

ELLIES HOLDINGS LIMITED

Provisional Reviewed Group Results for the year ended 30 April 2016

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

ELLIES ELECTRONICS (PTY) LTD

MEGATRON SA (PTY) LTD

Continuing operations: Improvement ↑ Deterioration ↓

Revenue	Group ↓ 0.52%	LAT	Group ↑ 56.32%	LPS	Group ↑ 3.72%	HLPS	Group ↑ 31.11%	NAV	Group ↓ 52.05%
	Infrastructure ↑ 25.98%	LAT	Infrastructure ↓ 99.31%	LPS	Infrastructure ↓ 22.30%	HLPS	Infrastructure ↑ 8.72%		Infrastructure ↓ 94.29%
	Consumer ↓ 4.37%	PAT	Consumer ↑ 131.74%	PPS	Consumer ↑ 120.26%	HPPS	Consumer ↑ 121.42%		Consumer ↑ 8.53%

Condensed consolidated statement of financial position

	Reviewed as at 30 April 2016 R'000	Audited as at 30 April 2015 R'000
ASSETS		
Non-current assets	**328 934**	248 631
Property, plant and equipment	**124 567**	23 254
– Land and buildings	**76 891**	–
– Other	**47 676**	23 254
Goodwill and other intangibles	**56 450**	173 407
Investment in associates	**10 514**	–
Other financial assets	**129 406**	1 144
Deferred taxation	**7 997**	50 826
Current assets	**934 461**	536 100
Inventories	**503 659**	15 824
Trade and other receivables	**299 072**	132 584
Amounts due from contract customers	**73 202**	348 615
Taxation receivable	**3 489**	29 267
Other current assets	**–**	–
Bank and cash balances	**38 472**	9 810
Non-current assets held for sale	**16 567**	–
Group disposals held for sale/distribution	**27 922**	948 784
Infrastructure segment (Note 1)	**27 922**	49 517
Consumer and property segment*	**–**	899 267
Total assets	**1 291 317**	1 733 515
EQUITY AND LIABILITIES		
Total shareholders' interests	**519 288**	855 047
Stated capital	**837 212**	658 334
Share capital	**837 212**	658 334
Share premium	**–**	–
Non-distributable reserves	**(177 635)**	(177 763)
Non-distributable reserve – common control	**(177 635)**	(177 763)
Accumulated profits	**(138 834)**	383 667
Equity attributable to equity holders of the parent	**520 743**	864 238
Non-controlling interests	**(1 455)**	(9 191)
Non-current liabilities	**142 074**	96 210
Interest-bearing liabilities	**136 396**	95 260
Deferred taxation	**5 678**	950
Current liabilities	**589 726**	211 294
Interest-bearing liabilities	**14 078**	210
Vendor loan payable	**3 000**	3 000
Shareholder loans payable	**2 098**	311
Trade and other payables	**419 576**	186 915
Amounts due to contract customers	**1 289**	13 662
Provisions	**12 319**	7 116
Taxation payable	**708**	45
Shareholders for dividends	**35**	35
Bank overdrafts	**136 623**	–
Group disposals held for sale/distribution	**40 229**	570 964
Infrastructure segment (Note 2)	**40 229**	4 444
Consumer and property segment	**–**	566 520
Total equity and liabilities	**1 291 317**	1 733 515

** The Consumer and property segment was classified as 'Group disposals held for sale/distribution' in the 2015 financial year. This is no longer the case for the 2016 financial year. IFRS 5 does not require a restatement of the balance sheet for the 2015 financial year.*

	Reviewed as at 30 April 2016 R'000	Audited as at 30 April 2015 R'000
Supplementary information:		
Shares in issue at end of year (number of shares)	**620 158 235**	453 057 398
Net asset value per share (cents)	**83.97**	190.76
Tangible net asset value per share (cents)	**74.74**	140.70
Note 1 – Assets: Infrastructure segment held for sale/distribution		
Non-current assets	**3 742**	8 674
Property, plant and equipment	**3 742**	5 545
– Other	**3 742**	5 545
Goodwill and other intangible assets	**–**	3 129
Current assets	**24 180**	40 843
Inventories	**10 254**	40 810
Trade and other receivables	**13 926**	33
	27 922	49 517
Note 2 – Liabilities: Infrastructure segment held for sale/distribution		
Current liabilities	**40 229**	4 444
Trade and other payables	**40 229**	4 444
	40 229	4 444

Condensed consolidated statement of profit and loss and other comprehensive income

	Reviewed year ended 30 April 2016 R'000	Audited year ended** 30 April 2015 R'000
Revenue	**1 581 911**	1 590 247
Loss before interest, taxation, depreciation and amortisation ("EBITDA")	**(203 243)**	(255 731)
Depreciation	**(13 979)**	(16 378)
Amortisation of intangibles	**(397)**	(865)
Impairment of goodwill	**(170 416)**	(34 428)
Loss before interest and taxation	**(388 035)**	(309 953)
Interest received	**17 149**	11 574
Interest paid	**(42 088)**	(61 121)
Loss before taxation ("LBT")	**(415 575)**	(362 229)
Taxation	**(66 424)**	53 892
Loss for the year from continuing operations	**(481 999)**	(308 337)
Discontinued operations – Infrastructure segment (Note 3)	**(32 766)**	(24 769)
Loss for the year	**(514 765)**	(333 106)
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss		
– Foreign currency translation reserve	**128**	(419)
Total comprehensive loss for the year	**(514 637)**	(333 525)
Attributable to:		
Equity holders of the parent	**(512 205)**	(326 972)
Non-controlling interests	**(2 560)**	(6 134)
Net loss after tax	**(514 765)**	(333 106)
Attributable to:		
Equity holders of the parent	**(512 077)**	(327 391)
Non-controlling interests	**(2 560)**	(6 134)
Total comprehensive loss for the year	**(514 637)**	(333 525)
***Restated – Refer to discontinued operations note.*		
Supplementary information:		
Basic (loss)/earnings per share (cents)	**(87.78)**	(92.33)
– Infrastructure continuing operations	**(85.32)**	(69.76)
– Infrastructure discontinued operations	**(5.62)**	(6.99)
– Consumer and property continuing operations	**(3.16)**	(15.58)
Headline (loss)/earnings per share (cents)	**(57.35)**	(81.34)
– Infrastructure continuing operations	**(54.93)**	(60.18)
– Infrastructure discontinued operations	**(5.62)**	(6.24)
– Consumer and property continuing operations	**3.20**	(14.92)
Weighted average number of shares in issue	**583 533 394**	354 135 067
Shares in issue (number of shares):		
– At end of the year	**620 158 235**	453 057 398

Ellies has no dilutionary instruments in issue.

Note 3 – Infrastructure segment discontinued operations

	Reviewed year ended 30 April 2016 R'000	Audited year ended** 30 April 2015 R'000
Revenue	**61 266**	212 903
Loss before interest, taxation, depreciation and amortisation ("EBITDA")	**(39 258)**	(32 988)
Depreciation	**(2 044)**	(1 189)
Amortisation of intangibles	**(352)**	(224)
Impairment of intangibles	**(3 853)**	–
Loss before interest and taxation ("LBIT")	**(45 508)**	(34 401)
Interest received	**–**	–
Interest paid	**–**	–
Share of losses from associate	**–**	–
Net loss before taxation ("LBT")	**(45 508)**	(34 401)
Taxation	**12 742**	9 632
Net loss after taxation ("LAT")	**(32 766)**	(24 769)

*** Restated – Refer to discontinued operations note.*

Reconciliation of earnings to headline earnings

	Reviewed year ended 30 April 2016 R'000	Audited year ended** 30 April 2015 R'000
Net loss for the year attributable to equity holders of the parent	**(512 205)**	(326 971)
Adjusted for:		
Loss on sale of property, plant and equipment	**6 097**	2 682
– Infrastructure continuing operations	**–**	(703)
– Infrastructure discontinued operations	**5 771**	3 719
– Consumer and property continuing operations	**326**	(334)
Loss on sale of component infrastructure division	**3 789**	–
Impairment of intangibles – Consumer and property discontinued operations	**–**	2 551
Impairment of goodwill – Infrastructure continuing operations	**170 416**	34 428
Tax effect on adjustments	**(2 768)**	(751)
Headline earnings attributable to ordinary shareholders	**(334 671)**	(288 061)

*** Restated – Refer to discontinued operations note.*

Condensed consolidated statement of cash flows

	Reviewed year ended 30 April 2016 R'000	Audited year ended** 30 April 2015 R'000
Cash flows from operating activities	**(23 031)**	(68 637)
Cash (utilised by)/generated from operations	**(29 538)**	(1 417)
Interest received (in cash)	**13 250**	3 349
Interest paid (in cash)	**(42 088)**	(61 121)
Taxation paid	**9 417**	(949)
Cash flows – continuing operations	**(48 959)**	(60 138)
Cash flows – discontinued operations	**25 928**	(8 499)
Cash flows from investing activities	**(459)**	14 237
Cash flows – continuing operations	**1 585**	15 426
Cash flows – discontinued operations	**(2 044)**	(1 189)
Cash flows from financing activities***	**31 747**	55 462
Cash flows – continuing operations	**31 747**	55 462
Cash flows – discontinued operations*	**–**	–
Net increase/(decrease) in cash and cash equivalents	**8 257**	1 062
Cash and cash equivalents at the beginning of the year	**(106 408)**	(107 470)
Cash and cash equivalents at the end of the year	**(98 151)**	(106 408)

*** Restated – Refer to discontinued operations note.*

**** Due to the central treasury function within the group, it is considered impracticable to calculate the cash and cash equivalents attribution to continued and discontinued operations for the 2015 financial period for financing activities, as no separation basis existed in the prior periods.*

Condensed statement of changes in equity

	Reviewed year ended 30 April 2016 R'000	Audited year ended** 30 April 2015 R'000
Balance at the beginning of the year	**855 047**	1 031 732
Total comprehensive (losses)/income for the year	**(514 637)**	(333 525)
Increase in stated capital through the issue of shares	**178 878**	156 840
Balance at the end of the year	**519 288**	855 047

*** Restated – Refer to discontinued operations note.*

Segmental analysis

	Reviewed year ended 30 April 2016 R'000	Audited year ended** 30 April 2015 R'000
Revenue	**1 643 163**	1 803 150
Infrastructure	**314 871**	414 218
– Total – continuing operations	**253 619**	201 357
– Total – discontinued operations	**61 266**	212 903
– Inter-segment	**(14)**	(42)
Consumer goods – Continuing operation	**1 328 292**	1 388 932
– Total	**1 328 292**	1 388 932
– Total	**11 468**	12 805
– Inter-segment	**(11 468)**	(12 805)
Segmental profits/(losses) from operations		
(Loss)/profit before interest and taxation, after losses from associates	**(436 144)**	(347 083)
Infrastructure – Continuing operation	**(435 195)**	(259 128)
Infrastructure – Discontinuing operation (Note 3)	**(45 508)**	(34 401)
Consumer goods – Continuing operation	**37 116**	(60 225)
Property division – Continuing operation	**7 404**	9 932
Other – Discontinued operation	**–**	(2 729)
Holding company/consolidation	**39**	(532)
Interest received	**17 149**	11 574
Net finance costs	**(42 088)**	(61 121)
Operating segments	**(32 744)**	(52 416)
– Continuing operations	**(32 744)**	(36 815)
– Discontinued operations	**–**	(15 601)
Property division – Continued operations	**(7 925)**	(8 622)
Deemed vendor interest – Continuing operations	**(1 419)**	(83)
(Loss)/profit before taxation	**(461 083)**	(396 630)

*** Restated – Refer to discontinued operations note.*

Notes to the provisional condensed consolidated financial statements

Auditors' conclusion

These provisional condensed consolidated financial statements for the year ended 30 April 2016 have been reviewed by Grant Thornton. Their Conclusion and Emphasis of Matter is detailed below:

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the provisional condensed consolidated financial statements Ellies Holdings Limited for the year ended are not prepared, in all material respects, in accordance with the requirements of the JSE Limited Listings Requirements for provisional reports to the financial statements, and the requirements of the Companies Act of South Africa.

Emphasis of matter

Without qualifying our conclusion, we draw attention to the going concern note in the financial information which indicates that the group's ability to fund its short-term liquidity requirements is dependent on the financial support of Standard Bank Limited. This condition indicates the existence of a material uncertainty which may cast significant doubt on the group's ability to continue as a going concern.

A copy of the auditors' report on the provisional condensed consolidated financial statements is available for inspection at the company's registered office.

Basis of preparation and accounting policies

The provisional condensed consolidated financial statements are prepared in accordance with the requirements of the JSE Limited Listings Requirements for provisional reports and the requirements of the Companies Act of South Africa. The Listings Requirements require provisional reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 Interim Financial Reporting. The accounting policies applied in the preparation of the condensed consolidated financial statements are in terms of IFRS and are consistent with those applied in the previous consolidated annual financial statements.

These results have been complied under the supervision of the Chief Financial Officer, AL Bock CA(SA).

Changes to the board

Adrian Bock was appointed as financial director with effect from 14 July 2016, after the resignation of Irwin Lipworth on 29 April 2016. Ryan Otto resigned on 15 Febraury 2016. Russell Broadhead resigned as an executive director of Ellies on 14 July 2016, but remains employed by Megatron.

Commentary

Introduction

Ellies is a leading South African manufacturer, wholesaler, importer and distributor in diversified sectors servicing the local and African markets. The business comprises two main segments, namely Infrastructure "Megatron" and Consumer goods and services "Ellies Electronics".

Overview

The proposed separate listing that was envisaged and reported on last year did not materialise as Megatron's performance could not warrant a standalone listing. Accordingly, the application of *IFRS 5:* Non-current Assets Held for Sale and discontinued operations is no longer appropriate and as a result the results of the Ellies Ellectronics goods business and property division have been included in continuing operations in the consolidated statement of comprehensive income and consolidated statement of financial position, with the comparative statement of comprehensive income reclassified as required to aid comparability.

During the year under review the group acquired the remainder (49%) of the share capital of a subsidiary, Megatron Towers (Pty) Ltd, for an amount of R1,2 million.

As announced on SENS on 4 May 2015, the Group raised approximately R185 million by way of a rights offer resulting in the issue of 167 100 837 shares at 110 cents per share. The number of issued shares post the rights offer was 620 158 235. An amount of R150 million from this capital raise was used to further reduce the Group's debts, with the balance of the money used to fund working capital.

Operations

The year under review was extremely challenging for the Group, which is reflected in its poor earnings for the period. The group managed to maintain revenue at approximately R1.6 billion notwithstanding the top line pressures and the difficulty in operating in an import driven inflation environment, coupled with the depressed macroeconomic environment in South Africa.

Ellies Electronics

Trading conditions in South Africa remain very tough with consumer spend in our segment slowing even further. We have also faced a situation where many of our customers having either closed down e.g. Ellerines or are significantly reducing the amount of stores they have e.g. JD Group. We have however maintained the revenue line at R1,3 billion, and with the implementation of some cost cutting measures and the introduction of new product ranges we were able to turn a loss before interest and tax (LBIT) of R60 million (2015) to a profit before Interest and tax (PBIT) of R37 million (2016) .

To reduce inventory holding we introduced new buying criteria by narrowing the inventory ranges and lowering in the quantity of stock imported with more frequent shipments. Although Ellies inventory is marginally lower in value at R459 million it does not paint the full picture as we experienced a 25% drop in exchange rate which in turn meant that our product cost us 25% more to purchase, so where the value seems the same, the quantum of inventory has reduced.

There continues to be margin squeeze by retailers fuelled by our opposition trying to obtain a price advantage. This together with retailers creating their own home brands and thereby becoming opposition, and in some instances becoming the main category brand in the stores has increased and has forced us to reduce margins in order to compete on the shelf. We continue to offer ourselves as partners in their business and have worked hard with some retailers by offering our product as an Original Equipment Manufacturer (OEM) product in their offering. Ellies has started a brand awareness campaign to re-establish Ellies as the brand to buy. We have also become more innovative in product design, approach and offering. In order to spread our customer risk profile we have concentrated on independents, installers and SMMEs, by creating value add opportunities and providing training in other product areas such as solar, lighting and signal distribution. Ellies has started creating points of presence that enhances the installer experience with the opening of our Woodmead, East London and Polokwane trade counters and the imminent opening of a new counter in Tshwane. All existing trade counters are being revamped to create this new experience throughout the country.

We had significant sales in our inverter and inverter trolley offering during the months of load-shedding that ended last September. We remain with stock in inverters and batteries that continue to sell in Africa albeit at a slower rate.

ElSat – the satellite business has been challenging with MultiChoice lowering their decoder pricing and thereby reducing our revenue and rands gross profit for this category. We continue to enjoy a good working relationship with MultiChoice often workshopping new areas of business and we hope to see some of these implemented in the future. ElSat sold all of its OVHD stock in the last financial year and has not reinvested as it remains financially non-viable for us. It has, however, created a revenue hole that we will continue to try and fill.

Ellies Engineering continues to manufacture satellite dishes for Universal Service and Access Agency of South Africa (USAASA) for the digital migration albeit at a slower pace than anticipated. The migration via satellite has not been in dispute and therefore has not been disrupted by the recent court cases as extensively detailed in the media. Ellies has commenced with the installations for the migration with the majority being around the Square Kilometre Aray (SKA) area. We wait to see what initiatives are started to create more awareness in these areas about the migration to accelerate installations. Ellies Engineering also has OEM manufactured dishes for new customers in other countries and we expect these sales to increase as we offer competitive pricing, a quality product and the ability to provide a SADC certificate. This is in line with government's policy to create viable industry using the digital migration as a springboard.

We continue to make inroads with our lighting offering in both domestic and commercial arenas. Our Lamp for Life domestic lighting product leads the market with its leading technology, competitive pricing and the best warrantee in the market. We are now introducing new product to this range as we see the introduction of floodlights and day/night sensing lamps before year-end sales. Our commercial division continues to gain momentum with some large lighting projects already under our belts and with proven savings to our customer base. It is this area too where we have introduced leading edge technology and market leading warrantees. Our audio division has had great success in a tough market having grown its customer base and is proud to have done approximately a quarter of all the retail shops in the new Mall of Africa. The move to using two satellites by MultiChoice will also accelerate the installation of new fibre optic distribution systems for satellite in all Multi Unit Dwellings where the old one and two cable systems will be unable to operate the Explora decoder properly.

We have and continue to restructure with a view to reducing operating costs. During the next 12 months most of these cost-saving initiatives should be implemented. Savings are expected in the areas of warehousing, distribution and IT, where we will move to a centralised computer system which will in turn result in better stock management, service delivery and debt collection.

Megatron

The financial results of the current year include the following items (pre-tax) that are not part of the results from normal business operations:

1. Impairment of goodwill of R170 million predominately relating to the Megatron acquisition.
2. Impairment of intangibles of R4 million relating to the Maxi-Concepts business.
3. Impairments to accounts and construction receivables, and other non-recoverable assets of approximately R191 million;
4. Impairments to inventory of R7 million predominately from the discontinued manufacturing business.

Megatron continued to suffer difficult contracting conditions on its Design Build and Turnkey projects as a consequence of the legacy of onerous billing milestones, which resulted in deferred billings and increased contract debtors, in turn causing ongoing challenges for the group in funding working capital. Revenue was severely hampered by the cancellation of the Kiri Dam Project in Nigeria and the Sicogi Economic Housing Project in the Cote D'Ivoire due to political risk factors. Progress was made over the period with the disposal of non-core assets most notably the Telecoms Division, with the centralisation and reduction in overheads. Overall Megatron reflected an increase LBIT by 65% from R293 million in 2015 to R481 million in 2016, largely as a result of the aforementioned impairments.

The current nature and timing of the main Infrastructural project "Shilatembo" continues to cause funding pressures and a number of options are urgently being pursued including i) to secure political risk insurance cover sufficient to attract external project funding, or ii) to negotiate the disposal of the project, with the associated liabilities both of which will enable the group to reduce its funding exposure and risks associated thereto. The remainder of the contacts are nearing completion and as a consequence an orderly completion thereof is envisaged during the first half of next year, without incurring further material costs or outlays.

The "Blade Room" project with a carrying value of R50 million in trade and other receivables has been completed and the sale agreement pertaining thereto is expected to be enforced during the first half of the year.

Going concern

The board of directors (the Board) has resolved that the going concern assumption on the Group, as consolidated, is appropriate. 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 Ellies Electronics and assumptions embedded therein. The Board also applied its mind to the worst case scenario regarding the potential cross contamination with regard to Megatron, in particular the exposure of R100 million for which the Group has stood surety to The Standard Bank of South Africa Limited (Standard Bank), Management have engaged with Standard Bank to address the potential loan default event or breach and they indicated they will work with management on an appropriate solution. The Board is satisfied that Standard Bank will act in the interests of and support the Group, as a whole.

The Group's ability to fund its short-term liquidity requirements is, however, dependent on the financial support of Standard Bank, creating a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

Other factors the Board further considered, include:

The investment in Megatron has been written down to zero, with future exposure, on a worst case scenario basis, being the Ellies Electronics shareholders loan (non-cash flow) of R96 million, and Standard Bank's loan which Ellies Electronics has guaranteed up to R100 million. Post balance sheet, this exposure has reduced to R70 million.

Further to this, the Group has a net asset carrying value of circa R520 million, and a tangible net asset value R463 million.

Post-balance sheet event

With regard to Megatron, the Board is exploring how best to ensure shareholders and other vested parties value is maintained/enhanced and protected. To this extent, management has retained consultants to independently assess the prospects of Megatron on a company by company basis, and to report back to the Board expediently. This process is ongoing. Until such time as the process is concluded the Group will not increase its exposure to this segment, and as such there is uncertainty as to whether Megatron can continue as a going concern.

The potential outcomes include to continue sourcing contracts with the Group support that yield returns but are self-funding, an orderly wind-down of the business or to enter into business rescue proceedings (type A or B) or to liquidate the company.

The potential effects of the uncertainty regarding the future of Megatron, as a consequence of the aforementioned assessment, to the Group have been considered in the evaluation of the Group, as a going concern.

Dividend policy

The dividend policy will be reviewed periodically taking into account prevailing circumstances and future cash requirements. In view of the Group's financial position, no dividend is proposed for the 2016 financial year.

Appreciation

The directors and management once again continue to recognise and appreciate the focused efforts and hard work of the Group's staff and also continue to appreciate the support its customers, business partners, advisors, suppliers and most importantly shareholders provide.

By order of the board

ER Salkow	**WMG Samson**
Chairman	CEO
26 July 2016	

Ellies Holdings Limited
(Registration number. 2007/007084/06)
JSE share code: ELI
ISIN: ZAE000103081

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

Directors:

Executive Directors
ER Salkow (Chairman)
WMG Samson (Chief executive officer)
AL Bock (Chief financial officer) (Appointed 14 July 2016)
RA Broadhead (Appointed 15 July 2016)
RH Berkman

Non-executive Directors
MR Goodford
MJ Kuscus (Appointed 1 June 2015)

Lead independent non-executive Director
OD Fortuin

Independent non-executive Directors
FS Mkhize
S Goldberg

The following directors resigned during the period, and up to release date:
IM Lipworth (Chief financial officer) 29 April 2016
RA Broadhead (14 July 2016)
R Otto (15 February 2016)

Sponsor: Java Capital
Auditors: Grant Thornton Johannesburg
Company secretary: CIS Company Secretaries (Pty) Ltd
Transfer secretaries: Link Market Services South Africa (Pty) Ltd