alviva HOLDINGS

Technology. Delivered.

UNREVIEWED CONDENSED CONSOLIDATED INTERIM RESULTS

for the six months ended 31 December 2018

Corporate information

Alviva Holdings Limited

incorporated in the Republic of South Africa
Registration number: 1986/000334/06
ISIN: ZAE000227484
Share code: AVV
("Alviva" or "the Company" or "the Group")

Directors:

A Tugendhaft * (Chairperson), P Spies (Chief Executive Officer),
SH Chaba*^, RD Lyon (Chief Financial Officer), N Medupe *^,
P Natesan*^ (Lead Independent Director)

** Non-executive ^ Independent*

Registered office:

The Summit, 269, 16th Road, Randjespark, Midrand, 1685

Preparer of results: RD Lyon CA

Company Secretary: SL Grobler CA (SA)

Transfer secretaries:

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

Auditors:

SizweNtsalubaGobodo Grant Thornton Inc., Registered Auditors,
Summit Place Office Park, Building 4, 221 Garstfontein Road,
Menlyn, 0081

Sponsor:

Deloitte & Touche Sponsor Services Proprietary Limited,
Building 8, Deloitte Place, The Woodlands,
20 Woodlands Drive, Woodmead, 2196

Commentary

Introduction

The Board of Directors presents Alviva's unreviewed condensed consolidated interim financial results for the six months ended 31 December 2018.

Overview

The Group has produced largely satisfactory results for the period. Revenue has grown by 20%, helped to some degree by acquisitions made over the previous 18 months. The increased profitability from these acquisitions has largely been negated by the increase in the amortisation of the intangibles, recognised as a result of the purchase price allocation exercise conducted in terms of IFRS 3: Business Combinations.

The vast majority of our operations are exposed to the South African economy and so, given that there has been little or no growth in South Africa during this period, it would be of no surprise to advise shareholders that this has been a challenging operating environment.

The decrease in the weighted average number of shares at the end of December has largely been due to our share re-purchase programme and has assisted in delivering increased returns to shareholders. Headline earnings per share were up 10% to 146,2 cents per share (cps) (H1 2018: 133,0 cps).

The increase in our working capital and the consequent low cash generated from operations is largely due to the exceptionally low stockholding at the end of June 2018 and to the increased activity of the Group.

Financial results

Segment performance

The ICT Distribution segment increased revenue by 17% and EBITDA by 16%. This has been a really good performance in a difficult market and all entities have contributed positively. The newly acquired entities, VH Fibre Optics Proprietary Limited, Obscure Enterprises Proprietary Limited and Tricon Services, have performed to or above expectations and have settled down well into the Group. Working capital at the end of December largely reflects the increase in revenue of the entities but stockholding was approximately R75 million higher than planned due to some stalled orders and stocking up for worldwide product shortages.

The **Services and Solutions segment i**ncreased its revenue by 25% but EBITDA only increased by 2%. The newly acquired entities have been successfully bedded down and performed well in line with our expectations. Datacentrix Proprietary Limited, however, had a challenging six months. There has not been any loss of customers but, in general, their customers are spending less and there were no significant projects executed during the period. The pipeline for all businesses in the segment is encouraging and all efforts are being applied to ensure a satisfactory execution into the future.

Centrafin Proprietary Limited (Financial Services segment) had a good six months with revenue growing by 6%. Initiatives set up last year are beginning to bear fruit and we are encouraged by the progress. EBITDA has decreased due to additional expenses incurred in our re-branding and diversification strategy.

Investment activities and financial position

Cash generated by operating activities in the six months was R130 million, compared to R352 million for the comparable reporting period. This decrease was due to working capital increasing by R333 million since June 2018, which is mainly due to an increase in business activity in the ICT Distribution segment as well as the timing issues mentioned earlier.

R160 million has been spent on the acquisitions finalised in the reporting period and a further R49 million has been utilised to increase our investment in Sintrex Integration Services Proprietary Limited. In addition, R53 million has been utilised to pay some of the contingent consideration, raised on acquisitions made in the previous year. There has been an increase in the finance lease receivables book of R128 million due to the positive growth in Centrafin. The share repurchase programme has continued with funds of R36 million being applied and R41 million has been returned to shareholders in the form of dividends paid.

These payments have been facilitated by using the majority of the cash resources held at the end of June 2018.

Corporate actions

Tricon Services ("Tricon")

Alviva completed the acquisition of the Services Division of Tri-Continental Limited ("Tri-Continental") on 3 September 2018 for a cash consideration of approximately R75 million. Tri-Continental is an IT-based company in London and has operated in the African market for over 30 years. Alviva has been granted the right to use the naming rights to "Tricon Services" and it operates as a division within the Group.

Tricon Services has developed a services operation with a resource complement of 200 multi-disciplined certified IT resources that spans 37 countries in Central, East and West Africa (CEWA) and southern Africa. It services an extensive network of IT partners, customers and integrators through its long-term relationship with a number of major international IT vendors and suppliers.

The transaction meets the definition of a business combination as set out in IFRS 3: Business Combinations.

Management is in the process of finalising the acquisition method of recognition in terms of the business combination as the transaction still falls within the allowable measurement period as permitted by IFRS 3: Business Combinations.

Sintrex Integration Services Proprietary Limited ("Sintrex")

On 22 October 2018, Alviva, through its subsidiary DCT Holdings Proprietary Limited ("DCT"), exercised its option to acquire a further 59 shares in Sintrex for R49 million, giving DCT a 75.3% shareholding in Sintrex. The consideration was settled in cash.

Obscure Enterprises Proprietary Limited ("Obscure")

On 27 October 2018 Alviva, through its subsidiary DCT, acquired the balance of the equity (28%) that it did not own of Obscure. As previously announced in the financial results as at and for the period ended 30 June 2018, the total purchase price would be determined and paid on a formula ("formula") that was based on the profits for the financial years ending 30 June 2020, 2021 and 2022. This has subsequently been changed by agreement between all of the parties and the purchase price will now be determined and paid on the formula based on the profits for the financial years ending 30 June 2019, 2020 and 2021. Other terms remain the same. There has not yet been any cash consideration paid to date as it is based on an earn out and remains a contingent liability based on the future profitability of Obscure.

Merlynn Intelligence Technologies Proprietary Limited ("Merlynn")

On 13 November 2018, Alviva acquired 65% of the equity of Merlynn for a total consideration of R94 million.

Merlynn is an artificial intelligence developer that is noted for its ability to "clone" specific human expertise as opposed to data mining. The Merlynn TOM technology appears to be unique in the market in this regard. Merlynn's business is to create technologies that harness human expertise in a fast, effective, and accessible manner. The focus is on the financial and insurance sectors both locally and overseas.

The transaction meets the definition of a business combination as set out in IFRS 3: Business Combinations.

Management is in the process of finalising the acquisition method of recognition in terms of the business combination as the transaction still falls within the allowable measurement period as permitted by IFRS 3: Business Combinations.

Changes to the Board and Committees

There have been no changes to the Board or any of its Committees for the period under review.

Events after the reporting period

There were no events material to the understanding of the report that occurred in the period between the reporting date and the publication date of this report.

Dividends

In line with previous periods, no interim dividend is proposed for the period under review.

Prospects and strategic initiatives

The outlook for the year to 30 June 2019 is positive with earnings per share expected to be above those of June 2018. Our new acquisitions should contribute positively to the Group although we expect business activity to remain subdued until after the general election in May 2019.

Any forward-looking statement has not been reviewed nor reported on by the Company's external auditors.

For and on behalf of the Board

A Tugendhaft
Chairperson

P Spies
Chief Executive Officer

Midrand
6 March 2019

Condensed consolidated

statement of profit or loss and other comprehensive income

	Six months ended 31 Dec 2018 R'000	Six months ended 31 Dec 2017 R'000	Twelve months ended 30 Jun 2018 Audited R'000
Revenue (note 2)	**7 721 683**	6 427 676	13 628 916
Cost of sales	**(6 398 562)**	(5 278 166)	(11 219 810)
Gross profit	**1 323 121**	1 149 510	2 409 106
Operating expenses	**(863 276)**	(746 943)	(1 588 623)
Selling expenses	**(33 197)**	(29 240) *	(61 688) *
Employee benefit expenses	**(671 807)**	(610 264)	(1 273 532)
Administration expenses	**(155 290)**	(106 707)	(237 749)
Impairment loss/(reversal) on trade receivables	**(11 929)**	295 *	(34 235) *
Profit on disposal of property, plant and equipment	**243**	567	634
Gain on discounting of finance lease agreements	**1 917**	1 565	2 656
Gain/(loss) on foreign exchange differences	**6 787**	(3 159)	15 291
EBITDA **	**459 845**	402 567	820 483
Depreciation and amortisation	**(89 058)**	(52 190)	(130 354)
Operating profit before interest	**370 787**	350 377	690 129
Net finance costs	**(64 108)**	(62 764)	(121 257)
Finance income	**22 152**	17 426	39 909
Finance costs	**(86 260)**	(80 190)	(161 166)
Profit before tax	**306 679**	287 613	568 872
Income tax expense	**(89 484)**	(80 586)	(151 548)
Profit for the period	**217 195**	207 027	417 324
– Owners of the Company	**213 729**	208 993	421 707
– Non-controlling interests	**3 466**	(1 966)	(4 383)
Other comprehensive income			
– **Items that may be reclassified to profit or loss net of tax:**	**1 636**	(1 701)	1 136
Exchange differences from translating foreign operations	**1 636**	(1 153)	1 684
Cash flow hedge	**–**	(548)	(548)
Total comprehensive income for the period	**218 831**	205 326	418 460
– Owners of the Company	**215 365**	207 292	422 843
– Non-controlling interests	**3 466**	(1 966)	(4 383)
Earnings per ordinary share (cents)			
– Basic earnings per ordinary share (note 3)	**146,3**	133,2	273,5
– Diluted earnings per ordinary share (note 3)	**143,0**	131,2	269,4

** The comparative information is presented merely for the purpose of comparison between the various reporting periods by the user. Refer to note 1 for the change in significant accounting policies.*

*** Earnings before interest, tax, depreciation and amortisation.*

Condensed consolidated statement of financial position

	As at 31 Dec 2018 R'000	As at 31 Dec 2017 R'000	As at 30 Jun 2018 Audited R'000
ASSETS			
Non-current assets	1 816 923	1 307 152	1 554 618
Property, plant and equipment	124 766	108 475	120 697
Intangible assets and goodwill	1 016 559	693 408	847 153
Investment in equity-accounted investees	64 678	–	62 077
Finance lease receivables	546 971	440 380	449 930
Deferred tax	63 949	64 889	74 761
Current assets	4 471 064	3 946 956	4 271 704
Inventory (note 8)	1 093 337	931 920	774 111
Trade and other receivables	2 905 477	2 486 594	2 537 275
Finance lease receivables	261 008	251 505	230 508
Current tax receivable	19 319	38	38 352
Cash and cash equivalents	191 923	276 899	691 458
Total assets	6 287 987	5 254 108	5 826 322
EQUITY AND LIABILITIES			
Capital and reserves	2 314 480	2 135 574	2 227 404
Stated capital	1 507	1 646	1 584
Treasury shares	(89 808)	(107 824)	(129 090)
Other equity reserves	59 164	35 713	54 268
Retained earnings	2 258 826	2 145 604	2 211 329
Non-controlling interests	84 791	60 435	89 313
Non-current liabilities	1 020 256	667 208	943 016
Interest-bearing liabilities	805 103	543 822	749 636
Non-interest-bearing liabilities	89 267	39 841	98 635
Contract liabilities	31 818	28 575	11 327
Deferred tax	94 068	54 970	83 418
Current liabilities	2 953 251	2 451 326	2 655 902
Trade and other payables	2 754 034	2 250 356	2 364 929
Interest-bearing liabilities	9 292	6 199	42 019
Non-interest-bearing liabilities	62 642	25 555	68 850
Contract liabilities	107 137	155 026	157 235
Current tax payable	20 146	14 190	22 869
Total equity and liabilities	6 287 987	5 254 108	5 826 322

ADDITIONAL INFORMATION

Capital management			
Net asset value per share (cents)	1 536,0	1 341,1	1 453,6
Net tangible asset value per share (cents)	835,7	893,0	877,7
Working capital management			
Investment in working capital (R'000)	1 137 643	1 013 132	789 222
Liquidity and solvency			
Debt to equity (%)	36,5	26,5	37,0
Current ratio (excluding inventory in transit)	1,54	1,63	1,64
Acid test (excluding inventory in transit)	1,20	1,27	1,39

This information does not form part of the statement of financial position but is disclosed as additional information for the user.

Condensed consolidated
statement of changes in equity

	Six months ended 31 Dec 2018 R'000	Six months ended 31 Dec 2017 R'000	Twelve months ended 30 Jun 2018 Audited R'000
Opening balance	**2 227 404**	2 020 223	2 020 223
Ordinary shares repurchased	**(35 701)**	(86 239)	(223 486)
Treasury shares purchased *	**–**	(9 328)	(30 598)
Total comprehensive income	**218 831**	205 326	418 460
Profit for the period	**217 195**	207 027	417 324
Other comprehensive income	**1 636**	(1 701)	1 136
– Foreign currency translation reserve movements	**1 636**	(1 153)	1 684
– Cash flow hedge reserve movements	**–**	(548)	(548)
Transactions with non-controlling interests **	**(58 620)**	41 042	71 245
Equity-settled share-based payment transaction	**3 260**	4 212	11 222
Dividend paid	**(40 694)**	(39 662)	(39 662)
Closing balance	**2 314 480**	2 135 574	2 227 404
Attributable to:			
Owners of the Company	**2 229 689**	2 075 139	2 138 091
Non-controlling interests	**84 791**	60 435	89 313

** These shares include shares purchased and not cancelled to service the forfeitable share plan.*

*** Excluding net profit attributable to non-controlling interests.*

Condensed consolidated statement of cash flows

	Six months ended 31 Dec 2018 R'000	Six months ended 31 Dec 2017 R'000	Twelve months ended 30 Jun 2018 Audited R'000
Profit before tax	**306 679**	287 613	568 872
Adjusted for:			
Finance income	**(22 152)**	(17 426)	(39 909)
Finance cost	**86 260**	80 190	161 166
Non-cash items	**92 075**	59 123	140 087
– Profit on disposal of property, plant and equipment (included in EBITDA)	**(243)**	(567)	(634)
– Depreciation and amortisation	**89 058**	52 190	130 354
– Equity-settled share-based payment expense	**3 260**	4 212	11 222
– Other non-cash items	**–**	3 288	(855)
Changes in working capital	**(333 163)**	(57 313)	218 884
Cash generated by operating activities	**129 699**	352 187	1 049 100
Net finance costs	**(64 108)**	(62 764)	(121 257)
Finance income received	**22 152**	17 426	39 909
Finance expenses paid	**(86 260)**	(80 190)	(161 166)
Tax paid	**(89 301)**	(77 559)	(186 364)
	(23 710)	211 864	741 479
Cash flows from investing activities			
Acquisition of property, plant and equipment	**(26 699)**	(18 989)	(47 394)
Proceeds on disposals of property, plant and equipment	**1 297**	585	5 059
Acquisition of intangible assets	**(6 079)**	(15 215)	(26 447)
Advances of loans to equity-accounted investees	**(2 601)**	–	(62 077)
Acquisition of subsidiaries	**(159 550)**	(150 669)	(243 069)
Net investment in finance lease receivables	**(127 541)**	(44 842)	(34 111)
	(321 173)	(229 130)	(408 039)
Cash flows from financing activities			
Proceeds from interest-bearing liabilities	**24 000**	36 000	235 619
Repayment of interest-bearing liabilities	**(6 099)**	(7 703)	–
Repayment of non-interest-bearing liabilities	**(52 576)**	400	–
Repurchase of shares	**(35 701)**	(95 567)	(254 084)
Acquisition of non-controlling interests	**(51 294)**	–	–
Dividends paid	**(40 694)**	(39 662)	(39 662)
	(162 364)	(106 532)	(58 127)
(Decrease)/increase in net cash, cash equivalents and overdrafts	**(507 247)**	(123 798)	275 313
Net cash acquired from business combinations	**6 076**	10 199	24 701
Net cash, cash equivalents at beginning of the period	**691 458**	389 760	389 760
Effects of exchange rate changes on the balance of cash held in foreign currencies	**1 636**	738	1 684
Net cash, cash equivalents at end of the period	**191 923**	276 899	691 458

Segment analysis

	Six months ended 31 Dec 2018 R'000	Six months ended 31 Dec 2017 R'000	Twelve months ended 30 Jun 2018 Audited R'000
Revenue			
ICT Distribution	**5 800 811**	4 954 474	10 440 627
Services and Solutions	**2 195 894**	1 757 821	3 685 842
Financial Services	**92 381**	87 476	175 315
Less: Intra-segment revenue	**(367 403)**	(372 095)	(672 868)
	7 721 683	6 427 676	13 628 916
EBITDA *			
ICT Distribution	**260 888**	224 894	458 509
Services and Solutions	**126 635**	124 051	235 673
Financial Services	**58 711**	61 408	115 926
Group Central Services	**13 611**	(7 786)	10 375
	459 845	402 567	820 483
Reconciliation of profit			
Segment EBITDA	**459 845**	402 567	820 483
Depreciation and amortisation	**(89 058)**	(52 190)	(130 354)
Net finance costs	**(64 108)**	(62 764)	(121 257)
Profit before tax	**306 679**	287 613	568 872
Net operating assets			
ICT Distribution	**1 142 669**	1 001 659	1 144 079
Services and Solutions	**635 343**	598 605	611 195
Financial Services	**216 407**	172 975	193 429
Group Central Services	**320 061**	362 335	278 701
	2 314 480	2 135 574	2 227 404

** Earnings before interest, tax, depreciation and amortisation.*

The segments of the entity are based on the information reported to the chief operating decision maker (CEO) and have not changed from the prior reporting period.

1. SALIENT FEATURES OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The condensed consolidated interim financial statements comprise the condensed consolidated statement of financial position at 31 December 2018, the condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows and notes for the period then ended. When reference is made to the "Group" in the accounting policies, it should be interpreted as referring to the Company, where the context requires, unless otherwise noted.

Responsibility for interim results

The Board takes full responsibility for the preparation of the condensed consolidated interim financial statements. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of the condensed consolidated interim financial statements that are free from material misstatement, whether owing to fraud or error.

Basis of preparation and statement of compliance

The condensed consolidated interim financial statements for the six months ended 31 December 2018 have been prepared in accordance with the Group's accounting policies under the supervision of the Group Financial Director, Richard Lyon CA, and comply with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards ("IFRS"), SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the Listings Requirements for interim reports of the JSE Limited, the requirements of the Companies Act of South Africa (Act 71 of 2008), as amended and, as a minimum, contain all of the information required by IAS 34: Interim Financial Reporting.

The condensed consolidated interim financial statements of the Group are prepared as a going concern on a historical basis except for certain financial instruments, which are stated at fair value as applicable.

The condensed consolidated interim financial statements do not include all the information and disclosures required in the consolidated annual financial statements, and should be read in conjunction with the Group's audited consolidated annual financial statements as at and for the period ended 30 June 2018.

Neither the condensed consolidated interim financial statements as at and for the six months period ended 31 December 2017, nor this set of condensed consolidated interim financial statements information and disclosure, have been reviewed or audited by the Company's auditors, SizweNtsalubaGobodo Grant Thornton Incorporated.

Accounting policies, estimates and judgements

The accounting policies, inclusive of reasonable judgements and assessments, applied in the condensed consolidated interim financial statements, are consistent with those applied in the preparation of the audited consolidated annual financial statements as at and for the period ended 30 June 2018 except for new standards adopted as of 1 July 2018. The accounting policies applied comply with IFRS.

The Group has initially applied IFRS 15 and IFRS 9 from 1 July 2018. Other new standards are also effectively applied from 1 July 2018 but they do not have a material effect on the condensed consolidated interim results.

IFRS 9: Financial Instruments ("IFRS 9")

The Group has taken advantage of the exemption in IFRS 9 from restating prior periods in respect of the classification and measurement (including impairment) requirements of IFRS 9.

As a result of the adoption of IFRS 9, the Group has adopted sequential amendments to IAS 1: Presentation of Financial Statements, which require the impairment of financial assets to be presented in a separate line item in profit or loss. Previously, the Group's approach was to include the impairment of trade receivables in other expenses. The reclassification presented in profit or loss is merely for the user of the condensed consolidated financial statements in relation to comparability and not regarded as a restatement.

The adoption of IFRS 9 has not had a material impact on the Group's accounting policies in relation to financial assets and liabilities.

1. SALIENT FEATURES OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

IFRS 15: Revenue from Contracts with Customers ("IFRS 15")

The Group has adopted IFRS 15 using the cumulative effect method, with the effect of initially applying this standard at the date of initial application i.e. 1 July 2018. Accordingly, information presented, as previously reported, has not been restated.

The adoption of IFRS 15 did not have a material impact on the Group's accounting policies with respect to the various revenue streams.

No other standard, interpretation or amendment that has been issued but is not yet effective, has been early adopted by the Group.

The preparation of the consolidated annual financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Changes to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

New Standards and Interpretations not yet adopted

A new standard, IFRS 16: Leases, has been issued by the International Accounting Standards Board prior to the publication of these condensed consolidated financial statements, but is only effective in future accounting periods. The impact of the assessment of this standard has been fully disclosed in the audited consolidated annual financial statements as at and for the period ended 30 June 2018. Management still assesses the impact to be material.

Presentation currency

The condensed consolidated interim financial statements are presented in South African Rands, the functional currency of the Group. All amounts are rounded to the nearest thousand, except where another rounding measure has been indicated in the condensed consolidated interim financial statements.

Comparative figures

Unless otherwise indicated, comparative figures refer to the six months ended 31 December 2017 and to the year ended 30 June 2018, respectively.

Financial risk management

The Group's financial risk management objectives and policies are consistent with those disclosed in the audited consolidated annual financial statements as at and for the year ended 30 June 2018.

2. REVENUE

The Group's operations and main revenue streams are those described in the last annual financial statements. The Group's revenue is derived from contracts with customers and the effect of initially applying IFRS 15 on the Group's interim financial statements is described in note 1.

The Group has initially applied IFRS 15 at 1 July 2018. Under the transition method chosen, comparative information is not restated.

Disaggregation of revenue

In the following table, revenue is disaggregated by sector and timing of revenue recognition. The table also includes a reconciliation of the disaggregated revenue with the Group's reportable segments (refer to segment analysis).

	Six months ended 31 Dec 2018 R'000		
Sector	**At a point in time**	**Over a period of time**	**Total**
ICT Distribution	5 705 206	95 605	5 800 811
Services and Solutions	1 394 585	801 309	2 195 894
Financial Services	–	92 381	92 381
	7 099 791	**989 295**	**8 089 086**
Less: Intra-segment Revenue			(367 403)
			7 721 683

3. FINANCIAL REVIEW

	Six months ended 31 Dec 2018	Six months ended 31 Dec 2017	Twelve months ended 30 Jun 2018 Audited
Performance per ordinary share (cents)			
Basic and diluted earnings per ordinary share			
– Basic earnings per ordinary share	**146,3**	133,2	273,5
– Diluted earnings per ordinary share	**143,0**	131,2	269,4
Headline basic and diluted earnings per ordinary share			
– Basic headline earnings per ordinary share	**146,2**	133,0	273,2
– Diluted headline earnings per ordinary share	**142,8**	131,0	269,1
Core and diluted earnings per ordinary share			
– Basic core earnings per ordinary share	**172,4**	142,8	302,2
– Diluted core earnings per ordinary share	**168,5**	140,7	297,7
Returns (%)			
Gross profit	**17,1**	17,9	17,7
Operating expenses	**(11,3)**	(11,6)	(11,7)
EBITDA *	**6,0**	6,3	6,0
Operating profit before interest and tax	**4,8**	5,5	5,1
Effective tax rate	**29,2**	28,0	26,6
Net profit	**2,8**	3,2	3,1
Return on equity	**19,9**	20,5	20,4

** Earnings before interest, tax, depreciation and amortisation.*

4. RECONCILIATION OF HEADLINE AND CORE EARNINGS

	Six months ended 31 Dec 2018 R'000	Six months ended 31 Dec 2017 R'000	Twelve months ended 30 Jun 2018 Audited R'000
Earnings attributable to ordinary shareholders	**213 729**	208 993	421 707
Profit on sale of property, plant and equipment net of tax	**(175)**	(408)	(456)
Profit on sale of property, plant and equipment	**(243)**	(567)	(634)
Less: Tax thereon	**68**	159	178
Headline earnings	**213 554**	208 585	421 251
Acquisition costs net of tax	**1 437**	1 029	2 869
Amortisation of intangible assets net of tax	**36 900**	14 454	41 910
Core earnings **	**251 891**	224 068	466 030
Number of ordinary shares in issue ('000)			
– Total number of shares in issue *	**145 160**	154 731	147 087
– Weighted average number of shares in issue *	**146 106**	156 867	154 192
– Weighted average number of shares in issue for purpose of dilution*	**149 507**	159 252	156 536

* *Adjusted for treasury shares.*

** *Core earnings per ordinary share is considered a meaningful additional measure of evaluating the performance of the Group's operations. It is based on the headline earnings measure and adjusted to exclude the amortisation cost of intangible assets recognised in terms of business combinations and related business combination acquisition costs. This is not an IFRS measure.*

5. ANALYSIS OF GOODWILL

	Six months ended 31 Dec 2018 R'000	Six months ended 31 Dec 2017 R'000	Twelve months ended 30 Jun 2018 Audited R'000
Opening balance	**564 235**	347 846	347 846
Business combinations during the period	**93 871**	113 039	216 389
Gridcars Proprietary Limited	–	2 772	–
Sintrex Integration Services Proprietary Limited	–	61 426	61 426
VH Fibre Optics Proprietary Limited	–	48 841	48 841
Obscure Enterprises Proprietary Limited	–	–	39 696
DG Store (SA) Proprietary Limited	–	–	66 426
Tricon Services	**38 265**	–	–
Merlynn Intelligence Technologies Proprietary Limited	**55 606**	–	–
Closing balance	**658 106**	460 885	564 235

6. BUSINESS COMBINATIONS

6.1 Tricon Services ("Tricon")

On 3 September 2018, Alviva, through its subsidiary Axiz Proprietary Limited, purchased the services and service desk cash-generating unit of Tri-Continental Limited ("Tri-Continental") for a cash consideration of approximately R74,55 million. Tri-Continental is an IT-based company in London and has operated in the African market for over 30 years. Alviva has been granted the right to use the naming rights to Tricon Services and it operates as a division within the Group.

Tricon has developed an operation in Central, East and West Africa (CEWA) as well as in southern Africa and continues to service an extensive channel of IT partners and customers through its long-term relationship with IBM and Lenovo. In terms of the strategy adopted by the Group, the Board of Directors identified the solutions offering of Tricon as a complimentary service line offering to current and future customers as well as synergistic end-to-end solutions within the current spectrum of services of the Group.

In the four months to the reporting date, Tricon contributed revenue of R37,7 million and profit of R7,7 million to the Group's results. If the acquisition had occurred at the beginning of the reporting period, the contributions would have remained unchanged.

The total consideration was settled in cash by way of electronic transfer during September 2018.

The fair value of the identifiable assets and liabilities included in the consolidated results of Alviva Holdings Limited on the date of acquisition, compared to the carrying amounts of the identifiable assets and liabilities recognised in the accounting records of the acquiree immediately before the acquisition, was as follows:

	Fair value recognised at acquisition date R'000	Previously recognised carrying amount by acquiree R'000
Intangible assets	50 395	–
Total assets	50 395	–
Deferred tax	(14 110)	–
Total liabilities	(14 110)	–
Identifiable net assets	36 285	
Non-controlling interest	–	
Acquirer's interest	36 285	
Purchase consideration	74 550	
Goodwill on acquisition	38 265	
Cash flow information		
Cash and cash equivalents acquired	–	

The fair values have been determined on a provisional basis. If any new information obtained within a year from the acquisition date about the facts and circumstances that existed at the acquisition date identifies adjustments to the above amounts, or any additional provisions that existed at the acquisition date, then the acquisition accounting will be revised.

No trade debtors or receivables were acquired.

The goodwill from this business combination will have no impact on the tax asset or liability of the acquirer or acquiree.

No contingent liabilities were recognised as a result of the business combination.

6. BUSINESS COMBINATIONS (continued)

6.2 Merlynn Intelligence Technologies Proprietary Limited ("Merlynn")

On 13 November 2018, the Group obtained control of Merlynn Intelligence Technologies Proprietary Limited ("Merlynn") by acquiring a 65% interest in the issued stated capital and voting rights of the company.

Merlynn is in the business of replicating and scaling human expertise through the technology of artificial intelligence. In terms of the strategy adopted by the Group, the Board of Directors identified the solutions offering of Merlynn as a complementary service line offering to current and future customers as well as synergistic end-to-end solutions within the current spectrum of services of the Group.

In the two months to the reporting date, Merlynn contributed revenue of R2,6 million and profit of R183 000 to the Group's results. If the acquisition had occurred at the beginning of the reporting period, Merlynn would have contributed revenue of R7,7 million and profit of R915 000 to the Group's results.

R85 million of the total consideration was settled in cash by way of electronic transfer during November 2018. Contingent consideration estimated at R9 million, based on the audited results of the 2020 reporting period, has been recognised. The total consideration recognised in terms of this business combination amounts to R94 million.

The fair value of the identifiable assets and liabilities included in the consolidated results of Alviva Holdings Limited on the date of acquisition, compared to the carrying amounts of the identifiable assets and liabilities recognised in the accounting records of the acquiree immediately before the acquisition, was as follows:

	Fair value recognised at acquisition date R'000	Previously recognised carrying amount by acquiree R'000
Property plant and equipment	2 750	2 750
Intangible assets	83 792	–
Investments	1	1
Deferred tax	531	531
Trade and other receivables	1 402	1 402
Cash and cash equivalents	6 076	6 076
Total assets	94 552	10 760
Other financial liabilities	(4 839)	(4 839)
Deferred tax on intangible asset: customer relationship	(23 462)	–
Trade and other payables	(435)	(435)
Contract liabilities	(6 200)	(6 200)
Current tax	(548)	(548)
Total liabilities	(35 484)	(12 022)
Identifiable net assets	59 068	(1 262)
Non-controlling interest	(20 674)	
Acquirer's interest	38 394	
Purchase consideration	94 000	
Goodwill on acquisition	55 606	
The impact on the statement of cash flows of the acquisition was as follow:		
Consideration to be settled by cash	85 000	
Cash and equivalents at acquisition date	(6 076)	
Net cash outflow of acquisition	78 924	

6. BUSINESS COMBINATIONS (continued)

6.2 Merlynn Intelligence Technologies Proprietary Limited ("Merlynn") (continued)

The total intangible assets acquired are classified as customer relationships due to the fact that the TOM software, although being separately identifiable, has no reliable determinable fair value. The customised software is continuously updated to meet the requirements of specific customers which is indicative of a close relationship between the customer relationship intangible asset and the software. Due to the fact that no active market exists for the customised internally developed software, no reliable basis for the separate measurement of the components could be determined by management.

The fair values have been determined on a provisional basis. If any new information obtained within a year from the acquisition date about the facts and circumstances that existed at the acquisition date identifies adjustments to the above amounts, or any additional provisions that existed at the acquisition date, then the acquisition accounting will be revised.

The fair value of the trade and other receivables acquired represents the future contractual amounts receivable due to the fact that none of the trade and other receivables extends beyond the contract term. Management is of the opinion that all outstanding trade and other receivables are recoverable.

The non-controlling interest related to the business combination was measured at the proportionate share of the recognised amounts of the acquiree's net identifiable assets.

The goodwill from this business combination will have no impact on the tax asset or liability of the acquirer or acquiree.

7. CHANGES TO NON-CONTROLLING INTERESTS

7.1 Sintrex Integration Services Proprietary Limited ("Sintrex")

Effective 31 October 2017, Alviva, through its subsidiary DCT Holdings Proprietary Limited ("DCT"), entered into an agreement to acquire 51% of the shareholding in Sintrex for R102 million with an option to acquire a further 24% within a two-year period following the effective date of the transaction.

The option was exercised during the current financial period and on 22 October 2018, DCT acquired the remaining 24% for an amount of R49 million.

7.2 Obscure Enterprises Proprietary Limited ("Obscure")

With effect from 1 February 2018, Alviva, through its subsidiary DCT, acquired 72% of the equity of Obscure for a total estimated contingent purchase consideration of R72 million based on future earnings.

On 27 October 2018, the Group acquired the remaining 28% of Obscure for an estimated contingent consideration of R28 million on the same terms and conditions.

8. INVENTORY ANALYSIS

	Six months ended 31 Dec 2018 R'000	Six months ended 31 Dec 2017 R'000	Twelve months ended 30 Jun 2018 Audited R'000
Inventory on hand	**900 369**	815 392	635 285
Inventory in transit	**145 754**	82 236	112 729
Work in progress	**47 214**	34 292	26 097
	1 093 337	931 920	774 111

9. FAIR VALUE HIERARCHY

A summary of the financial instruments measured at fair value is set out below.

Fair value hierarchy:

Level 1 – fair value is determined from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – fair value is determined through the use of valuation techniques based on observable inputs, either directly or indirectly.

Level 3 – fair value is determined through the unobservable inputs for the asset or liability.

The following table presents the Group's material financial instrument that is measured at fair value:

	Level	Six months ended 31 Dec 2018 R'000	Six months ended 31 Dec 2017 R'000	Twelve months ended 30 Jun 2018 Audited R'000
Contingent consideration	3	**135 168 ***	–	150 761 *

** The contingent consideration is classified as part of the non-interest-bearing liabilities in the statement of financial position.*

The fair value of financial instruments traded in active markets is based on quoted market prices, which represent actual and regularly occurring market transactions between market participants at the reporting date.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

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

The fair value of contingent consideration was determined at the reporting date using the discounted cash flow method. The inputs into the model included the expected cash flows in terms of the performance conditions of the acquirees, based on internally prepared budget and forecasted estimates, discounted at an intrinsic borrowing rate of the treasury function of the Group. Based on the expected timing of the cash flows related to the contingent consideration and the respective acquisition dates of the respective entities, the fair value at the reporting date approximates the contingent consideration recognised on the acquisition dates of the business combinations.

For all other financial assets and liabilities, the carrying value is considered to approximate the fair value.

Midrand
6 March 2019

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