ELLIES HOLDINGS LIMITED

ABRIDGED AUDITED RESULTS 2017 AND NOTICE OF ANNUAL GENERAL MEETING

Improvement ⬆ **Deterioration** ⬇

Turnover (Rm) **1 331** ⬇ 2%

Loss for the year (Rm) **(249)** ⬆ 52%

Cash flow from operating activities (Rm) **53** ⬆ 330%

Headline loss per share for the year (cents) **(7,45)** ⬆ 87%

Statements of financial position
as at 30 April 2017

	Group 2017 R'000	Group 2016 R'000
ASSETS		
Non-current assets	**148 691**	328 934
Property, plant and equipment	**76 492**	124 567
Goodwill	**51 438**	53 672
Intangible assets	**–**	2 778
Investment in associates	**–**	10 514
Other financial assets	**–**	129 406
Deferred taxation	**20 761**	7 997
Current assets	**612 723**	917 894
Inventories	**374 502**	503 659
Trade and other receivables	**221 840**	299 072
Amounts due from contract customers	**–**	73 202
Taxation receivable	**1 161**	3 489
Bank and cash balances	**15 220**	38 472
Non-current assets held for sale/distribution	**27 130**	16 567
Infrastructure segment	**–**	10 900
Consumer segment	**27 130**	5 667
Group disposals held for sale/distribution	**–**	27 922
Infrastructure segment	**–**	27 922
Total assets	**788 544**	1 291 317
EQUITY AND LIABILITIES		
Total shareholders' interests	**270 906**	519 288
Stated capital	**837 212**	837 212
Non-distributable reserves	**(176 532)**	(177 635)
(Accumulated loss)/Retained earnings	**(382 594)**	(138 834)
Equity attributable to equity holders of the parent	**278 086**	520 743
Non-controlling interests	**(7 180)**	(1 455)
Non-current liabilities	**32 806**	142 074
Interest bearing liabilities	**30 689**	136 396
Deferred taxation	**2 117**	5 678
Current liabilities	**484 832**	589 726
Interest bearing liabilities	**6 700**	14 078
Vendor loan payable	**3 000**	3 000
Loans payable to subsidiary external shareholders	**2 000**	2 098
Trade and other payables	**200 300**	419 576
Amounts due to contract customers	**–**	1 289
Provisions	**75 576**	12 319
Taxation payable	**886**	708
Third party loan	**75 960**	–
Shareholders for dividends	**–**	35
Bank overdrafts	**120 410**	136 623
Group disposals held for sale/distribution	**–**	40 229
Infrastructure segment	**–**	40 229
Total equity and liabilities	**788 544**	1 291 317

Statements of cash flows
for the year ended 30 April 2017

	Group 2017 R'000	Group 2016* R'000
Cash flows from operating activities	**52 546**	(23 027)
Cash generated from operations	**103 541**	146 233
Interest received	**2 885**	989
Interest paid	**(23 419)**	(26 052)
Taxation received	**884**	22 004
Dividends paid	**(35)**	–
Cash flows – continuing operations	**83 856**	143 174
Cash flows – discontinued operations	**(31 310)**	(166 201)
Cash flows from investing activities	**(19 012)**	(463)
Acquisitions of property, plant and equipment	**(9 065)**	(6 898)
Proceeds on disposal of property, plant and equipment	**6 960**	12 007
Loss of control*	**(9 575)**	–
Loan to associate	**(7 293)**	(3 104)
Cash flows – continuing operations	**(18 973)**	2 005
Cash flows – discontinued operations	**(39)**	(2 468)
Cash flows from financing activities	**(40 573)**	31 747
Repayment of interest bearing liabilities	**(39 863)**	(146 063)
Repayment of vendor loans	**–**	(938)
Loans paid to subsidiary external shareholders	**(98)**	(130)
Proceeds from the issue of additional stated capital	**–**	178 878
Cash flows – continuing operations	**(39 961)**	31 747
Cash flows – discontinued operations	**(612)**	–
Net (decrease)/increase in cash and cash equivalents	**(7 039)**	8 257
Cash and cash equivalents at beginning of year	**(98 151)**	(106 408)
Cash and cash equivalents at end of year	**(105 190)**	(98 151)
Cash and cash equivalents consist of:		
Bank and cash balances	**15 220**	38 472
Continuing operations	**15 220**	38 472
Bank overdrafts	**(120 410)**	(136 623)
Continuing operations	**(120 410)**	(136 623)
	(105 190)	(98 151)

** Restated as a result of discontinued operations*

Notes to the abridged audited results

Approval of financial statements

The financial statements have been approved by the Board and abridged for purposes of this report. Grant Thornton Johannesburg Partnership has signed an unqualified audit opinion on the annual financial statements. Both the financial statements and the auditor's report are available for inspection at the Company's registered office.

This abridged report is extracted from audited information, but is not itself audited.

The auditor's report does not necessarily cover all of the information contained in this announcement. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditor's work they should obtain a copy of the report together with the accompanying financial information from the registered office of the Company.

Supplementary information

The consolidated financial statements have been prepared in accordance with IAS 34: Interim Financial Reporting, International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the requirements of the South African Companies Act and the JSE Listings Requirements. The same accounting policies, presentation and measurement principles have been followed in the preparation of this abridged report as were applied in the preparation of the Group's annual financial statements for the year ended 30 April 2016. These results have been compiled under the supervision of the CFO, AL Bock, CA (SA). The directors of Ellies take full responsibility for the preparation of the abridged report and ensuring that the financial information has been correctly extracted from the underlying financial statements.

Deconsolidation loss as a result of a loss of control

Megatron SA Proprietary Limited ('Megatron') was placed under the control of a business rescue practitioner by order of the court, and Megatron Towers Proprietary Limited was placed under the control of a liquidation practitioner by order of the court with the resultant effect that the control of the respective companies now rests with appointed practitioners, and in terms of IFRS 10 should be deconsolidated due to loss of control.

The Statement of profit and loss and other comprehensive income and Statements of cash flows are restated for the comparative period in terms of IFRS 5.

Changes to the Board

Executive director Raymond Berkman and non-executive director Malcolm Goodford resigned from the Board of Directors with effect from 30 November 2016 in order to facilitate the reduction of the size of the Board of Directors. We thank them for their many years of service and dedication to the company.

Commentary

Following Megatron going into business rescue, Megatron Towers Proprietary Limited being placed into liquidation and the disposal of Megatron Engineering Namibia Proprietary Limited, the focus of the Ellies group is now largely on the Consumer segment, which encompasses goods and services, properties and manufacturing.

Operations – current year

The year under review was enormously challenging for Ellies, which is reflected in the poor results for the period. The Group managed to successfully minimise the risk arising from future financial exposure to the Infrastructure segment, with only Botjheng Water Proprietary Limited ('Botjheng') still carried on our balance sheet as an operating company. Had Botjheng been deconsolidated as at 30 April 2017, it 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.

During the financial year, on a comparable basis, we managed to maintain revenue at approximately R1.3 billion, notwithstanding 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. To facilitate meaningful analysis, we have split up the various components in the segment report at a more granular level. This should shed more light on the performance of the various components.

A predominant theme during the year under review was the financial effects of the unwinding of the Infrastructure segment. The results include the following:

- R163,4 million is the net loss as a result of Loss of control in the respective companies that were deconsolidated.
- R17,5 million is the performance guarantee that was presented on Botjheng by Lombard Insurance Company Limited ('Lombard').

Statements of profit and loss and other comprehensive income
for the year ended 30 April 2017

	Group 2017 R'000	Group 2016* R'000
Continuing operations		
Revenue	**1 331 266**	1 362 761
Cost of sales	**(995 245)**	(956 609)
Gross profit	**336 021**	406 152
Other income	**10 153**	10 368
Operating expenses	**(360 113)**	(388 000)
Depreciation	**(10 564)**	(13 555)
Amortisation of intangible assets	**(397)**	(397)
Operating (loss)/profit before impairments	**(24 900)**	14 568
Impairment of intangible assets	**(2 381)**	–
Impairment of assets	**(17 181)**	–
Impairment of loan to associate	**(15 380)**	–
Impairment of goodwill	**(2 234)**	–
(Loss)/profit from operations	**(62 076)**	14 568
Interest received	**2 885**	2 464
Interest paid	**(23 446)**	(27 516)
Share of losses from associates	**(2 427)**	(2 601)
Loss before taxation	**(85 064)**	(13 085)
Taxation	**14 247**	(1 577)
Loss for the year: continuing operations	**(70 817)**	(14 662)
Loss for the year: discontinued operations	**(178 668)**	(500 103)
Loss for the year	**(249 485)**	(514 765)
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss		
– Foreign currency translation reserve	**(449)**	128
Total comprehensive loss for the year	**(249 934)**	(514 637)
Attributable to:		
Equity holders of the parent	**(245 986)**	(512 205)
Non-controlling interests	**(3 499)**	(2 560)
Net loss after tax	**(249 485)**	(514 765)
Attributable to:		
Equity holders of the parent	**(246 435)**	(512 077)
Non-controlling interests	**(3 499)**	(2 560)
Total comprehensive loss for the year	**(249 934)**	(514 637)
** Restated as a result of discontinued operations*		
Supplementary information		
Basic loss per share (cents)	**(39,67)**	(87,78)
– Infrastructure continuing operations	**(3,27)**	(84,49)
– Infrastructure discontinued operations	**(28,81)**	(6,44)
– Consumer continued operations	**(7,59)**	3,16
Headline loss per share (cents)	**(7,45)**	(57,35)
– Infrastructure continuing operations	**(2,89)**	(54,11)
– Infrastructure discontinued operations	**(2,47)**	(6,44)
– Consumer continued operations	**(2,09)**	3,20
The calculation of earnings per ordinary share for the Group is based on the following:		
– Basic loss (R000's)	**(245 986)**	(512 205)
– Headline loss (R000's)	**(46 202)**	(334 671)
– Weighted average number of shares in issue	**620 158 235**	583 533 394
Shares in issue (number of shares):		
– At end of the year	**620 158 235**	620 158 235

	Group 2017 R'000	Group 2016* R'000
Reconciliation of headline loss:		
Net loss for the year attributable to equity holders of the parent	**(245 986)**	(512 205)
Adjusted for:		
Loss/(profit) on sale of property, plant and equipment	**(1 063)**	6 097
– Infrastructure continuing operations	**(51)**	–
– Infrastructure discontinued operations	**–**	5 771
– Consumer continued operations	**(1 012)**	326
Profit on sale of component infrastructure division	**–**	3 789
Impairment of intangibles – Consumer operations	**2 381**	–
Impairment of goodwill – Infrastructure continuing operations	**2 234**	170 416
Loss as a result of loss of control	**163 373**	–
Impairment of assets	**17 181**	–
Impairment of loans to associates	**15 380**	–
Tax effect on adjustments	**298**	(2 768)
Headline loss attributable to ordinary shareholders	**(46 202)**	(334 671)

** Restated as a result of discontinued operations*

Segmental analysis
for the year ended 30 April 2017

	Group 2017 R'000	Group 2016* R'000
Revenue	**1 382 760**	1 643 177
Infrastructure	**52 779**	314 885
– Total – continuing operations	**1 285**	34 469
– Total – discontinuing operations	**51 494**	280 416
Consumer – continuing operation	**1 329 981**	1 328 292
– Total – continuing operations	**1 329 981**	1 328 292
Segmental profits/(losses) from operations		
Operation loss	**(236 894)**	(433 542)
Infrastructure – continuing operation	**(19 156)**	(32 989)
Infrastructure – discontinuing operation	**(174 817)**	(448 110)
Consumer goods – continuing operation	**(25 796)**	28 227
Property division – continuing operation	**(14 703)**	7 404
Manufacturing – continuing operation	**(2 422)**	11 926
Interest received	**2 985**	18 549
Infrastructure – continued operation	**18**	136
Infrastructure – discontinued operation	**100**	16 085
Consumer goods – continued operation	**2 867**	2 315
Manufacturing – continuing operations	**–**	13
Interest paid	**(27 397)**	(43 489)
Infrastructure – continued operation	**(677)**	(95)
Infrastructure – discontinued operation	**(3 951)**	(15 973)
Consumer goods – continued operation	**(2 789)**	(8 130)
Property division – continued operations	**(8 592)**	(8 341)
Manufacturing – continuing operations	**(11 388)**	(10 951)
Loss before taxation**	**(263 732)**	(461 083)

** Restated as a result of discontinued operations*

*** Share of losses from associates excluded*

Statements of changes in equity
for the year ended 30 April 2017

	Stated capital R'000	Non-distributable reserves R'000	Retained earnings R'000	Equity attributable to equity holders of the parent R'000	Non-controlling interests R'000	Total equity R'000
Group:						
Balances as at 1 May 2015	658 334	(177 763)	383 667	864 238	(9 191)	855 047
Issue of additional shares	178 878	–	–	178 878	–	178 878
Total comprehensive income for the year	–	128	(512 205)	(512 077)	(2 560)	(514 637)
Change of control: Transfer of non-controlling interests	–	–	(10 296)	(10 296)	10 296	–
Balances as at 30 April 2016	**837 212**	**(177 635)**	**(138 834)**	**520 743**	**(1 455)**	**519 288**
Total comprehensive loss for the year	**–**	**(449)**	**(245 986)**	**(246 435)**	**(3 499)**	**(249 934)**
Loss on loss of control	**–**	**1 402**	**2 226**	**3 628**	**(2 226)**	**1 402**
Share based payment reserve	**–**	**150**	**–**	**150**	**–**	**150**
Balances as at 30 April 2017	**837 212**	**(176 532)**	**(382 594)**	**278 086**	**(7 180)**	**270 906**

The Consumer segment started a course of restructuring its operations in the last financial year. The Company has embarked on a path of centralising computer systems, debtors, creditors and human resources. We 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.

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 Megatron contamination, with up to R170 million of debt being extended to a term of five years, 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.

Consumer

The continuing downturn in the economy, as well as the sustained decrease in consumer spending, severely affected the segment. We managed to maintain turnover at R1,330 billion, (in line with R1,328 billion for the year ended 30 April 2016). The gross margin, notwithstanding the higher charge for inventory impairments during this year is where the effects of the economy became evident, with gross profit as at 30 April 2017 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.

The above should be seen in light of the following impairments that were put through during this year, which may not be recurring to the extent recognised this year:

- 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 also felt the impact of the retail slowdown, with many of our 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 in line with 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. The Group has 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.

The antenna segment all but disappeared given the past uncertainty relating to Digital Migration, but we are confident that there will be a revival in the category in the near future 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 in 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

This segment had the biggest bearing on the results for the year under review. This includes a R178,7 million net loss recognised in the financial year, for the respective companies that were deconsolidated.

The only operating company held on the balance sheet at year end was Botjheng which incurred a cost of R17,5 million for a performance guarantee that was presented on it by Lombard's.

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 *inter alia* 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 banking facilities, the essence thereof being the ability of the Company to absorb the Megatron contamination, up to R170 million of debt being extended to a term of 5 years, 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 precedent of the term sheet all of which are deemed to be under managements' control.

Other factors the Board further considered include:

The Group has a net asset carrying value of circa R271 million, and a tangible net asset value of 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 Water Proprietary Limited. Had the deconsolidation of Botjheng taken place at 30 April 2017 it would have released a profit on loss of control of R83 million.

Subsequent events

On 12 July 2017 Ellies signed a Term Sheet with The Standard Bank of South Africa Limited – the effect thereof was to restructure the debt facility such that *inter alia*, Ellies has the ability to absorb the expected Infrastructure segment contamination of R60 million, the duration of up to R170 million of debt being extended to a term of 5 years, (R85 million of which will be a bullet loan and R85 million an amortising loan), with a further general short term loan facility of R135 million, thus in total providing Ellies with funding lines of R305 million.

The levels of the financial covenants to be maintained over the duration of the facility have also been reset to levels that reflect the base case financial model and financial performance outlook and the conditions precedent of the term sheet all of which are deemed under managements' control.

Ellies also entered into contracts to sell certain non core properties.

No material other subsequent events occurred that require further disclosure.

Appreciation

As always, we would like to thank our executive and non-executive directors for their commitment, direction and assistance, as well as our customers, suppliers and business partners for their ongoing support. As mentioned, we also owe a debt of gratitude to the leadership team, our management teams and our staff members for their hard work and tenacity under trying circumstances.

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.

Notices

Availability of Integrated Annual Report and Broad-based black economic empowerment annual compliance report. The Company's Integrated Annual Report, incorporating the audited annual financial statements for the year ended 30 April 2017 and the Company's annual compliance report in terms of section 13G(2) of the Broad-based Black Economic Empowerment Act 53 of 2003 (read with the Broad-based Black Economic Empowerment Amendments Act 46 of 2013, have been published and will be available on the Ellies website on Monday, 31 July 2017.

Notice is hereby given that the Annual General Meeting of shareholders ("Annual General Meeting" or "AGM") of Ellies Holdings Limited ("Ellies" or "the Company") will be held at 94 Eloff Street Ext, Village Deep, Johannesburg, 2001 on Friday, 8 December 2017 at 11:00. The last day to trade in order to be eligible to participate in and vote at the AGM is Tuesday, 28 November 2017 and the record date for voting purposes is Friday, 1 December 2017. The summarised audited financial information for the year ended 30 April 2017, together with the notice of AGM will be dispatched to shareholders on Monday, 31 July 2017.

Conclusion

In conclusion, this year has seen unprecedented changes to Ellies, which we are confident will steer the Group to improved performance and success in the market. We are investing in several new initiatives as mentioned in this report to ensure that the brand remains a significant player in South Africa. With the continued support of our employees, we have no doubt that we will persevere.

By order of the Board

ER Salkow
Chairman

W Samson
CEO

28 July 2017

Ellies Holdings Limited
(Registration number 2007/007084/06)
JSE share code: ELI
ISIN: ZAE000103081
("Ellies" or "the Company" or "the Group")

Executive directors
ER Salkow (Chairman)
WMG Samson (Chief executive officer)
AL Bock (Chief financial officer)

Lead independent non-executive:
OD Fortuin

Independent non-executive:
S Goldberg
FS Mkhize

Non-executive:
MJ Kuscus

The following Directors resigned during the year:
MR Goodford
RH Berkman

Registered office
94 Eloff Street Ext, Village Deep,
Johannesburg, 2001
(PO Box 57076, Springfield, 2137)

Sponsor
Java Capital

Auditors
Grant Thornton Johannesburg Partnership

Company Secretary
CIS Company Secretaries (Pty) Limited

Transfer secretaries
Computershare Investor Services (Pty) Limited

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