are referred to the SENS announcement dated 22 May 2020, in respect of the process to be followed to participate in and vote at the virtual General Meeting to be held at 10.00 on Monday, 8 June 2020.

COMMENTARY continued

INVESTMENT POLICY

The board has resolved, subject to obtaining the requisite shareholder approval at the General Meeting on Monday, 8 June 2020, to adopt a new investment policy, details of which are set out below:

Investment focus

The Company will either in its own name or through fund structures or investment vehicles that it establishes and that allow for co-investment:

- Have a primary investment focus of maintaining and growing a portfolio of significant equity interests in listed and unlisted companies with sound growth records or potential for growth which are expected to earn above average returns; and
- Have a secondary investment focus of holding cash, bonds, short-term investments, debt instruments, collateralised notes and fund participations, as well as growth, early-maturity stage, greenfield and special situation investments, depending on market conditions, the availability of suitable opportunities, the investment maturity cycles of its portfolio, excess liquidity not invested in its primary portfolio and relevant macroeconomic cycles.

Focus sectors

African Phoenix will not limit its investments to any one particular sector, but will likely focus on those sectors related to the African consumer and financial technology.

Geographies

The Company will focus on investments related to South Africa and sub-Saharan Africa.

Size, spread and stage

African Phoenix intends to:

- Limit its investment in any one single entity to 50% of the market cap;
- Hold between one and twenty investments;
- Invest in the full range of stages; including early stage investments requiring capital and management expertise to mature cash generating businesses with strong management teams; and
- Screen for potential delistings, management buyouts and expansion or replacement capital opportunities.

Other parameters

The Company:

- Will seek influential minority or controlling positions in portfolio companies;
- May implement the new investment policy through a variety of types of financial instruments, including equity, quasi-equity, debt, hybrid and equity-related investments;
- May make use of financial gearing in its underlying investments; and
- Will seek to leverage off the resources, skills, capital and partnerships of its shareholders.

The board takes full responsibility for the preparation of this interim report.

Oyama Mabandla	**Andrew Hannington**
Executive Chairman	*Chief Financial Officer*

5 June 2020

Directors: Oyama Mabandla (Executive Chairman); Andrew Hannington (CFO); Warren Chapman+; Koketso Mabe*; L Ngakane*; RR Masebelanga*

*(*Independent non-executive) (+Non-executive)*

Business office:
9th Floor, Katherine Towers
1 Park Lane
Wierda Valley
Sandton, 2196

Registered office:
13th Floor, Illovo Point
68 Melville Road
Illovo
Sandton, 2196
(PO Box 650361, Benmore, 2010)

Company Secretary:
Acorim Proprietary Limited

Transfer Secretaries:
Link Market Services South Africa Proprietar

CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 31 March

	Unaudited as at 31 March 2020 R'000	Unaudited as at 31 March 2019 R'000	Audited as at 30 September 2019
ASSETS			
Non-current assets	**190**	575 015	503 114
Investments	**190**	572 777	501 386
Property, plant and equipment	**–**	2 034	1 555
Intangible assets	**–**	204	173
Current assets	**775 514**	1 339 307	897 209
Other assets	**17**	46 698	31 645
Investments held for sale: RDS stub instruments	**–**	–	34 409
Investment held for sale: Stangen	**–**	–	140 000
Taxation	**–**	1 531	–
Financial assets	**–**	1 445	–
Cash and cash equivalents	**775 497**	1 289 633	691 155
Total assets	**775 704**	1 914 322	1 400 323
EQUITY AND LIABILITIES			
Equity and reserves	**666 374**	1 885 671	1 285 878
Share capital	**14 058 989**	14 649 959	14 649 959
Accumulated loss	**(13 377 615)**	(13 894 091)	(13 364 081)
Treasury shares	**(15 000)**	–	–
Ordinary shareholders' equity	**663 374**	755 868	1 285 878
Preference shareholders' equity	**–**	1 129 803	–
Current liabilities	**109 330**	28 651	114 445
Other liabilities	**32 138**	28 651	42 196
Creditor – Appraisal rights claims	**46 972**	–	46 972
GEMS liability	**23 568**	–	23 568
Taxation	**6 652**	–	1 709
Total equity and liabilities	**775 704**	1 914 322	1 400 323
NAV (cents per share)	**47.4**	53.0	90.1

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME for the six months ended 31 March

	Unaudited as at 31 March 2020 R'000	Unaudited as at 31 March 2019 R'000	Audited as at 30 September 2019 R'000
Insurance income	**–**	41 638	41 638
Interest received	**35 037**	83 135	108 989
Dividend Income	**–**	–	382 044
Fair value gains and losses on investments	**–**	–	(427 203)
– Fair value losses due to dividends received	**–**	–	(382 044)
– Other fair value gains and losses	**–**	–	(45 159)
Other income	**236**	743	1 893
Net income	**35 273**	125 516	107 361
Net insurance claims	**–**	(4 368)	(4 368)
Operating expenses	**(50 922)**	(108 766)	(148 362)
(Loss)/profit before capital items and equity accounting items	**(15 649)**	12 382	(45 369)
Capital and equity accounted items	**6 857**	1 476	(11 726)
Reversal of impairment/(impairment) of financial instruments	**–**	1 318	(11 884)
Share of profit/(loss) from associate	**–**	158	158
Profit on sale of assets	**6 857**	–	–
(Loss)/profit before taxation	**(8 792)**	13 858	(57 095)
Taxation	**(4 772)**	(44)	(21 770)
(Loss)/profit for the period	**(13 564)**	13 814	(78 865)
Basic and diluted (loss)/earnings per share (cents)	**(0.96)**	1.0	(5.53)
Headline and diluted (loss)/earnings per share (cents)	**(0.96)**	1.0	(5.53)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY for the six months ended 31 March

	Ordinary share capital and premium R'000	Accumulated loss R'000	Treasury shares R'000	Ordinary shareholders' equity R'000	Preference share capital and premium R'000	Total equity R'000
Balance at 30 September 2018	14 649 929	(13 907 905)	–	742 024	1 129 803	1 871 827
Total comprehensive profit for the period	–	13 814	–	13 814	–	13 814
Issue of B ordinary shares	30	–	–	30	–	30
Balance at 31 March 2019	**14 649 959**	**(13 894 091)**	**–**	**755 868**	**1 129 803**	**1 885 671**
Total comprehensive loss for the period	–	(92 679)	–	(92 679)	–	(92 679)
Preference share repurchase	–	622 689	–	622 689	(1 129 803)	(507 114)
Balance at 30 September 2019	**14 649 959**	**(13 364 081)**	**–**	**1 285 878**	**–**	**1 285 878**
Total comprehensive loss for the period	–	(13 564)	–	(13 564)	–	(13 564)
Return of capital	(590 940)	–	–	(590 940)	–	(590 940)
Treasury shares	–	–	(15 000)	(15 000)	–	(15 000)
Cancellation of B ordinary shares	(30)	30	–	–	–	–
Balance at 31 March 2020	**14 058 989**	**(13 377 615)**	**(15 000)**	**666 374**	**–**	**666 374**

CONSOLIDATED STATEMENT OF CASH FLOWS for the six months ended 31 March

	Unaudited as at 31 March 2020 R'000	Unaudited as at 31 March 2019 R'000	Audited as at 30 September 2019 R'000
Cash flows from operating activities	**(8 818)**	(20 920)	310 932
Cash receipts	**35 273**	117 367	494 378
Cash paid	**(44 091)**	(117 573)	(144 246)
Taxation (paid)/refund received	**–**	(20 714)	(39 200)
Cash flows from investing activities	**684 100**	(345 924)	(816 113)
Acquisition of property, plant, equipment	**–**	(846)	(601)
Acquisition of intangible assets	**–**	(141)	(141)
Proceeds on disposal of assets	**100**	–	–
Proceeds on disposal of investments	**684 000**	–	–
Other investing activities	**–**	310 000	300 000
Loan received from GEMS	**–**	–	23 568
Return of capital from GEMS	**–**	–	13 743
RDS stub investment capital received	**–**	–	2 255
Investment in API Capital Fund	**–**	–	(500 000)
Adjustment on becoming an investment entity	**–**	(654 937)	(654 937)
Cash flows from financing activities	**(590 940)**	30	(460 111)
Issue of B shares	**–**	30	30
Preference share repurchase	**–**	–	(460 141)
Return of capital distribution	**(590 940)**	–	–
Net increase/(decrease) in cash and cash equivalents	**84 342**	(366 814)	(965 292)
Cash and cash equivalents at beginning of period	**691 155**	1 656 447	1 656 447
Cash and cash equivalents at end of period	**775 497**	1 289 633	691 155

CONSOLIDATED SEGMENTAL INFORMATION

Segmental information	Insurance R'000	Corporate R'000	Total R'000
Unaudited 31 March 2020			
Income	–	35 273	**35 273**
(Loss)/profit before taxation from continuing operations	–	(8 792)	**(8 792)**
Total assets	–	775 704	**775 704**
Total liabilities	–	(109 330)	**(109 330)**
	–	666 374	**666 374**
Unaudited 31 March 2019			
Income	65 058	60 458	**125 516**
(Loss)/profit before taxation	(15 934)	29 792	**13 858**
Total assets	–	1 914 322	**1 914 322**
Total liabilities	–	(28 651)	**(28 651)**
	–	1 885 671	**1 885 671**
Audited 30 September 2019			
Income	65 058	42 303	**107 361**
(Loss)/profit before taxation	(15 934)	(41 161)	**(57 095)**
Total assets	–	1 400 323	**1 400 323**
Total liabilities	–	(114 445)	**(114 445)**
	–	1 285 878	**1 285 878**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS for the six months ended 31 March

BASIS OF PREPARATION

The condensed consolidated unaudited interim financial statements are prepared in accordance with the provisions of the JSE Listings Requirements for interim reports, and the requirements of the Companies Act. The JSE Listings Requirements require interim reports to be prepared on a consolidated basis in accordance with the framework concepts applicable to summarised financial statements and the measurement and recognition requirements of the 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 and to also, as a minimum, contain the information required by IAS 34 Interim Financial Reporting.

The accounting policies applied in the preparation of the condensed consolidated unaudited interim financial statements are in terms of IFRS and are consistent with those applied in the previous consolidated financial statements as at and for the year ended 30 September 2019, other than the changed policies set out in this report. The items are presented using the historical cost basis with the exception of financial assets at fair value through profit or loss, which are measured at fair value.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Group's accounting policies. The areas involving a high degree of judgement or areas where assumptions and estimates are significant to the financial statements are disclosed in the financial statements.

The Group has adopted the following amendments to standards that were effective for the first time for the financial period commencing 1 April 2019:

- IAS 28 – Investments in associates and joint ventures (no material impact on the Group).

These financial statements have been prepared under the supervision of Andrew Hannington CA (SA), Chief Financial Officer.

These financial statements and any forward-looking statements have not been reviewed or reported on by the Company's auditors, BDO South Africa Incorporated.

DISPOSALS

During the period under review, African Phoenix disposed of the following:

- Property, plant and equipment;
- Intangible assets – software;
- Residual Debt Services Limited;
- Ellerine Holdings Limited;
- RDS stub note investments; and
- The Standard General Insurance Company Limited.

The API Capital Fund was terminated, with effect from 31 December 2019, and the assets distributed to the partners.

ACQUISITIONS

No acquisitions were made during the period under review.

INVESTMENTS

	31 March 2020	31 March 2019	31 September 2019
API Capital	**–**	527 585	501 196
GEMS	**190**	45 192	190
Stangen	**–**	–	140 000
RDS stub note instruments	**–**	–	34 409
Residual Debt Services	**–**	–	–
Ellerine Holdings Limited	**–**	–	–
	190	**572 777**	**675 795**

ORDINARY SHARE CAPITAL AND PREMIUM

	31 March 2020	31 March 2019	31 September 2019
Authorised			
2 000 000 000 A ordinary shares of 2.5 cents each			
1 400 000 000 B ordinary shares of 0.01 cents each			
Issued			
1 427 005 272 A ordinary shares of 2.5 cents each	**35 675**	35 675	35 675
300 000 000 B ordinary shares of 0.01 cents each	**–**	30	30
Ordinary share premium	**14 614 254**	14 614 254	14 614 254
	14 649 929	**14 649 959**	**14 649 959**

OPERATING EXPENSES

	31 March 2020	31 March 2019	31 September 2019
Insurance operating expenses	**–**	76 782	76 782
Staff remuneration	**2 021**	11 729	12 134
Transaction costs	**–**	10 259	28 375
Non-executive directors' remuneration	**829**	1 271	2 093
Performance participation expense	**–**	–	14 685
Loss on sale of assets	**1 539**	–	–
Termination of onerous contract	**35 241**	–	–
Other costs	**11 292**	8 725	14 293
	50 922	**108 766**	**148 362**

CAPITAL AND EQUITY ACCOUNTED ITEMS

	31 March 2020	31 March 2019	31 September 2019
Fair value loss on impairment of RDS stub note investment	**–**	1 318	(11 884)
Profit on sale of RDS stub note	**6 857**	–	–
	6 857	**1 318**	**(11 884)**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS for the six months ended 31 March continued

TAXATION

	31 March 2020	31 March 2019	31 September 2019
Normal taxation	**(4 772)**	(44)	(21 770)
Deferred taxation	**–**	–	–
	(4 772)	**(44)**	**(21 770)**

RECONCILIATION BETWEEN BASIC AND DILUTED (LOSS)/EARNINGS AND HEADLINE AND DILUTED (LOSS)/EARNINGS

	31 March 2020	31 March 2019	31 September 2019
Basic (loss)/earnings attributable to ordinary shareholders	**(13 564)**	13 814	(78 865)
Adjusted for:			
Impairment of goodwill	**–**	–	–
Headline (loss)/earnings	**(13 564)**	13 814	(78 865)
Total number of shares in issue (thousands)	**1 407 005**	1 427 005	1 427 005
Weighted number of shares in issue (thousands)	**1 407 005**	1 427 005	1 427 005
Basic and diluted (loss)/earnings per ordinary share (cents)	**(0.96)**	**1.0**	**(5.53)**
Headline and diluted (loss)/earnings per ordinary share (cents)	**(0.96)**	**1.0**	**(5.53)**

FAIR VALUE HIERARCHY

The fair value of a financial instrument is the price that would be received for the sale of an asset or paid for the transfer of a liability in an orderly transaction between market participants at the measurement date. Underlying the definition of fair value is a presumption that an entity is a going concern without any intention or need to liquidate, to curtail materially the scale of its operations or to undertake a transaction on adverse terms. Fair value is not, therefore, the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distressed sale.

The fair value of financial instruments traded in active markets is based on unadjusted quoted market prices at the reporting date. A market is regarded as active if quoted prices for identical assets or liabilities are readily available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the mid-price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. These valuation techniques maximise the use of observable data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required to determine the fair value of the instrument are observable, the instruments are included in level 2.

If one or more significant inputs are not based on observable market data, the instrument is included in level 3.

The following table presents the Group's financial instruments which are presented at fair value as at 31 March 2020:

	Level 1 R'000	Level 2 R'000	Level 3 R'000	**Total R'000**
Financial assets at fair value though profit or loss				
Designated at inception:				
Investment	190	–	–	**190**
Total financial assets carried at fair value	190	–	–	**190**

The following table presents the Group's assets that are measured at fair value as at 31 March 2019:

	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
Financial assets at fair value though profit or loss				
Designated at inception:				
Investments	572 777	–	–	**572 777**
Total financial assets carried at fair value	572 777	–	–	**572 777**

The following table presents the Group's financial instruments which are presented at fair value as at 30 September 2019:

	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
Financial assets at fair value though profit or loss				
Designated at inception:				
Investments	501 386	–	–	**501 386**
Investment held for sale	174 409	–	–	**174 409**
Total financial assets carried at fair value	675 795	–	–	**675 795**

Valuation techniques applied and inputs to valuation techniques:

Financial assets at fair value though profit or loss	Valuation technique used to determine fair value	Description of significant observable inputs used in valuation technique	Description of significant unobservable inputs used in valuation technique (not applicable for level 1)	Value of significant unobservable inputs used in valuation technique (not applicable for level 1)	Recurring or non-recurring fair value measurement
Private equity investments – Listed equities, fixed income, other instruments and listed associates	Quoted market prices	Unadjusted quoted prices in an active market of underlying investments	N/A	N/A	Recurring
Private equity investments – unlisted/ Investments in associates	Technique used includes amortised cost of loans receivable and independent valuations and cost	Market-related interest rate	Unobservable inputs are mostly directors' valuations based on shareholder financial information available and interactions with management of the investee.	R190 000	Recurring

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS for the six months ended 31 March 2019 continued

OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

At 31 March 2020, there were no loans against the investments and therefore no offsetting took place.

Related-party balances and transactions

Transactions with API Capital Proprietary Limited

Until 31 December 2019, API Capital was the fund manager and received a management fee from API Capital Fund. There is a loan account in respect of expense incurred and obligations settled on the takeover of API Capital by African Phoenix.

Off-balance sheet credit risk exposure

At 31 March 2020, the directors are not aware of any off-balance sheet risk exposure.

Events subsequent to reporting date

There were no significant events subsequent to this reporting date that would require adjustment to the financial results as currently reported.