For Immediate Release

Ellies restructuring to set Group on path to recovery; maintains revenue despite market challenges

Turnover	**R1 331m**	**Deteriorated by 2%**
Loss for the year	**R249m**	**Improvement of 52%**
Cashflow from Operating activities	**R53m**	**Improvement of 330%**
Headline loss per share for the year (cents)	**(7,45)**	**Improvement of 87%**

Johannesburg, 28 July 2017 – Ellies Holdings Limited ("Ellies") a leading South African manufacturer, wholesaler, importer and distributor in diversified sectors servicing the local and African markets, today released its results for the year ended 30 April 2017. According to Ellies CEO, Wayne Samson, the year under review has been enormously challenging for Ellies, which is reflected in the poor results for the period. "Nonetheless, we managed to maintain revenue at approximately R1.3 billion despite the top-line pressures and the difficulty in operating in an import-driven inflationary environment, coupled with the depressed macro-economic environment in South Africa, and the significant restructuring of our business."

Samson added that a predominant theme during the year under review was the financial effects of the unwinding of the Infrastructure segment, which was put into effect during the previous financial year to de-risk the Group. "The unwinding resulted in R163,4 million being declared a net loss as a result of Loss of Control in the respective companies that were deconsolidated, and a R17,5 million performance guarantee was presented on Botjheng by Lombard Insurance Company Limited."

All that remains in the Infrastructure segment is Botjheng Water Proprietary Limited (Botjheng), which is still carried on the balance sheet as an operating company in this segment. Samson explained that had Botjheng been deconsolidated as at 30 April 2017, this would have resulted in a net profit on deconsolidation of R83 million, being the net losses previously recognised. "Botjheng is being kept operational on a low-cost base with the sole purpose of completing legacy projects and to enable it to continue its claim against a partner, both of which should be completed by the end of April 2018. This will allow us to deconsolidate Botjheng at that time."

In releasing this year's results Samson also noted that to facilitate a meaningful analysis, the various components in the business segments had been split up at a more granular level to shed more light on performance.

Consumer Goods segment

The Consumer segment started a course of restructuring its operations in the last financial year. "We've embarked on a path of centralising computer systems, debtors, creditors and HR, and are also busy outsourcing the warehousing and distribution of our products to our retailers via Super Group. The warehousing and distribution to independents and installers will remain at the Ellies branches. We believe that this restructuring will bring significant savings to the company, with a reduction in both employee and infrastructure costs." The company embarked on a section 189A retrenchment process in February 2017.

He added that a meaningful highlight, with the support of Standard Bank, has been the restructuring of the Group's banking facilities. "This gives Ellies the ability to absorb the Megaton contamination, with up to R170 million of debt being extended to a term of five years (R85 million of which will be a bullet loan and R85 million an amortising loan), with a general short-term loan facility of R135 million in place. The financial covenants to be maintained have also been reset to levels that management is confident are achievable during the duration of the facilities."

The continuing downturn in the economy, as well as the sustained decrease in consumer spending, severely affected the segment, said Samson. "We managed to maintain turnover at R1,300 billion, in line with R1,328 billion for the year ended 30 April 2016. Nevertheless, the gross margin – notwithstanding the higher charge from for inventory impairments during this year – was where the effects of the economy became evident."

Gross profit as at 30 April 2017 was at R352 million (27%), down from R411 million (31%) for the previous year. The segment returned a loss for the year before interest and tax of R43 million, against a profit of R47 million.

Samson said this should be seen in light of the impairments that were put through during this year, which may not be recurring to the extent recognised this year. These are:

- Impairment of properties: R17,2 million (2016: R0)
- Impairment of goodwill relating to branches: R2.2 million (2016: R0)
- Impairment of loans to associates: R15,4 million (2016: R0)
- Impairment of inventory: R50 million (2016: R8.46 million)
- Retrenchment costs provision: R11 million (2016: R0)

Ellies Electrical also felt the impact of the retail slowdown, with many of its product categories showing a decline. "Electrical, which is a large category, showed a deterioration due to the above, which was exacerbated by the entry of new competitors. The regulation of this industry remains a concern as we see an increased number of non-conforming products in the market."

The lighting segment, even though increasing retail shelf space, showed a decrease due to deflationary factors in product cost and because duties fell sharply from 20% to 0% in January 2017. "We have had to reduce our selling prices due to this reduction and absorb the loss. The corporate lighting division has, however, made satisfactory progress and increases sales every month as business owners and property owners see the benefit of lower electricity bills and more efficient lighting. Our technology partner keeps us ahead of the technology curve as we lead in efficiency, price and efficacy, and we've added more sales people in this area to bolster and grow sales. We still believe the lighting segment to be a significant contributor in the not-too-distant future."

Samson added: "The antenna segment all but disappeared given the past uncertainty relating to the Digital Migration, but we are confidence that there will be a revival in the category soon as the government's drive to install the DTT product accelerates. We should see this start from August 2017. Once traction is found, we have no doubt that DTT will be introduced into retail as demand grows."

Elsat (Ellies satellite brand) saw an increase in sales as MultiChoice sales increased into the lower LSM bands. Ellies is also readying itself for innovative technology entrants in IP TV and fibre signal distribution. "We will continue to strive to be the leaders in enabling TV viewing in whichever format is available in South Africa."

Infrastructure segment
As mentioned, this segment has largely been deconsolidated as a result of loss of control and or disposals, with the only operating company held on the balance sheet being Botjheng. This segment had the biggest bearing on the results for the year under review. This includes the R163,4 million net loss as a result of loss of control, in the respective companies that were deconsolidated.

Dividend policy
The dividend policy will be reviewed periodically, considering prevailing circumstances and future cash requirements. In view of the Group's financial position, no dividend is proposed at this stage.

Going concern
The Directors believe that the Group, as consolidated, has access to adequate resources to continue in operation for the foreseeable future and accordingly the annual financial statements have been prepared on a going concern basis.

In reaching this conclusion the Board considered the real drivers on this assumption, being the cash flows for the ensuing year, in particular those of the consumer segment and assumptions embedded therein, together with the restructure of the Group's banking facilities, the essence being the ability of the company to absorb the Megaton contamination, up to R170 million of debt being extended to a term of five years (R85 million of which will be a bullet loan and R85 million an amortising loan), with a general short-term loan facility of R135 million.
The Board also applied its mind to the levels of the financial covenants to be maintained, which in their view have been reset to levels that reflect the base case financial performance outlook and the conditions precedence of the term sheet all of which are deemed under management's control.

Other factors considered by the Board included that Ellies has a net asset carrying value of circa R271 million, and a tangible net asset value R220 million. The potential contamination from the Infrastructure segment is more fully understood and provided for where applicable, and the fact that the only operating company held on the balance sheet for the infrastructure segment is Botjheng.

Conclusion

In conclusion, Samson said this year had seen unprecedented changes to Ellies, which management is confident will steer the Group to improved performance and success in the market. "We are investing in several new initiatives to ensure the brand remains a significant player in South Africa. With the continued support of our employees, there is no doubt we will succeed."

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