alviva HOLDINGS

Technology. Delivered.

INTERIM RESULTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

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 * (chairman), 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 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 2017.

Overview

The group performed as expected in tough market conditions. We had cautioned in our previous profit announcement for the year ended 30 June 2017 that we anticipated this period to be difficult due to the uncertainty created in the political arena. Notwithstanding the market, the group has delivered excellent returns to shareholders largely due to the quality of our recent investments, mainly the acquisition of the balance of Datacentrix Holdings Limited ("Datacentrix") in February 2017 along with the investment into our share repurchase programme. These acquisitions are essentially responsible for the healthy improvement in the returns to shareholders for the period.

Further acquisitions have been finalised in the period (detailed below) and these will start to contribute more meaningfully in the ensuing reporting periods.

Financial results

The group increased revenue for the six months to December 2017, albeit by a small percentage.

Demand for infrastructural products was considerably down compared to the prior period and, although the enterprise product set remained well supported, there was a decrease in the income earned from this section of the market across all segments.

Gross profit margins increased, and we invested in certain areas of the business from which we expect future growth, which resulted in increased expenses. This left the group's operating profit marginally down at R350 million. In addition, amortisation charges in the six months to 31 December 2017 increased due to the charges related to intangibles recognised on business combinations.

Headline earnings per share was up 25% to 133,0 cents per share (cps) (H1 2017: 106,1 cps).

Segment performance

The **ICT Distribution segment** increased revenue by 4% and EBITDA by 7%.

- The segment has traded well in a difficult market.
- Working capital was well managed throughout the period, resulting in reduced finance costs.

The **Services and Solutions segment** experienced many delayed projects and were unable to repeat some of the large projects executed in the comparable period, even though the activity levels and quote registers have increased ahead of expectation over the period. Corporate and government awards appear to have been delayed due to the 'wait and see approach'.

Centrafin (Financial Services segment) continued to manage its book very well during the tougher period. Centrafin has recently undergone a refresh of its brand and, in the process, moved to new premises in Waterfall City, Midrand. We expect that this may have a short-term diminution in the return of the entity, but we are confident that we are positioning the business for growth in the longer term.

Investment activities and financial position

Cash generated by operating activities in the six months to 31 December 2017 was still healthy at R352 million.

This allowed us to invest R151 million in new businesses, repurchase a further R96 million of Alviva shares, and pay the annual dividend of R40 million.

Acquisitions

Sintrex Integration Services Proprietary Limited ("Sintrex")

Effective 31 October 2017, Alviva, through its subsidiary company DCT Holdings Proprietary Limited ("DCT"), entered into an agreement to acquire 51% of the shareholding in Sintrex for R102 million, and has an option to acquire a further 24% within a two-year period following the effective date of the transaction. Sintrex is an infrastructure management company, based in South Africa, providing end-to-end IT solutions and services. Sintrex develops IT products, services and solutions that, along with global partnerships, provide clients with the visibility and performance insight into IT infrastructure management, network management and monitoring solutions.

The Sintrex acquisition will not only add a specialised products and services offering, but also a higher margin business to the group.

Gridcars Proprietary Limited ("Gridcars")

On 31 August 2017, Alviva, through its 51%-held subsidiary Solareff Proprietary Limited, subscribed for shares in Gridcars to the value of R3 million, representing 75% of the total issued equity. Gridcars is a Pretoria-based developer of electric vehicle charge-point software management systems and supplier of charge points. Alviva believes that growing a network of charge points in South Africa will be the enabler of a carbon-free transport system. This acquisition forms part of our renewable energy business strategy.

VH Fibre Optics Proprietary Limited ("VH Fibre")

Effective 30 November 2017, Alviva, through its subsidiary company DCT, acquired 100% of the equity of VH Fibre for a total purchase consideration of R110 million. VH Fibre specialises in supplying fibre-to-the-home and fibre-to-the-building passive network solutions to its customers and has the exclusive Prysmian Group distribution agreement for South Africa.

This acquisition will give us access to the fibre infrastructure business that we had not really addressed properly and will enhance our margin in these product sets.

Changes to the board and committees

Resignation and appointment of new chairman

Following the resignation of Mr AJ Fourie, the board announced that Mr A Tugendhaft, the then current deputy chairman, had been appointed as the new non-executive chairman of Alviva. The appointment was effective 3 October 2017. Mr Tugendhaft has had a long-standing association with the company, having served the board in various capacities including non-executive director, deputy chairman and member of the remuneration committee. The board thanks Mr Fourie for his phenomenal contribution to the group over the past twenty-five years and wishes him all of the best in his future endeavours. The succession planning process, that started two years ago, has therefore been successfully implemented.

Appointment of a lead independent director

Following the annual general meeting held on 23 November 2017, Mr B Sibiya, the lead independent director, opted not to stand for re-election as a director. Ms P Natesan (38) was appointed as an independent non-executive director and lead independent director with effect from 6 December 2017. Ms Natesan was also appointed as a member of the audit and risk committee and the social and ethics committee.

Ms Natesan holds the following qualifications – BCom (Cum Laude), BCom (Honours), Chartered Accountant (SA). She joined the Institute of Directors in Southern Africa ("IoDSA") in 2010 as senior governance specialist and has served as an executive director of the IoDSA since September 2014. She serves on various committees and holds various memberships including: member of the South African Institute of Chartered Accountants, King Committee on Corporate Governance, King IV Task Team, the Institute of Directors Southern Africa and the Institute of Directors UK.

Composition of board and committees

Following the appointment of Ms Natesan, the board and committees of the board are composed as follows:

Board of directors

Mr A Tugendhaft – Chairman

Ms P Natesan – Lead independent director

Ms SH Chaba – Independent non-executive director

Ms N Medupe – Independent non-executive director

Mr P Spies – Executive director – Chief executive officer

Mr RD Lyon – Executive director – Chief financial officer

Audit and risk committee

Ms M Medupe – Chairman

Ms SH Chaba – Member

Ms P Natesan – Member

Remuneration committee

Ms SH Chaba – Chairman

Ms N Medupe – Member

Mr A Tugendhaft – Member

Social and ethics committee

Ms SH Chaba – Chairman

Ms P Natesan – Member

Mr R Nkuna – Member

Events after the reporting period

With effect 31 January 2018, Alviva, through its subsidiary DCT Holdings Limited, acquired a 72% shareholding in Obscure Enterprises Proprietary Limited ("Obscure"). Obscure provides innovative information cyber security technology and solutions to system integrators. Through the acquisition, Alviva gains access to prominent cyber security vendors, scarce cyber security skills and existing customers. The transaction is now unconditional.

Alviva, through its subsidiary Datacentrix Holdings Limited, has acquired a 70% shareholding in DG Store Proprietary Limited ("DG Store"). DG Store provides hardware and software procurement and consulting solutions to its clients, including specialised services such as product lifecycle management, highly secure cloud and hybrid data storage solutions as an on-demand backup service and cloud computing. The transaction is subject to a number of conditions precedent that are expected to be fulfilled during March 2018, including the approval of the competition commission.

Dividends

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

Prospects and strategic initiatives

The outlook for the year to 30 June 2018 is positive with earnings per share expected to be above those of June 2017. Our new acquisitions will hopefully contribute positively to the group and the renewed confidence being felt in the commercial arena should translate into greater business activity than that experienced in 2017.

For and on behalf of the board

A Tugendhaft
Chairman

P Spies
Chief executive officer

Condensed consolidated statement of profit or loss and other comprehensive income

	Half year 31 Dec 2017 Unreviewed R'000	Half year 31 Dec 2016 Unreviewed R'000	Full year 30 Jun 2017 Audited R'000
Revenue	**6 427 676**	6 345 738	12 811 498
Cost of sales	**(5 278 166)**	(5 219 096)	(10 538 710)
Gross profit	**1 149 510**	1 126 642	2 272 788
Operating expenses	**(746 943)**	(717 065)	(1 448 670)
Selling expenses	**(28 945)**	(35 546)	(103 738)
Employee benefit expenses	**(610 264)**	(577 513)	(1 156 831)
Administration expenses	**(106 140)**	(99 764)	(186 503)
Gain on discounting of finance lease agreements	**1 565**	2 248	3 702
Loss on foreign exchange	**(3 159)**	(6 490)	(5 300)
EBITDA *	**402 567**	409 577	824 118
Depreciation and amortisation	**(52 190)**	(44 996)	(90 594)
Operating profit before interest	**350 377**	364 581	733 524
Net finance costs	**(62 764)**	(54 205)	(107 037)
Investment income	**17 426**	14 718	39 453
Finance costs	**(80 190)**	(68 923)	(146 490)
Profit before tax	**287 613**	310 376	626 487
Income tax expense	**(80 586)**	(96 031)	(182 494)
Net profit for the period	**207 027**	214 345	443 993
– Owners of the company	**208 993**	178 746	405 277
– Non-controlling interests	**(1 966)**	35 599	38 716
Other comprehensive income			
– **Items that can be reclassified to profit or loss net of tax:**	**(1 701)**	3 353	3 028
Exchange differences from translating foreign operations	**(1 153)**	1 031	758
Cash flow hedge	**(548)**	2 322	2 270
Total comprehensive income for the period	**205 326**	217 698	447 021
– Owners of the company	**207 292**	182 099	408 305
– Non-controlling interests	**(1 966)**	35 599	38 716

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

Condensed consolidated statement of financial position

	31 Dec 2017 Unreviewed R'000	31 Dec 2016 Unreviewed R'000	30 Jun 2017 Audited R'000
ASSETS			
Non-current assets	**1 307 152**	1 121 779	1 079 064
Property, plant and equipment	**108 475**	118 203	104 661
Intangible assets and goodwill	**693 408**	486 447	462 703
Finance lease receivables	**440 380**	429 206	434 581
Deferred tax	**64 889**	87 923	77 119
Current assets	**3 946 956**	3 808 788	3 670 358
Inventory (note 6)	**931 920**	847 947	751 702
Derivative financial asset	**–**	1 800	3 287
Trade and other receivables	**2 486 594**	2 247 448	2 304 629
Finance lease receivables	**251 505**	222 640	210 972
Income tax receivable	**38**	6 430	10 008
Cash and cash equivalents	**276 899**	482 523	389 760
Total assets	**5 254 108**	4 930 567	4 749 422
EQUITY AND LIABILITIES			
Capital and reserves	**2 135 574**	2 484 816	2 020 223
Stated capital	**1 646**	122 988	43 359
Treasury shares	**(107 824)**	(43 047)	(98 492)
Other equity reserves	**35 713**	37 139	36 866
Cash flow hedge reserve	**–**	600	548
Retained earnings	**2 145 604**	2 037 060	2 015 491
Non-controlling interests	**60 435**	330 076	22 451
Non-current liabilities	**667 208**	479 928	585 642
Interest-bearing liabilities	**543 822**	403 077	510 145
Non-interest-bearing liabilities	**39 841**	–	–
Deferred revenue	**28 575**	14 144	39 320
Deferred tax	**54 970**	62 707	36 177
Current liabilities	**2 451 326**	1 965 823	2 143 557
Trade and other payables	**2 250 356**	1 730 206	1 974 752
Interest-bearing liabilities	**6 199**	141	5 572
Non-interest-bearing liabilities	**25 555**	–	–
Deferred revenue	**155 026**	205 802	148 818
Income tax payable	**14 190**	29 674	14 415
Total equity and liabilities	**5 254 108**	4 930 567	4 749 422
Capital management			
Net asset value per share (cents)	**1 341,1**	1 292,3	1 251,2
Net tangible asset value per share (cents)	**893,0**	1 000,6	961,4
Working capital management			
Investment in working capital (R'000)	**1 013 132**	1 159 387	932 761
Liquidity and solvency			
Debt to equity (%)	**26,5**	18,7	25,8
Current ratio (excluding inventory in transit and work in progress)	**1,63**	2,00	1,74
Acid test (excluding inventory in transit and work in progress)	**1,27**	1,60	1,42

Condensed consolidated statement of changes in equity

	Half year 31 Dec 2017 Unreviewed R'000	Half year 31 Dec 2016 Unreviewed R'000	Full year 30 Jun 2017 Audited R'000
Opening balance	**2 020 223**	2 409 517	2 409 517
Ordinary shares repurchased	**(86 239)**	(70 602)	(209 432)
Treasury shares purchased	**(9 328)**	(3 756)	–
Profit for the period	**207 027**	214 345	443 993
Other comprehensive income	**(1 701)**	3 353	3 028
– Foreign currency translation reserve movements	**(1 153)**	1 031	758
– Cash flow hedge reserve movements	**(548)**	2 322	2 270
Net movements in non-controlling interest	**41 042**	(34 694)	(598 106)
Equity-accounted share-based payment reserve movements	**4 212**	–	4 570
Dividend paid	**(39 662)**	(33 347)	(33 347)
Closing balance	**2 135 574**	2 484 816	2 020 223
Attributable to:			
Owners of the company	**2 075 139**	2 154 740	1 997 772
Non-controlling interests	**60 435**	330 076	22 451

Condensed consolidated statement of cash flows

	Half year 31 Dec 2017 Unreviewed R'000	Half year 31 Dec 2016 Unreviewed R'000	Full year 30 Jun 2017 Audited R'000
Profit before tax	**287 613**	310 376	626 487
Adjusted for:			
Interest income	**(17 426)**	(14 718)	(39 453)
Finance costs	**80 190**	68 923	146 490
Non-cash flow items	**59 123**	42 074	89 845
Changes in working capital	**(57 313)**	184 632	436 434
Cash generated by operating activities	**352 187**	591 287	1 259 803
Net finance costs	**(62 764)**	(54 205)	(107 037)
Interest income	**17 426**	14 718	39 453
Finance costs	**(80 190)**	(68 923)	(146 490)
Tax paid	**(77 559)**	(81 458)	(202 484)
	211 864	455 624	950 282
Cash flows from investing activities			
Property, plant and equipment acquired	**(18 989)**	(18 597)	(33 278)
Proceeds on disposals of property, plant and equipment	**585**	2 400	8 396
Acquisition of intangible assets	**(15 215)**	(3 275)	(5 542)
Acquisition of subsidiaries	**(150 669)**	(3 500)	–
Net investment in finance leases receivable	**(44 842)**	(65 163)	(58 870)
	(229 130)	(88 135)	(89 294)
Cash flows from financing activities			
Interest-bearing liabilities raised	**36 000**	50 000	150 000
Interest-bearing liabilities repaid	**(7 703)**	(353)	(4 007)
Non-interest-bearing liabilities raised	**400**	–	–
Derivative financial liability paid	**–**	(16 154)	–
Repurchase of ordinary shares	**(95 567)**	(74 358)	(209 433)
Non-controlling interest acquired	**–**	(34 694)	(598 107)
Dividends paid to shareholders	**(39 662)**	(33 347)	(33 347)
	(106 532)	(108 906)	(694 894)
Increase in net cash, cash equivalents and overdrafts	**(123 798)**	258 583	166 094
Net cash and cash equivalents acquired from business combinations	**10 199**	–	–
Net cash and cash equivalents at beginning of reporting period	**389 760**	222 908	222 908
Effects of exchange rate changes on the balance of cash held in foreign currencies	**738**	1 032	758
Net cash and cash equivalents at end of reporting period	**276 899**	482 523	389 760

Segment analysis

	Half year 31 Dec 2017 Unreviewed R'000	Half year 31 Dec 2016 Unreviewed R'000	Full year 30 Jun 2017 Audited R'000
Revenue			
ICT Distribution	**4 954 474**	4 751 162	9 537 040
Services and Solutions	**1 757 821**	1 772 964	3 539 563
Financial Services	**87 476**	85 887	172 237
Less: Intra-segmental revenue	**(372 095)**	(264 275)	(437 342)
	6 427 676	6 345 738	12 811 498
EBITDA *			
ICT Distribution	**224 894**	210 631	422 636
Services and Solutions	**124 051**	134 745	271 979
Financial Services	**61 408**	62 394	116 831
Group Central Services	**(7 786)**	1 807	12 672
	402 567	409 577	824 118
Reconciliation of profit			
Segment EBITDA	**402 567**	409 577	824 118
Depreciation and amortisation	**(52 190)**	(44 996)	(90 594)
Net finance costs	**(62 764)**	(54 205)	(107 037)
Profit before tax	**287 613**	310 376	626 487
Net operating assets			
ICT Distribution	**1 001 659**	1 114 464	1 019 142
Services and Solutions	**598 605**	801 167	499 213
Financial Services	**172 975**	176 304	197 254
Group Central Services	**362 335**	392 881	304 614
	2 135 574	2 484 816	2 020 223

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

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

1. STATEMENT OF COMPLIANCE, BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unreviewed condensed consolidated interim financial results for the six months ended 31 December 2017 have been prepared in accordance with the group's accounting policies under the supervision of the chief financial officer, Mr RD Lyon CA, and complies with IAS 34: Interim Financial Reporting, 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 JSE Limited Listings Requirements and the requirements of the Companies Act of South Africa (Act 71 of 2008), as amended. All new standards and interpretations that came into effect during the period were assessed and adopted with no material impact to the unreviewed consolidated interim financial results. The accounting policies, inclusive of reasonable judgements and assessments, applied in the unreviewed condensed consolidated interim financial results, are consistent with those applied in the preparation of the audited consolidated annual financial statements for the year ended 30 June 2017 and comply with IFRS.

The unreviewed condensed consolidated financial results comprise the condensed statement of financial position at 31 December 2017 and the condensed statements of profit or loss and other comprehensive income, changes in equity and cash flows for the period then ended.

The unreviewed condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the group's audited consolidated annual financial statements for the year ended 30 June 2017.

Neither the unreviewed condensed consolidated interim financial results for the six months ended 31 December 2016, nor this set of condensed financial information and disclosure, have been reviewed or audited by the company's auditors, SizweNtsalubaGobodo Inc. The directors take full responsibility for the preparation of this condensed report. Any reference to future financial performance included in this announcement has not been reviewed or reported on by the company's auditors.

The unreviewed condensed consolidated interim financial results 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.

Core earnings per share is a non-IFRS measure, which is part of the accounting policies of the group, and is based on headline earnings per share adjusted to exclude amortisation charges of intangible assets recognised on business combinations, and related transaction costs.

2. FINANCIAL REVIEW

	Half year 31 Dec 2017 Unreviewed R'000	Half year 31 Dec 2016 Unreviewed R'000	Full year 30 Jun 2017 Audited R'000
Performance per ordinary share (cents)			
Basic and diluted earnings per ordinary share			
– Basic earnings per ordinary share	**133,2**	106,5	244,2
– Diluted basic earnings per ordinary share	**131,2**	106,5	243,5
Basic and diluted headline earnings per ordinary share			
– Basic headline earnings per ordinary share	**133,0**	106,1	243,9
– Diluted headline earnings per ordinary share	**131,0**	106,1	243,2
Core and diluted core earnings per ordinary share			
– Core earnings per ordinary share	**142,8**	110,2	256,3
– Diluted core earnings per ordinary share	**140,7**	110,2	255,6
Dividend cover	**5,3**	5,4	12,2
Returns (%)			
Gross profit	**17,9**	17,8	17,7
Operating expenses	**(11,6)**	(11,3)	(11,3)
EBITDA *	**6,3**	6,5	6,4
Operating profit before interest and tax	**5,5**	5,7	5,7
Effective tax rate **	**28,0**	30,9	29,1
Net profit	**3,2**	3,4	3,5
Return on equity	**20,5**	16,9	19,9

** Earnings before interest, taxation, depreciation and amortisation.*
*** Based on profit before tax excluding share of profit of equity-accounted investee.*

3. RECONCILIATION OF HEADLINE AND CORE EARNINGS

	Half year 31 Dec 2017 Unreviewed R'000	Half year 31 Dec 2016 Unreviewed R'000	Full year 30 Jun 2017 Audited R'000
Earnings attributable to ordinary shareholders	**208 993**	178 746	405 277
Profit on sale of property, plant and equipment net of tax	**(408)**	(688)	(618)
Profit on sale of property, plant and equipment	**(567)**	(955)	(858)
Less: Tax thereon	**159**	267	240
Headline earnings	**208 585**	178 058	404 659
Acquisition costs net of tax	**1 029**	–	2 598
Amortisation of intangible assets net of tax	**14 454**	6 998	17 997
Core earnings	**224 068**	185 056	425 254
Number of ordinary shares in issue ('000)			
– Total number of shares in issue *	**154 731**	166 733	159 673
– Weighted average number of shares in issue *	**156 867**	167 858	165 944
– Weighted average number of shares in issue for purpose of dilution*	**159 252**	167 858	166 417

** Adjusted for treasury shares.*

4. ANALYSIS OF GOODWILL

	Half year 31 Dec 2017 Unreviewed R'000	Half year 31 Dec 2016 Unreviewed R'000	Full year 30 Jun 2017 Audited R'000
Opening balance	**347 846**	347 846	347 846
Business combination acquisitions	**113 039**	–	–
Closing balance	**460 885**	347 846	347 846
Business combination acquisitions			
Gridcars Proprietary Limited	**2 772**	–	–
Sintrex Integration Services Proprietary Limited	**61 426**	–	–
VH Fibre Optics Proprietary Limited	**48 841**	–	–
	113 039	–	–

5. BUSINESS COMBINATIONS

5.1 Sintrex Integration Services Proprietary Limited ("Sintrex")

On 31 October 2017, Alviva, through its subsidiary DCT Holdings Proprietary Limited, obtained control of Sintrex by acquiring a 51% interest in the issued stated capital and voting rights of the company.

Sintrex is an infrastructure management company providing end-to-end IT solutions and related services. In terms of the strategy adopted by the group, the board of directors identified the solutions offering of Sintrex 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, Sintrex contributed revenue of R14,7 million and net profit of R1,1 million to the group's results. If the acquisition had occurred at the beginning of the reporting period, Sintrex would have contributed revenue of R43,3 million and a net profit of R1,7 million to the group's results.

The total consideration of R102,1 million was settled in cash by way of electronic transfer during November 2017.

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

The carrying amounts of the identifiable assets and liabilities included in the condensed consolidated interim financial statements of Alviva immediately before the acquisition were as follows:

	Fair value recognised on acquisition R'000	Previously recognised carrying amounts R'000
Property, plant and equipment	5 443	5 443
Intangible assets	87 531	1 395
Other financial assets	775	775
Inventory	72	72
Deferred tax	2 009	2 009
Trade and other receivables	9 273	9 273
Cash and cash equivalents	12 388	12 388
Total assets	**117 491**	**31 355**
Other financial liabilities	(380)	(380)
Deferred tax on intangible asset : customer relationship	(24 429)	–
Trade and other payables	(10 351)	(10 351)
Income tax payable	(2 708)	(2 708)
Total liabilities	**(37 868)**	**(13 439)**
Identifiable net assets	**79 623**	**17 916**
Non-controlling interest	(38 991)	
Acquirer's interest	40 632	
Purchase consideration	102 058	
Goodwill on acquisition	**61 426**	
Cash flow information		
Cash and cash equivalents acquired	**12 388**	

5. BUSINESS COMBINATIONS (continued)

5.1 Sintrex Integration Services Proprietary Limited ("Sintrex") (continued)

The total intangible assets acquired are classified as customer relationships due to the fact that the Sinteligent system, 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 of 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.

DCT Holdings Proprietary Limited has a call option to purchase an additional 24% interest in the issued share capital of Sintrex. The intrinsic value of the call option was determined at 31 December 2017 in terms of a discounted cash flow model of which the following inputs were used:

- Discount rate: 17,20%
- Risk factor: 2%
- Growth rate: 10%
- Terminal growth rate: 10%.

The determined intrinsic value approximates the purchase consideration to be paid in terms of the option agreement.

5.2 VH Fibre Optics Proprietary Limited ("VH Fibre")

On 30 November 2017, Alviva, through its subsidiary DCT Holdings Proprietary Limited, obtained control of VH Fibre by acquiring a 100% interest in the issued stated capital and voting rights of the company.

VH Fibre is an infrastructure management company providing end-to-end IT solutions and related services. In terms of the strategy adopted by the group, the board of directors identified the solutions offering of VH Fibre 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 month to the reporting date, VH Fibre contributed revenue of R11,3 million and net profit of R1 million to the group's results. If the acquisition had occurred at the beginning of the reporting period, VH Fibre would have contributed revenue of R110,3 million and net profit of R9,9 million to the group's results.

R46 million of the total consideration was settled in cash in December 2017, with the remaining consideration payable over the next two years, based on the audited results of VH Fibre for the 2018 and 2019 reporting periods. The consideration due has been recorded as a loan payable, with the expected payment due during the 2019 financial year being reflected as a long-term liability, in the statement of financial position.

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

5. BUSINESS COMBINATIONS (continued)

5.2 VH Fibre Optics Proprietary Limited ("VH Fibre") (continued)

The carrying amounts of the identifiable assets and liabilities included in the condensed consolidated interim financial statements of Alviva immediately before the acquisition were as follows:

	Fair value recognised on acquisition R'000	Previously recognised carrying amounts R'000
Property, plant and equipment	3 305	3 305
Intangible assets	44 535	–
Other financial assets	716	716
Deferred tax	129	129
Trade and other receivables	45 337	45 337
Inventory	20 837	20 837
Cash and cash equivalents	14	14
Total assets	**114 873**	**70 338**
Other financial liabilities	(5 649)	(2 266)
Deferred taxation on intangible assets: customer relationship	(12 470)	–
Trade and other payables	(29 758)	(29 758)
Bank overdraft	(2 202)	(2 202)
Income tax payable	(3 635)	(3 635)
Total liabilities	**(53 714)**	**(37 861)**
Identifiable net assets	**61 159**	**32 477**
Non-controlling interest	–	
Acquirer's interest	61 159	
Purchase consideration	110 000	
Goodwill on acquisition	**48 841**	
Cash flow information		
Cash and cash equivalents acquired	**(2 189)**	

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 goodwill of 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.

5.3 Gridcars Proprietary Limited ("Gridcars")

On 31 August 2017, Alviva, through its subsidiary Solareff Proprietary Limited, obtained control of Gridcars by acquiring a 75% interest in the issued stated capital and voting rights of the company.

Gridcars is a developer of electric vehicle charge-point software management systems and supplier of charge points. The operations of Gridcars are aligned to the renewable energy strategy adopted by the group.

The total consideration of R3 million was settled in cash by way of electronic transfer during October 2017.

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.

6. INVENTORY ANALYSIS

	31 Dec 2017 Unreviewed R'000	31 Dec 2016 Unreviewed R'000	30 Jun 2017 Audited R'000
Inventory on hand	**815 392**	747 026	669 125
Inventory in transit	**82 236**	70 206	58 119
Work in progress	**34 292**	30 715	24 458
	931 920	847 947	751 702

7. 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.

	Level	Half year 31 Dec 2017 Unreviewed R'000	Half year 31 Dec 2016 Unreviewed R'000	Full year 30 Jun 2017 Audited R'000
Financial assets				
Derivative financial asset	2	–	1 800	3 287

The group has not disclosed the fair values of financial instruments measured at amortised cost as their carrying amounts closely approximate their fair value.

There were no other financial instruments measured at fair value that were individually material at the end of the current reporting period.

Midrand
5 March 2018

Sponsor:
Deloitte & Touche Sponsor Services Proprietary Limited

www.alvivaholdings.com